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# COSMOS + TAXIS

Studies in Emergent Order and Organization



# COSMOS+TAXIS

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## IN THIS ISSUE

### ARTICLES

The Financial Idea Trap: Bad Ideas, Bad Learning,  
and Bad Policies after the Great Financial Crisis ..... 1  
*Alexandra L. Mussler and Nikolai G. Wenzel*

The Liberal Defense of Immigration Control ..... 23  
*Danny Frederick and Mark D. Friedman*

The Highway to Serfdom ..... 39  
*Gus diZerega*

### REVIEWS

*Michael Oakeshott and the Cambridge School  
on the History of Political Thought*  
by Martyn P. Thompson..... 66  
*James Alexander*

Yesterday, Today, and Tomorrow: Reading  
*The Oxford Handbook of Max Weber* ..... 84  
*Christopher Adair-Toteff*

*Monetary Equilibrium and Nominal Income Targeting*  
by Nicolás Cachanosky..... 89  
*Pablo I. Paniagua Prieto*

*The Routledge Companion to Literature  
and Economics*..... 97  
*Troy Camplin*

Editorial Information ..... 101

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# The Financial Idea Trap: Bad Ideas, Bad Learning, and Bad Policies after the Great Financial Crisis

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**Abstract:** The real estate boom and bust of the early 2000s presents an interesting case study on the politicization of science (and thus the regulatory process). Indeed, popular opinion—fed by a partisan congressional commission—believes the crisis was caused by greed and deregulation. However, basic history show us that the 2000s were anything but a period of financial deregulation; instead, we see a story of heavy government involvement (including artificially low interest rates, subsidies to risk-taking by banks and borrowers, and selective enforcement of regulations). Economic theory on learning, as well as public choice theory, predicts that the presence of a “big player” (in this case, the government), can thwart the process of scientific learning, as knowledge is derived from politics, rather than science. Thus, the country can get stuck in an idea trap, whereby bad ideas reinforce bad policies, leading to bad outcomes, bad learning, and more bad policies. Thus did the US adopt, in response to the financial crisis of 2007, the very same policies that caused the crisis in the first place.

**Keywords:** Financial Crisis; Monetary Policy; Financial Regulation; Learning; Idea Trap

**JEL Classification Codes:** A11; B53; E02; E32; G28; H12

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## INTRODUCTION

This paper discusses the nature of learning, and the tensions between scientific and political environments for the incubation of new knowledge. It then applies these lessons to the aftermath and recovery of the Great Financial Crisis of 2007.

The effects of the crisis are easily identified; this is not so for the causes of the crisis. Of all the analyses aimed at identifying the cause, the official report of the Financial Crisis Inquiry Commission was intended to provide the most authoritative and definitive conclusion. The problem is that even this extensive analysis came up with not one, but three conclusions: “the Democratic answer,” “the Republican answer,” and a one-member dissent by Peter Wallison from the American Enterprise Institute—“the right answer.” Only one of the ten commissioners addressed the cause directly and without partisan politics. Despite the fact that the other two conclusions are politically driven equivocations, Wallison’s work was largely ignored by all. Certainly the Democrats and Republicans dismissed his research, as it did not seek to absolve either political party. The bigger

shame is that the media buried its head in the sand as well, and the general public was not informed of “the right answer.”

Identifying the true cause of the financial crisis is not about fixing blame for the past. It is a matter of taking responsibility for the future, the responsibility to prevent history from repeating itself. Given the importance of this responsibility, the Commission’s three-conclusion outcome is particularly baffling.

Section 1 outlines the impact of the financial crisis. Section 2 reviews the roots of the financial crisis in loose monetary policy and federal regulations that created perverse incentives. Section 3 examines the Financial Crisis Inquiry Commission. Section 4 analyzes the problem through an epistemological lens: we review science as a discovery process, and the distortions that can break that process, then apply that framework to the idea trap of the post-2008 recovery. The final section concludes.

## 1. DEVASTATION: THE IMPACT OF THE 2008 FINANCIAL CRISIS

This modern financial crisis represents the largest downturn the U.S. economy has experienced since the Great Depression. Although the crisis is generally identified as having spanned from 2007 to 2009, it is in many ways still plaguing the U.S. economy and political system. While the question of causation has been relegated to superficial allusions to greed and the need for more stringent regulations, the effects that this calamity imposed on the country are undeniable.

By August 2008 insurance giant, AIG, had hemorrhaged over \$26 billion. This was just a year after one executive, Joseph Cassano, when asked about the insurance behemoth’s subprime-related business, assured investors, “It is hard for us, and without being flippant, to even see a scenario within any kind of realm of reason that would see us losing one dollar in any of those transactions” (Beachy 2012). Unfortunately, perhaps the most haunting aspect of the whole ordeal is that Cassano’s lack of any anticipation of the impending doom was the general sentiment of both the players and the public right up to the eleventh hour.

Apparently deeming it “too big to fail,” in September 2008, the Federal Reserve rescued AIG from imminent bankruptcy, providing the largest bailout in United States history (\$182 billion dollars of taxpayer money). In the preceding week the government had not only refused to bail out the bankrupt Wall Street pillar, Lehman Brothers, but also taken over mortgage-lending giants Fannie Mae and Freddie Mac as they too were approaching collapse.

Between 2007 and 2009, as housing prices and financial markets crumbled, \$19.7 trillion worth of U.S. household assets was lost. For perspective, the value of such a staggering loss is equivalent to the entire value of everything produced by the U.S. economy over the span of 1.25 years. In one eight-month period between 2008 and 2009 the average U.S. household saw nearly \$100,000 disappear from its housing and stock-based investments. Though the poor and the wealthy were affected differently, the median household endured a nearly 40% decline in wealth from 2007 to 2010. By early 2010, roughly one out of every eleven home mortgages was in default and, two years later, more than eight million households had suffered foreclosure since the inception of the crisis. For details on the cost of the crisis, see Rosenblum 2016 or Garcia 2016.

Once the financial crisis had seriously weakened the housing and financial sectors, the infection spread throughout the entirety of the economy. The vicious cycle of reduced credit, reduced business investment, and reduced consumer spending took hold and employers were eventually forced to eliminate jobs. Production levels stagnated before falling precipitously through June 2009, taking 8.8 million U.S. jobs down with them in the process. In October 2007, before the crisis, official unemployment stood at a healthy 4.7%. In the following two years this rate more than doubled, peaking at 10% in October 2009.

Fewer jobs meant more competition for those jobs, which put downward pressure on wages. From 2008 to 2009 the actual income of the average household decreased by \$5,800. By 2010, college graduates, *if* they could get hired, could expect to earn 17.5% less than those who graduated prior to the onset of the financial crisis. Analysts predicted that this trend would continue for more than ten years, resulting in recession-era

graduates suffering a \$70,000 loss in income relative to preceding graduates in their post-graduation decade.

In the first two years following the 2008 economic collapse, almost 40% of households had experienced a loss of employment, faced housing foreclosure, missed housing payments, or found that their homes were worth less than their mortgage debt. These problems seemed inescapable for most U.S. citizens, and soon the situation was not only degrading their finances, but also their psyches. People's expectations for their future well-being dropped significantly. The National Bureau of Economic Research conducted a series of surveys to track these lowered expectations. One of these surveys, taken in late 2008, concluded that one out of every five people expected to lose their job in the next twelve months. Another revealed that from late 2008 through early 2010, one out of every three people in the U.S. was consistently dissatisfied with their household income. Furthermore, dissatisfaction with life in general grew from about one out of every fourteen people just after the 2008 collapse to one out of every nine people by early 2010.

Like a wildfire in a dry forest, the financial crisis burned down the economy and no aspect of American life was safe from the flames.

## 2. THE CAUSES OF THE FINANCIAL CRISIS

Much ink has already been spilled on the causes of the Great Financial Crisis (see Liebowitz 2008, Schwartz 2009, Horwitz and Boettke 2009, Roberts 2010, Sowell 2010, Friedman and Kraus 2010, Friedman 2011, Kraus 2011, Allison 2013, or Barth and Kaufman 2016).

There are vibrant disagreements on details, but the literature generally agrees on three areas (see Allison 2013, p. 14 and Sowell 2010; see also Kaufman 2016). First, loose monetary policy (to which some point as a cause, and others as an exacerbating factor). Second, federal housing policy, with such lax lending standards that buyers were encouraged to buy more housing than they could afford. And third, bad or misapplied regulatory policy. We note that some sources point to deregulation as a problem (see e.g. Bidh  2011, Crotty 2009, Krugman 2008, Stiglitz 2010). This story is somewhere between simplistic and incorrect. It is incorrect because the 25-year period before 2007 saw 4 regulatory policies for every 1 deregulatory policy (Kling 2009). It is simplistic, because (as we will see below), the problem was not an *absence* of regulation, but an *excess* of regulations, *bad* regulations that created perverse incentives, and inability (or refusal) of regulators to *enforce* regulations. Allison (2013, p. 1) bluntly concludes that government policy was the primary cause of the financial crisis.

### 2.1. Monetary Policy: The Dry Forest

Consider two forests; the environment of the first forest is characterized by heavy rainfall and minimal wind, while the environment of the second is extremely dry and windy. Now consider what would happen if a lit match were introduced into each of these forests. The first forest might catch fire, but the climate would render it manageable. The ecosystem would be able to recover from the damages. The second forest, on the other hand, with its dry, windy, combustible conditions, would be much more vulnerable in the face of a lit match. The flame would spread like wildfire, seriously devastating the entire ecosystem.

At the dawn of the 2008 Financial Crisis, the US economy was a forest facing the threat of an open flame, and the Federal Reserve's monetary policy had created a hopelessly dry and windy environment (see Horwitz and Boettke 2009 for federal funds rates in the 2000s). Allison (2013, p. 32) concludes that "in a fundamental sense, there could not have been a bubble... in the housing market if the Fed had not expanded the money supply...to finance the bubble."<sup>1</sup>

In addition to implementing an expansionary monetary policy, the Fed repeatedly lowered its target for the federal funds rate. In mid-2003, the federal funds rate reached a record low of 1% and remained there for a year. This meant that the *real* rate was negative for nearly two and a half years. During that time, in terms of purchasing power, the borrower was not paying but actually gaining in relation to the amount bor-



rowed. Steve Forbes explained, “in 2004, the Federal Reserve made a fateful miscalculation. It thought the U.S. economy was much weaker than it was and therefore pumped out excess liquidity and kept interest rates artificially low” (Forbes 2008). This started a serious liquidity cycle and developed a massive demand bubble which flooded heavily into the housing market. From 2003 to 2007 real estate loans at commercial banks grew at rates of 10%-17%. The growing demand, fueled by low interest rates, increased property prices and encouraged new construction.

The loose monetary policy not only sustained below-market interest rates, but also generated a sharp decline in the dollar. These effects inflated the housing bubble even further. Investors became increasingly attracted to real assets, such as property, in order to avoid the depreciating dollar. Those same effects also explain how the financial crisis turned into a worldwide issue. By managing the world’s reserve currency, the Fed effectively transfused its “cheap money” policy into the global economy. Other countries loosened their own monetary policies to escape the negative short-term trade implications of their relatively appreciating currencies in relation to the dollar.

The Federal Reserve’s monetary policy during the Bush Administration created a housing bubble that would inevitably burst. This burst would have been damaging to the economy and likely have resulted in a financial crisis, but one which would have paled in comparison to that which occurred in 2008. Housing bubbles can develop and burst in a cyclical manner, just like a naturally occurring forest fire caused by lightning; the economy could have weathered such a crisis without widespread devastation. However, this was not the only ingredient in the recipe for the financial crisis of 2007-2009. Unfortunately, someone had driven a gasoline tanker into the middle of the forest as the lightning struck. That gasoline tanker was loose lending standards for residential home mortgages.<sup>2</sup>

## 2.2. Loose Lending Standards: The Gasoline Tanker

Wallison (2016, p. 75) concludes that there is “compelling evidence” that the underlying cause of the crisis was US government housing policies; Allison (2013, chapter 5), more gently refers to them as a “proximate cause” for the crisis.

Allison (2013, p. 53) explains that since the New Deal, “there have been more subsidies for housing than for any other economic activity,” with an increase during Lyndon Johnson’s Great Society. Even before the Fed’s miscalculations, “affordable housing” policies had planted the roots for the financial crisis. As a result of these policies, when the housing bubble burst, the damage was catastrophic. Starting in the early 1990s, activists began using the Community Reinvestment Act and anti-discrimination laws to claim that housing lenders who used traditional lending standards were discriminatory (because they excluded borrowers who were not credit-worthy). In 1992, two “GSEs” (government-sponsored entities), Freddie Mac and Fannie Mae, received a mandate of owning a minimum of 30% of low- and medium-income loans (this was raised to a minimum of 50% in 1999, and 56% by 2008; Wallison 2016, p. 81 and Allison 2013, p. 58). The only way the GSEs could reach these quotas was by lowering lending standards (Wallison 2016, p. 83). In the spirit of Mises (1996), we are not questioning the motivations of these activists; however, it is worth noting that, although the home ownership rate did increase during the bubble years, by 2014 it had fallen back to the same level as the pre-1992 interventions (Wallison 2016, p. 79). In the end, not only did the policies fail to increase the home ownership levels of poor and minority Americans, but these very same Americans were disproportionately hurt by the boom and bust cycle (Wallison 2016, p. 90).

The implementation of federal housing goals led to demands for lower lending standards, such as discounting bad credit history and counting unemployment benefits as income in qualifying for a mortgage. Eventually, these unreasonable demands were imposed on financial institutions through lawsuits and regulatory pressures—and a race-to-the-bottom frenzy of a bubble, as banks were forced to lower their standards in order to compete with the GSEs (Allison 2013, p. 97; generally, see Liebowitz 2008).

President Clinton joined this bandwagon in 1995 when he announced the administration's comprehensive new strategy for raising American home-ownership to an all-time high. Clinton assured the public that his homeownership "strategy will not cost the taxpayers one extra cent. It will not require legislation." This basically meant that through informal partnerships with groups like Fannie Mae and Freddie Mac, the administration would make mortgages available to those "who have historically been excluded from homeownership" (Ferrara 2011). The Clinton administration forced Fannie and Freddie massively to increase the funding of subprime mortgages through their securitization practices, while lowering lending standards for all, including prime applicants (Wallison 2016, p. 84).

The *New York Times* published an article in 1999 titled, "Fannie Mae Eases Credit to Aid Mortgage Lending." The article explains that "Fannie Mae, the nation's biggest underwriter of home mortgages, has been under increasing pressure from the Clinton Administration to expand mortgage loans among low and moderate income people" (Holmes 1999). The article goes on to discuss the risk involved with this move to increase home ownership rates among minorities and low-income consumers: "In moving, even tentatively, into this new area of lending, Fannie Mae is taking on significantly more risk, which may not pose any difficulties during flush economic times. But the government-subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to that of the savings and loan industry in the 1980s." A familiar voice is quoted on this matter within the same 1999 article: "From the perspective of many people, including me, this is another thrift industry growing up around us," said Peter Wallison. "If they fail, the government will have to step up and bail them out the way it stepped up and bailed out the thrift industry" (Holmes 1999). Long before his research for the Financial Crisis Inquiry Commission, Peter Wallison was wary of the dangers posed by over-generous government housing policies.

Once the Clinton Administration had trashed lending standards for unqualified borrowers, standards couldn't be maintained for the more qualified borrowers either. Now, well-heeled speculators were able to qualify for highly speculative mortgages, letting them in on the exuberance. This significantly increased the resulting credit risk vulnerabilities for the financial system, inflating the housing bubble even more.

When the Bush Administration first took office, times were good (or so they appeared). The President, thrilled by the increase in home ownership, continued to promote the lax lending practices. Bush aimed to increase home ownership even more while in office, proudly stating in 2003, "This Administration will constantly strive to promote an ownership society in America. We want more people owning their own home. It is in our national interest that more people own their own home. After all, if you own your own home, you have a vital stake in the future of our country."<sup>3</sup> In the second quarter of 2004, homeownership had reached an all-time high of 69 %, up from about 64% in the early 1990s. There were 73.4 million homeowners in the United States, the most ever—and for the first time, the majority of minority Americans owned their homes.

In a sense, the Clinton and Bush administrations successfully reached their goal of increased home ownership... if not sustainably. The problem was that fully 50% of the mortgages allowing that homeownership were subprime or otherwise risky (Wallison 2016, p. 84)—and many prime mortgages were based on lax standards (see Liebowitz 2008 for details). They were doomed to default, and, sure enough, when the adjustable rates of these mortgages kicked in, the borrowers could not pay, and foreclosures increased. In conclusion, the federal government "effectively subsidized the excessive risk-taking [of the GSEs]" (Kaufman 2016, p. 13). As Sowell (2010, p. 81) explains of politicians and bureaucrats: "What they learn is that there is much political mileage to be gained by promoting more home ownership and no political price to be paid for the foreclosures that eventually follow." We note that, in this paper, we focus on the knowledge problems of policy, in the Austrian tradition (Hayek 1945, Mises 1979 and 1996). A separate study, in the Public Choice tradition, will focus on regulatory capture and incentive problems in monetary policy (Ghosh and Wenzel 2019b; generally, see Buchanan and Tullock 1962, Stigler 1971, McChesney 1987).

The next section explains the transmission from the real estate market into the financial markets, then the economy as a whole.

### 2.3. Misguided Regulation

Popular opinion holds that deregulation was to blame. But the 25-year period before 2008 saw an *increase* in regulations, rather than a decrease (for a full list of regulations in place during the 2000s, see Barth et al. 2016a, p. 340). In particular, the early 2000s saw three fundamental regulatory increases: the Privacy Act, the Patriot Act, and the Sarbanes-Oxley Act. Allison (2013, p. 136) explains that these acts, and the overall regulatory environment had three fundamental consequences: (1) bank managers shifted their focus from credit risk to regulatory risk; (2) the regulatory environment became increasingly arbitrary, with selective enforcement of incomprehensible and often contradictory rules;<sup>4</sup> and (3) the acts were burdensome and not clearly linked to their stated purpose of law enforcement. Deregulations that did take place were partial. For example, contrary to popular opinion, “the Gramm-Leach-Bliley Act of 1999, which amended the Glass-Steagall Act of 1933, did not erase the distinction between commercial banks, which take deposits and make loans and investments, and the ... investment banks, which underwrite and trade securities.” Instead, “the 1999 act merely allowed both commercial and investment banks to be subsidiaries of a common holding company, but they remained subject to the same restrictions on the nature of their activities as before. These restrictions were loose in the case of investment banks but tight for commercial banks—and... the crisis took place within the commercial banks” (Friedman and Kraus 2010; see also Wallison 2009). Despite the popular misconception about deregulation, a mainstream undergraduate money and banking textbook such as Mishkin and Eakins explained *before* the crisis that financial institutions are “the most heavily regulated business in the economy”—well before the Dodd-Frank Act and other post-crisis measure (2005, chapter 1). In fact, that same textbook lists nine different categories of financial regulation: a government safety net, from mandatory deposit insurance to the Fed as lender of last resort; restrictions on asset holdings for commercial banks; capital requirements; prompt corrective action; financial supervision, chartering and examination by an army of regulatory agencies; assessment of bank risk management; disclosure requirements; consumer protection; and restrictions on competition (chapter 18). Allison (2013) explains that “financial services is a very highly regulated industry, probably the most regulated industry in the world.” So we can clearly not speak of an *unregulated* system run wild. Rather, there were fatal flaws within the regulatory apparatus, so it is more accurate to speak of a *misregulated* economy. We list them here in three categories.

First, existing regulations created moral hazard. Allison (2013, p. 40 and chapter 4) explains how the very presence of the FDIC—as insurer and regulator—encourages moral hazard among banks; the presence of mandatory government deposit insurance allowed banks to create a panoply of high-risk mortgage payments, drawing in more consumers without the fear of failure (ibid, p. 91; see also Kane 2016, pp. 377, 381). Hogan and Johnson (2016) explain how “realistic models...include the disadvantages of deposit insurance, such as the problem of moral hazard and increased risk taking that occur when depositors’ funds are guaranteed because the depositors no longer have strong incentives to monitor banks’ risk-taking activities.” Moving from theory to empirical evidence, they find that deposit insurance ends up destabilizing the banking system; they conclude that “the evidence indicates that reducing the FDIC’s role in deposit insurance is likely to increase stability in the U.S. banking system.” Parallel to the moral hazard created by mandatory, government-run deposit insurance, we have the moral hazard from the GSEs tasked with expanding the ownership society (Freddie Mac and Fannie Mae). Freddie and Fannie purchased mortgages from banks. Banks kept the origination fees and got credit for making more loans (prime and subprime), thus pleasing regulators and politicians. They also were shielded from any risk, as Freddie and Fannie purchased loans made with weak lending standards. By 2008, half of all US mortgages were subprime or Alt-A; the GSEs held 76% of these (Wallison 2016, p. 81). Banks became mere interviewers, with incentives to ignore risk and increase loan volume. Finally, the greatest moral hazard was caused by the “Too Big to Fail” (TBTF) government policy of implicit (or sometimes explicit) bailout promises. Despite this policy, the US government allowed (or even encouraged) banks to become too big to fail (Barth et al. 2016b, p. 416). Horwitz and Boettke (2009) point to 37 major government interventions between October 2007 and May 2009. Wallison



(2016, pp. 96-97) explains how financial firms (including Lehman Brothers) could have recapitalized after the federal bailout of Bear Stearns—but did not, because they expected further bailouts.

Second, government regulation caused a serious misjudging of risk. The years leading to the housing boom and bust saw the emergence of new financial instruments, especially the packaging of residential mortgages into securities (Mortgage-Backed Securities, and derivative instruments such as Credit Default Swaps). Alas, the market was never given a chance properly to value and regulate these new instruments, as government stepped in too early. In 2001, through the so-called “Recourse Rule,” federal regulators declared at the stroke of a pen that these new financial instruments were low-risk, as long as they were rated AA or AAA, or were issued by a GSE (Friedman and Kraus 2010; see also Wallison 2016, p. 94). In addition, the aftermath of the crisis showed that the cartelized credit-rating agencies were issuing bad information about the risk of financial instruments (Allison 2013, pp. 82-83 and chapters 8 and 14 generally; see also White 2010). In more technical terms, American commercial banks “were required to spend 80 percent more capital on commercial loans, 80 percent more capital on corporate bonds, and 60 percent more capital on individual mortgages than they had to spend on asset-backed securities, including mortgage-backed bonds” (as long as they were highly rated or issued by a GSE) (Friedman and Krause 2010; see also Friedman 2010, pp. 26-27). Naturally, banks responded to incentives and invested heavily in such assets—the very assets that turned out to be built on low lending standards. Barth et al. (2016b, p. 402) conclude that the major cause of the financial crisis was “the choice and maintenance of regulatory and supervisory practices that permitted and, in some cases encouraged, excessive risk-taking by financial institutions.”

Third, for a variety of reasons, regulators did not enforce financial regulations. The regulations themselves were poor or misguided (Calomiris 2009, Friedman 2011). But regulators could not or would not enforce existing regulations. Due to the complexity of regulations—but also the complexity of the market they were trying to regulate—regulators were unprepared (Kaufman 2016, p. 20). What is more, by and large, they simply didn’t regulate. Allison (2013, p. 139) and Kane (2016, p. 379) point to the incentives for selective enforcement: in good times, regulators don’t want to be seen as killjoys who are hampering economic growth; they also fear undermining consumer confidence if they ramp up enforcement (Kaufman 2016, p. 23). When the economy crashes, however, they will return to being risk-averse bureaucrats and over-enforce regulations, at the very time that the economy needs unhampered growth to recover. These two factors (excessive complexity and bureaucratic risk-aversion) are compounded by a third problem: lobbying. Kane 2016 (pp. 383-384) points to bureaucratic capture of regulators, while Allison (2013, p. 63) explains how lobbying and other political considerations killed movements in Congress to increase capital requirements for Freddie Mac and Fannie Mae in the midst of the bubble. Alas, economic theory accurately predicted regulatory failure. Regulators failed to require sufficient capitalization of banks (Kaufman 2016, p. 17), but they also allowed backdating of capital injections (Kaufman 2016, p. 19).

Kaufman (2016, p. 22) explains that regulators already had the authority under the 1994 Home Ownership Equity and Protection Act to restrict features of residential mortgage contracts deemed inappropriate—but didn’t apply regulations until after the start of the crisis.<sup>5</sup> Kaufman (ibid) speculates that the housing euphoria led to congressional and industry push-back, coupled with worries about disparate impact on poor and minority borrowers, against enforcement of regulation. Barth et al. (2016a, p. 350) conclude that the regulations necessary to prevent the Great Financial Crisis were in place, but not used, because of regulatory capture (see also Barth et al. 2016a). Barth et al. (2016b, p. 401) explain that, at several key points during the housing bubble, regulators “identified growing risks and yet did not act.” As early as 2004, the Federal Reserve was aware that many banks were undercapitalized, but did nothing (Barth et al. 2016b, p. 418). The SEC “became willfully blind to excessive risk-taking” (Barth et al. 2016b, p. 420). And, for 80% of the banks that failed, the FDIC had identified a problem... but in 95% of cases, did not take “prompt corrective action” (Barth et al. 2016b, p. 421). While some point to regulatory capture as a cause for the lack of enforcement, others simply point to the overwhelming nature of excessive regulations. As complexity increases, regulator ability and accountability fall (Barth et al. 2016b, p. 423 or Haldane and Madouros 2012; generally, see Hayek 1945 or Mises 1979).

In sum, overly complex regulation led to three undesirable consequences: the need for more complex derivatives for banks to hedge against regulatory risk; the increase of bank risk, in search of increased revenue to offset regulatory costs; and the offloading of risky mortgages to GSEs (Allison 2013, p. 114; see also chapter 12).

## 2.4. Conclusion

The following list summarizes the causes of the Great Financial Crisis. We return to this list in section four.

- 1 Artificially low interest rates
- 2 Lax lending standards
- 3 Moral hazard for lenders
- 4 Moral hazard for financial institutions
- 5 Regulatory encouragement of excessive risk-taking
- 6 Non-enforcement of regulations (because of capture or inability)

## 3. LEARNING FROM THE CRISIS... OR NOT: THE FINANCIAL CRISIS INQUIRY COMMISSION

### 3.1. Background

The Financial Crisis Inquiry Commission was created in 2009 to examine the causes of the crisis in the United States; it held its first hearing on January 13, 2010.

The Commission was to be composed of ten prominent United States citizens, each nationally recognized as having significant experience in fields such as banking, taxation, finance, economics, regulation of markets, consumer protection, and housing. The ten members were to be appointed on a bipartisan and bicameral basis. Six members would be chosen by the congressional majority, the Democrats. Three of these six Democrats would be appointed by the Speaker of the House and three by the Senate Majority Leader. The congressional minority, the Republicans, would choose the four other members of the Commission. Two of these Republican members would be appointed by the House Minority Leader and two by the Senate Minority Leader. The Commission's chair was to be jointly selected by the congressional majority leadership and the vice chair was to be jointly selected by the leadership of the congressional minority. Given this approach to selecting members, one might have anticipated that the Commission would seek to promote certain political agendas rather than commit itself to finding the truth.

The Commission was given the task of examining the role of 22 specific financial/economic factors in the crisis. These special considerations included, "monetary policy and the availability and terms of credit," lending practices and securitization, credit rating agencies in the financial system, and "fraud and abuse in the financial sector."

In order to carry out its inquiry the commission was authorized to:

- a) hold hearings, sit and act at times and places, take testimony, receive evidence, and administer oaths and
- b) require, by subpoena or otherwise, the attendance and testimony of witnesses and the production of books, records, correspondence, memoranda, papers, and documents.

Over the course of its research and investigation, the Commission:

... reviewed millions of pages of documents, interviewed more than seven hundred witnesses, and held nineteen days of public hearings in New York, Washington, DC, and communities across the country that were hard hit by the crisis. The Commission also drew from a large body of existing work about the crisis developed by congressional committees, government agencies, academics, journalists, legal investigators, and many others.

The Commission released its report on January 27, 2011. Not surprisingly, the vote on adopting the final report was split along party lines. The six Democrats voted for its adoption and the four Republicans, disagreeing with the report's final conclusions, all dissented. Furthermore, among the four Republicans there were two different dissenting opinions. Three of the Republican appointees co-authored one dissenting conclusion, while the fourth wrote his own separate conclusion. With four of the ten members dissenting from its final report, one can conclude that the Financial Crisis Inquiry Commission failed.

### 3.2. A Dysfunctional Commission: Politics over Science

Congress' approach for structuring the Commission bred partisanship from the very start, making it nearly impossible to conduct an objective investigation or come to a unanimous conclusion regarding the causes of the financial crisis—the truth was politicized from day one.

Throughout its investigation, the Commission was riddled with controversy and dissension. One member of the House of Representatives, Daryl Issa, even launched an investigation of the commissioners, because he believed that the FCIC was chock-full of conflicts, partisanship, and waste. Issa stated, “the Financial Markets Commission report should be free of accusations of political showmanship and a partisan slant that have tainted current investigations. This Commission is not the place for partisanship or Congressional meddling. It is a place for the American people to get answers.” When Representative Issa requested access to FCIC documents for the purpose of carrying out his investigation, Chairman Phil Angelides dismissed the request as “silly, stupid Washington stuff” (Perino 2012).

Another mark of the Commission's dysfunctional nature was the inconsistency in defining its actual purpose. Chairman Phil Angelides first defined the Commission's goal as “writing the official history of what brought our financial and economic system to its knees.” On another occasion he stressed, “It's important that we deliver new information, we can't just rehash what we've known to date.” On yet another occasion his tone was entirely less dispassionate, as he stated that the Commission's goal was, “to examine the greed, stupidity, hubris and outright corruption in the financial industry.”

This lack of consistency and objectivity can also help explain why the commissioners were so at odds when it came to adopting a final report. As the deadline for the final report approached, Vice Chairman Bill Thomas argued on behalf of the Republican commissioners that the Democrats were preparing a “hit piece” on Wall Street banks. In late 2010, unable to come to an agreement on the final report across party lines, Angelides announced that the Commission would not meet its December 15, 2010 deadline and that it would release its report in late January 2011. Despite this postponement, when the final report was released, it was clear that no further agreement had been reached. In their dissent, the Republicans argued that the report was “more an account of bad events than a focused explanation of what happened and why. When everything is important, nothing is.”

Regarding the specific way in which the Commission carried out its work, the Republicans felt that it could have done with less investigation and more objective analysis, but that Angelides, their Democratic Chairman, was “inflexible and a micromanager.” As for the Republican Vice Chairman, he had previously been ranked among “the ‘hottest-tempered’ lawmakers in *Washingtonian* magazine polls of Congressional staffers” (Perino 2012).

Although each party accused the other of gross partisanship, the six to four ratio of Democrats to Republicans particularly disincentivized any efforts to compromise for the majority. One example of this occurred in the spring of 2010, when Commission Chairman Angelides “sought to close off further discussion and analysis of Commissioner Peter Wallison’s theory that government housing policy was solely to blame for the financial crisis.” Not a surprise, considering Angelides’ sentiments quoted above. “For what I have seen,” Angelides wrote, “the staff has spent more time responding to your questions and requests for information than any other Commissioner.” Perhaps this was because Wallison was the only commissioner truly interested in a thorough analysis. Wallison replied by saying:

I don’t like being told that I disagree with everything. You should know that I have no compunction about filing a separate statement if I am not persuaded by data, by facts that have been tested and are not subject to dispute . . . I hear that we should accept the point of view of “experts” as evidence, as in a trial. As we all should know, in a trial each side can select its experts. All the experts I have ever suggested for the Commission’s hearings have been rejected or ignored.

Keeping this exchange in mind, it is interesting to note the following passage from Wallison’s dissent, in which he outlines an example of this dynamic. The passage also provides some insight into the workings of the Commission and how the outcome was almost preordained; it is worth quoting here at length. Wallison wrote:

One glaring example will illustrate the Commission’s lack of objectivity. In March 2010, Edward Pinto, . . . who had served as chief credit officer at Fannie Mae, provided to the Commission staff a 70-page, fully sourced memorandum on the number of subprime and other high risk mortgages in the financial system immediately before the financial crisis. In that memorandum, Pinto recorded that he had found over 25 million such mortgages... Since there are about 55 million mortgages in the U.S., Pinto’s research indicated that, as the financial crisis began, half of all U.S. mortgages were of inferior quality and liable to default when housing prices were no longer rising. In August, Pinto supplemented his initial research with a paper documenting the efforts of the Department of Housing and Urban Development (HUD), over two decades and through two administrations, to increase home ownership by reducing mortgage underwriting standards.

Wallison continued:

This research raised important questions about the role of government housing policy in promoting the high-risk mortgages that played such a key role in both the mortgage meltdown and the financial panic that followed. Any objective investigation of the causes of the financial crisis would have looked carefully at this research, exposed it to the members of the Commission, taken Pinto’s testimony, and tested the accuracy of Pinto’s research. But the Commission took none of these steps. Pinto’s research was never made available to the other members of the FCIC, or even to the commissioners who were members of the subcommittee charged with considering the role of housing policy in the financial crisis. Accordingly, the Commission majority’s report ignores hypotheses about the causes of the financial crisis that any objective investigation would have considered, while focusing solely on theories that have political currency but far less plausibility.

In an indictment of politics over science, Wallison concluded that “this is not the way a serious and objective inquiry should have been carried out, but that is how the Commission used its resources and its mandate.” Given the content of Pinto’s report, this account exemplifies the overwhelming partisanship of the Commission. Since neither party could deny the role of subprime mortgages in the crisis, it was politically imperative that they avoid the role of government policy in subprime mortgages.

### 3.3. Serving Political Agendas

Although it may be apocryphal, Groucho Marx is said to have written that “politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies.” Alas, vaudeville art mirrors reality.

The conclusions of the Commission are understandable, based on the politics involved. The Democrats, of which there were six members, had no interest in condemning the policies of the Clinton Administration that resulted in the GSEs explicitly reducing their standards for mortgage applicants (which meant that they were willing, for the first time, to purchase substandard or subprime mortgages). In order to stay competitive, the banks and financial institutions on Wall Street that compete with these federally-backed (and thus subsidized) entities had no choice but to lower their acceptance standards as well. The result of this policy, which was aimed at increasing minority home ownership, was that very large numbers of mortgages were given to people who would eventually not be able to pay them, resulting in a massive number of defaults. This policy failure, if not deftly handled by the Democrats on the Commission, would result in a Democratic Administration being blamed for the crisis. Instead, the six Democratic commissioners proceeded to use the financial crisis, and the authority they had been given as commissioners, to promote their own political agendas. They did this by concluding that the crisis would have been entirely avoidable if only there had been heavier and more diligent government regulation of the big banks.

The Republicans, of which there were four, faced a similar dilemma. After Clinton, the Bush Administration continued the flawed lending practices and celebrated the increase in home ownership. The Bush administration is doubly at fault by also tolerating the Fed’s irresponsible monetary policy of sustaining below-market interest rates.<sup>6</sup> The expansionary monetary policy made everyone look good at the time, so no one was willing to suggest that this unbridled enthusiasm for lending should slow down. The Republican commissioners needed deftly to avoid any implication that the Bush Administration was at fault for the crisis. So, just as the Democrats had done, they tailored their 27-page conclusion to serve their own political agenda. Certainly unable to accept the Democratic conclusion that the crisis was avoidable had there been more regulation, they concluded that the crisis was, in fact, unavoidable. They claimed it was the natural result of economic cycles and that because it was not only a U.S. problem but one of international proportion, it could not have been the result of flawed government policies.

One commissioner, Peter Wallison, turned out to be a politically independent thinker and, therefore, the only truth seeker. With thorough analysis, he addressed all of the positions and conclusions of the other nine members in his independently authored 93-page dissent. Wallison argued convincingly that the cause of the crisis was flawed government policy, a policy that resulted in 50% of the mortgages in the U.S. being of subprime quality.

What is particularly fascinating is that Wallison’s work was attacked with great effort to undermine and dismiss his conclusions. The media did not celebrate his independent thinking—instead it promoted the “Wall Street greed” explanation. A story that blames rich, greedy bankers sells much better than one of flawed government policy.<sup>7</sup> *The Big Short* (2015), a Paramount Pictures feature film about the few men who anticipated the financial crisis, further served to feed this erroneous explanation to the American people. It vilifies the banks, blaming them (and only them) for the entire financial crisis. The movie explains that the greedy banks practiced predatory lending, taking advantage of the working class, in order to make themselves richer. Never, in this critically acclaimed, Academy Award-winning film, is there any mention of government policy—not once. As recently as March 11, 2016, the *Wall Street Journal* published an article, “Analysis of the Financial Crisis Inquiry Commission Documents Release.” The article reviews an extensive list of documents, *none* of which ever mention the Wallison conclusion—a glaring omission, considering his dissent is the largest individual document included in the report.



## 4. A Theoretical Framework

We now turn to an epistemological framework, and discuss science as a self-correcting discovery process. We then discuss three pathologies that can break that process: first, the presence of a big player that can distort scientific inquiry (in this case, government funding of science); second, the tyranny of experts; and third, idea traps. We then apply that epistemological framework to the post-2008 recovery policies.

Science is a complex phenomenon of feedback loops and self-correction. Because human knowledge is limited, institutions that create and transmit knowledge are of great importance (see Hayek 1960). The market is one such institution, as it gathers the preferences and abilities of consumers and suppliers and feeds them into the market process, thus aggregating preferences and sharing information. Furthermore, the profit and loss mechanism actualizes this information, as entrepreneurs receive feedback about the value they are adding (or not) for consumers. Prices thus have an epistemic function, as they guide the actions of consumers and entrepreneurs by giving them relevant information (Horwitz 2000). Beyond basic microeconomics, price controls and other interventions are distortionary, because they break the process of information transition (Mises 1979). Scientific knowledge emerges in a similar manner (see Kuhn 1962), through the “Publication-Citation-Reputation” (PCR) process of discovery and correction (Butos and McQuade 2012; see also Butos and McQuade 2006):

Scientists publish speculations and observations; other scientists who find these useful to their own work (or who wish to criticize them) cite them; the citation feeds back to affect the reputation of the publishing scientist; and a scientist’s reputation not only affects the notice given to his future publications and citations but also his ability to attract funding or to advance in academic positions. This recursive set of procedures and feedback loops, hereafter referred to as “PCR” (for “Publication-Citation-Reputation”), implements the knowledge-generating characteristics of the scientific order.

### 4.1. Big Players and Political Science

The presence of a big player can distort the discovery process (see Koppl 2002). Consider, then, the fact that the federal government today funds more than 50% of basic research in the US (Butos and McQuade 2006; see also Butos and McQuade 2012).

Butos and McQuade (2012) offer a taxonomy to analyze the process by which the scientific process responds to funding, and the problems that arise with centralization of funding (when the government is a big player in the funding process). They start by differentiating among three effects of spending on science (regardless of the source, whether private or public): direction, destabilization, and distortion. As we will see, the first two are not problematic, regardless of the source of funding—because science is a self-correcting process of discovery. The third, distortion, however, *is* problematic because it can break the PCR process of self-correction.

#### 4.1.1 *The Direction of Scientific Funding*

Funding affects the direction of science: “directional effects are treated here as outcomes which result from changes in the amount and focus of funding but which do not induce any changes in the PCR processes and which therefore do not result in the production of invalid science” (Butos and McQuade 2012). Any funder of science, whether government, industry, or non-profit, will have spending priorities. Some areas of science will receive more funding than others (especially if the priorities are set politically, rather than scientifically—that is, if the government emerges as a big player in science funding). But the scientific process itself will not be broken (on the unintended consequences of politicized science, see also Kealy 1996).

#### 4.1.2. Destabilizing Scientific Inquiry

Funding affects the stability of scientific inquiry, as priorities shift. Butos and McQuade (2012) explain that “in a funding regime of a small number of large funding sources, the shifting priorities of the funding institution may result in a phenomenon of ‘boom and bust’ within scientific disciplines. The boom is initiated as generous funding policies make funding more generally available and easier to obtain, and as ‘popularity’ (for both real and political reasons) of a particular subdiscipline makes funding for that subdiscipline easier to get.” This means that research will often progress in cycles; in the boom phase, “research projects that under earlier funding conditions would not have been attempted are now able to be funded.” Later, “the bust will come when it becomes apparent that many of the research projects in the subdiscipline enjoying the boom cannot be completed, either because, due to a shift in funding priorities, the funding for the projects is scaled back or terminated before the projects are completed, or because reality manifests itself in the form of lack of experimental validation.” Just as with the directional effect, the shift in funding priorities for a big player will affect scientific research (in this case destabilizing research institutions and individuals), but there is no effect on the very process of scientific inquiry (the PCR process of self-correction).

Butos and McQuade 2012 give two short examples where government funding influenced the direction and stability of scientific research, but did not distort it. In the wake of the 1957 Sputnik launch, the US shifted national research priorities to “physics, mathematics, astronautics, and space science research”—but “interest and funding fell markedly” after the moon landings. Likewise, in the 1980s, in response to a perceived Japanese threat, the US government doubled funding for computer science (and especially AI), only to shift its attention elsewhere when the Japanese project failed and commercial computers surpassed government capabilities.

#### 4.1.3 Distorting Scientific Inquiry

Finally, “distorting effects are those effects which work to impair or circumvent those evolved institutions fundamental to science’s functioning as an adaptive classifying system. When the procedures and feedback loops crucial for the long run viability and robustness of science are bypassed or impaired, the functioning of the scientific order becomes maladaptive to science’s normal environment and the so-called knowledge generated in these conditions is tainted, if not totally invalid” (Butos and McQuade 2012). Note that this distortionary capacity does not include individual (or even institutional) fraud in scientific research; indeed, as long as the PCR process is functioning, fraud will be both deterred and corrected. The real, systemic, problem is “the potential for distortion that derives from pressures external to science—in particular those inherent in the characteristics of the funders and the degree of decentralization of the funding environment. In an environment composed of many funders, effectiveness of the any single one to interfere with the PCR processes and their operation is likely to be small. They lack the ability to impose their will on a significant segment of the scientific order” (ibid).

For example, Hobbs and Wenzel (2019) explain that “starting in the 1960s, the sugar industry was able to promote saturated fat as a culprit for heart disease; Coca-Cola has successfully funded research downplaying the link between sugar and obesity.”<sup>8</sup> In both these cases, however, the sugar industry and Coca-Cola lacked two things that the government presents: an assumption of neutrality, and the ability to distort the entire process. Things can be different when the government, as a big player, enters the field. Consider the case of US nutritional advice. Butos and McQuade explain how the US government has been involved since the 1950s in the provision of nutritional information. The government “turned a scientific question into a political one.” Hobbs and Wenzel (2019) explain that

informational regulatory capture is obvious in the case of US dietary guidelines. Nestle (2007, p. 30) states it bluntly: “dietary guidelines necessarily are political compromises between what science tells us about nutrition and health versus what is good for the food industry.” From the initial

1968 congressional hearings on the subject, federal dietary guidelines have involved regulatory capture (Nestle 2007, pp. 38-50 and chapter 2). Early on, agribusiness was opposed to the emerging scientific consensus about decreasing overall caloric intake, as well as caloric intake from animal fats specifically. The USDA's first "food pyramid" of dietary guidelines, in 1991, was surrounded by industry disapproval. Within two weeks of its release in April 1991, the first food pyramid was retracted by USDA, because of agribusiness disapproval. Leading the charge, the meat and dairy lobbies objected to what they perceived as a governmental campaign to encourage consumers to eat less of their products (Nestle 2007, pp. 53-61). In 1992, "a year and a day and \$855,000 after the announcement of [the 1991 pyramid's] withdrawal" (ibid, p. 63), the USDA released its revised food pyramid.

Government funding has also caused distortions in climate science, while compromising the objectivity of research (Butos and McQuade 2015; see also Wojick and Michaels 2015). The presence of government as a big player has led to politicization of science, and quashing of dissent. Those who question climate change, or accept it but question its anthropogenic roots, are ridiculed, isolated, fired, or poo-pooed as "deniers" (see Michaels and Knappenberger 2016 or Michaels and Balling 2010). The point here is not whether climate change exists, or if it's anthropogenic—that is for scientists to decide. The point is that the debate is one-sided, and dissent is not treated scientifically, but politically. One can hardly imagine a physicist being fired or ridiculed for advancing the theory that the Higgs boson doesn't exist . . . or being disparaged as a "Higgs boson denier." As an illustration of the overwhelming weight of government, Oreskes and Conway (2010) point to corporate-funded attempts to disparage the thesis of anthropogenic climate change; it is unfortunate—but expected—that some private interests will attempt to manipulate science. But they don't have the weight of government, or the imprimatur of (alleged) public interest—and they were ultimately unsuccessful at quashing dissent in the marketplace of ideas—unlike the government, which has successfully done so by shutting down that market because of its "big player" status.

Butos and McQuade (2012) conclude that the government presents one more problem, beyond being a big player:

concentration of the funding environment is not the only characteristic of public funding with distortion potential. Government funding of science comes equipped with political or even constitutional prerogatives for overseeing science not available to private funders, and these are ordinarily justified as providing the oversight and accountability taxpayers sometimes expect from government. The use of regulatory vehicles (with access to an arsenal of resources—staff, lawyers, and raw political muscle), such as Congressional hearings and access to media outlets can, whether intentionally or not, exert an influence [on] scientists' scientific reputations for good or ill, and can lead to the circumvention of standard evaluative procedures and criteria used to review and ascertain the publication worthiness of scientific work. There is a clear sense, then, in which the simple expedient of government funding science may generate incompatibilities with the institutions of science.

Turning back now from theory to the financial crisis, we have one last example of the presence of a big player in scientific funding. White (2005) found that 74% of academic articles on monetary policy, published in 2002 by US-based economists, appeared in journals published by the US Federal Reserve, or were co-authored by a Fed economist. This leads to a status quo bias, in what Milton Friedman had earlier called "a sort of oligopoly on monetary opinion" by the Fed and its affiliates (Fettig 1993). White (2005) concludes that "Fed-sponsored research generally adheres to a high level of scholarship, but it does not follow that institutional bias is absent or that the appropriate level of scrutiny is zero." It is not surprising, then, that mainstream economists believe in central banking and monetary policy, and that both popular and politi-

cal opinion ignored the role of the Fed in causing (or exacerbating) the financial crisis through loose monetary policy.

#### 4.2 *The Tyranny of Experts*

In funding science, government qua big player and qua political entity can distort the process of scientific discovery. But there is a second problem: government's imprimatur, its veneer of neutrality (over "self-interested" corporations), and "the tyranny of experts" (Easterly 2014).

The applications are broad. Easterly (2014) decries a technocratic approach to international development, whereby "experts" in development agencies impose policies on developing countries, without taking into account local knowledge, conditions, or individual rights (see also Boettke et al. 2008). In the field of nutrition, Williams (2012) worries that "the biggest problem... is the misconception that the federal government is the sole source of assurance of safe food.... New regulations pile on top of old ones. The government has no ability to enforce them, yet regulations give consumers the illusion of control." This sentiment is echoed by a former member of the US Food and Nutrition Board, who explained that "The US government is as big of a pusher as industry. If you say what the government says, then it's okay. If you say something that isn't what the government says, or that be parallel to what industry says, that makes you suspect" (in Butos and McQuade 2012). In the financial world, Horwitz (2012) decries "the expertise of the mathematicians who guided the models used by financial institutions [,] the expertise of those who developed new kinds of mortgage instruments that required very low payments, [and] the expertise of US policymakers who told us that new regulations to encourage more widespread homeownership would be an engine of economic growth and prosperity." While consumers will (rightly) consider a report from Coca-Cola that exonerates sugar, or a report from Ford in favor of automobile tariffs, and take it with a grain of salt, the state enjoys a veneer of neutrality, legitimacy, and service to the common good (see Klein 2005). Following Public Choice theory, we cannot simply assume that policy-makers are acting in the common good (Buchanan and Tullock 1962); rather, they are typically beholden to a variety of interests (Olson 1965).

The problem with expert failure and "the fatal conceit" (Hayek 1988) is not new. In 1759, Adam Smith (1997[1759], VI.II.2, pp. 59-60) was already writing about experts:

The man of system . . . is apt to be very wise in his own conceit, and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong opposition which may oppose it: he seems to imagine that he can arrange the different members of a great society, with as much ease as the hand arranges the different pieces upon a chess board: he does not consider that the pieces upon the chess board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess board of human society, every single piece has as principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be, at all times, in the highest degree of disorder.

This literature was picked up by F. A. Hayek, who argued that experts lack the knowledge to run an economy or society (see Hayek 1945, 1974, 1978). More recently Koppl (2018) examines the problem of expert failure (see also Levy and Peart 2017). Naturally, Koppl does not dismiss experts *tout court*. Indeed, we rely every day on the advice of experts—physicians, accountants, lawyers, professors, supply chain managers, farmers, etc. Instead, Koppl (2018, p. 190) proposes a 2x2 matrix to understand the role of experts, based on: (1) monopoly experts v. competitive experts; and (2) whether the expert decides for the non-ex-

pert, or the non-expert decides (if based on expert advice). If the non-expert decides, or if there is competition among experts, we have no systemic problem. The problem emerges when monopoly experts decide for the non-expert (see also Butos 2019a). Horwitz (2012) explains this in a parallel vein: “the question of whether expertise works to the public’s advantage or disadvantage depends crucially on the institutional environment in which said expertise is located. The problem is that claims of expertise are notoriously hard to verify except perhaps by other experts. This challenge is magnified when the experts in questions [sic] also are in some sort of monopoly position over knowledge and/or action informed by knowledge.” Butos (2019b) concludes that “if a government policy made by experts is wrong, that mistake will be externalized among many people in the form [of] wasted [taxpayer funds] and the possible harm to many people” (see also Koppl 2018, chapter 11, for US policy implications).

Returning to financial institutions, Horwitz (2012) laments that “nowhere is the expertise associated with the Fed clearer in the way in which the chair of the Board of Governors is treated as the very personification of monetary policy, and how the chair has often been treated as the Wise Man who will lead us to prosperity or save us from the brink of disaster.” The problem is that “with expertise deeply enshrined in the institution due to its monopoly status, we should not be surprised that mistakes get frequently made and that error correction processes are weak, and that the institution itself is very defensive about such mistakes and relies on claims of expertise to avoid closer scrutiny or a reduction/elimination of power.” Horwitz proposes an alternate monetary regime to overcome the Fed’s expert failure: ideally, competitive money production, but as a second best, rules over discretion (see also Boettke and Smith 2016). Horwitz concludes: “Given how important money and monetary policy are for economic growth, the dangers to the economy from a monopoly of experts are significant. The history of the Fed...shows that it has frequently made these sorts of serious errors, but argued that it lacked the powers... to avoid them. The result has been that as it has accumulated more powers, it has come to rely even more on expertise in the conduct of monetary policy.”

The Great Financial Crisis abounds with experts—the Federal Reserve and financial regulators, and later, the Financial Commission—and expert failure.

### 4.3 *The Idea Trap*

Caplan (2003) proposes a model of policy choices, based on learning from economic outcomes. He points out that countries can get stuck in an idea trap. Policy is a function of ideas, and economic outcomes “influence policy indirectly by altering ideas about what appropriate policies are. When there is ‘positive feedback’ from growth to ideas, multiple equilibria exist and the mutual interaction of growth, policy, and ideas closely matches the stylized facts. Countries can then fall into ‘idea traps,’ where bad growth, bad policy, and bad ideas mutually reinforce each other.” Sachs (1994), for example, points out how ineffective policies that nonetheless appeal to voter emotions are particularly likely to be adopted in times of crisis; “the confusion, anxiety, and the profound sense of bewilderment about market forces are inevitable when breadwinners must worry whether income will be enough next week to feed the family...” Just as “you cannot think straight in the midst of hyperinflation,” economic crisis can lead to policy remedies that will further thwart growth. Caplan (2003) likewise explains that “public opinion diverges *less* from economists’ consensus judgments when growth is rapid, and *more* when growth is slow.” In sum, “if the market mechanism is suspect, the inevitable temptation is to resort to greater and greater intervention, thereby increasing the amount of economic activity devoted to rent seeking. As such, a political ‘vicious circle’ may develop. People perceive that the market mechanism does not function in away compatible with socially approved goals because of rent seeking. A political consensus therefore emerges to intervene further in the market, rent seeking increases, and further intervention results” (see also Krueger 1974, Olson 1965 or Buchanan and Tullock 1962).

Bad policies lead to bad growth. Instead of adopting good policies, countries stuck in an idea trap will continue to adopt bad policies, leading to further economic troubles.



#### 4.4. *The Post-2008 Scene: Politicized Science, Expert Failure and the Idea Trap*

We have seen how the politicization of science can break the emergent process of science as a discovery process, and how this process is compounded by expert failure. The idea trap also explains the post-2008 federal recovery programs and regulations. We now apply the theoretical framework to the post-2008 scene.

Details of the recovery can be found in Barth and Kaufman (2016, especially chapters 9, 13, 14 and 15). A summary of measures follows, grouped in three categories.

First, monetary policy. In response to the economic crisis of 2008, the Federal Reserve lowered the federal funds rate aggressively, eventually down to negative (real) rates. Rates have been at or near zero since the start of the crisis (Horwitz and Boettke 2009).

Second, bailouts. Horwitz and Boettke (2009) document no less than 37 major government interventions between October 2007 and May 2009. These bailouts were problematic because of the moral hazard they created, of course; but they also exacerbated the crisis because of the uncertainty they created. The US government was now engaging in bailouts of companies that did not have the explicit backing of the US government. And who would get a bailout? Bear Stearns was bailed out, but Lehman Brothers was allowed to fail, then, in a swift reversal, AIG was bailed out. Citigroup was bailed out, but Wachovia was allowed to fail. Freddie Mac and Fannie Mae were nationalized. In a surprise twist, the federal government bailed out the uninsured depositors of Washington Mutual, thus closing the inter-bank capital market and precipitating the crisis (Allison 2013, p. 75). The Troubled Asset Relief Program (TARP), hastily thrown together and imposed on banks, was clumsily presented, thus increasing fear and instability in the economy; although it was billed as maintaining stability in the banking system, it was aimed primarily at the big investment banks (rather than commercial banks), and it included non-banks (such as the GSEs, AIG, GMAC, and the auto industry). TARP *extended* the market's recovery period by adding uncertainty and preventing market corrections (Allison 2013, pp. 167-172). And the list goes on—including bailouts to mortgage holders (through refinancing and loan modification through the Federal Housing Administration, and the Home Affordable Refinance Program sponsored by the Federal Housing Finance Agency) and efforts to increase home ownership in the wake of the crisis. Recall that—even though the home ownership rate temporarily soared during the Bush-Obama ownership society—the ownership rate in 2014 had reverted to its pre-1992 level (Wallison 2016, p. 79). Barth et al. (2016a, p. 362) conclude that there are “strong reasons to believe” that implicit protection of large complex financial institutions will remain strong because the process remains political, because reforms increase agency discretion without judicial review or legal accountability, and because of low contractual predictability—all of which increase uncertainty.

Third, further regulations. In the summer of 2010, Congress passed comprehensive financial regulation, in the form of the Dodd-Frank Act (for details on the Act, see Barth et al. 2016a, pp. 338, 342-351). While the Federal Reserve Act was a mere 31 pages long, the Glass-Steagall Act 37 pages, and the Gramm-Leach-Bliley Act 145 pages long, the Dodd-Frank Act came out at 2,319 pages (Barth et al. 2016b, p. 405), making it “the lengthiest piece of banking legislation in US history” (Barth et al. 2016a, p. 341). Roughly a third of those rules remain to be finalized. The Dodd-Frank Act created new agencies, and expanded the regulatory and supervisory powers of existing agencies. Three fundamental problems remain (for details on Dodd-Frank's flaws, see Allison 2013, p. 193 or Peirce and Broughel 2012). First, the Dodd-Frank Act missed some basics; it did not decrease FDIC coverage, which had been an early source of moral hazard (Hogan and Johnson 2016, Allison 2013, chapter 4); it did not curb the “too big to fail” problem (and ended up exacerbating it through unclear definitions and implicit guarantees; see Ghosh and Wenzel 2019a on banking concentration after Dodd-Frank); and it placed no restraint on the power and size of the mortgage GSEs (Allison 2013, p. 64; Barth et al. 2016a, p. 341). Second, the Act increased bureaucratic discretion without increasing political accountability, thus leading to more fears of regulatory capture and unenforced regulations (Kaufman and Nelson 2016, p. 264; Barth et al. 2016a, pp. 360, 373). Dodd-Frank increased the powers of the very culprits of the crisis (Allison 2013, pp. 251-252; Barth et al. 2016b, p. 402), rather than defining their performance or addressing the incentives they faced. Dodd-Frank increased the powers of

formal government regulators, but also the power of the unofficial, government-sponsored credit rating agencies (Barth et al. 2016a, pp. 348, 371). Barth et al. (2016b, pp. 417-418) conclude that there was too much focus on the power and resources of regulators, with too little on the “systematically poor choices” of regulators, who knew throughout the crisis that their policies weren’t working, and chose not to act until it was too late. Kaufman (2016, p. 23), also cautions us that if regulators bore a disproportionate responsibility in the crisis (as the literature clearly indicates), “this suggests caution in propagating new rules and regulations until the agency problem is solved. They may not be enforced when the regulators prefer not to.” Alas, reforms did not address the agency problem. Third, the Act added vast levels of complexity to financial regulations, leading to concerns that it will increase uncertainty, do nothing about the likelihood of enforcement, and increase the incentives for financial institutions to engage in regulatory arbitrage (Barth et al. 2016b, p. 423; Kaufman and Nelson 2016, p. 250; see also Haldane and Madourous 2012, or Haldane 2012). This complexity will also impose high costs on the financial system (hundreds of community banks have already gone out of business; see Ghosh and Wenzel 2019a); see Wallison 2016, p. 76, or Kaufman and Nelson 2016, p. 258. Naturally, with regulatory uncertainty and higher costs (amplified by increased FDIC coverage), banks face an incentive to seek greater returns through riskier activity (ibid).

In general, Barth et al. (2016b, p. 402) explain that “US reforms have intensified moral hazard,” through bailouts without explicit *ex ante* government backing, increased regulation (which decreases private monitoring and discipline), and an increase in the “too big to fail” problem. Reforms have also done nothing to address regulatory bias and regulator performance (ibid, p. 425). In sum, “US authorities misdiagnosed—or willfully disregarded—the causes of the Great Financial Crisis” (Barth et al. 2016b, p. 399). More important, for our purposes, we see that the US is caught in an idea trap: the very policies that caused the Great Financial Crisis were adopted as remedies for that crisis.

	Cause of 2008 crisis	Response to 2008 crisis
Artificially low interest rates	✓	✓
Lax lending standards	✓	✓
Moral hazard for lenders	✓	✓
Moral hazard for financial institutions	✓	✓
Regulatory encouragement of risk-taking	✓	✓
Non-enforcement of regulations	✓	✓

## CONCLUSION

US policy-makers had the ability to understand the cause of the catastrophic financial crisis of 2008 but have chosen not to pursue that understanding. Given the explanations propagated by the media—and encouraged by the moral imprimatur of the Financial Crisis Investigation Commission—it is likely that if you ask most Americans why the crisis occurred, you will be very unlikely to get a response that mentions government policy, misregulation, overregulation, moral hazard, perverse incentives, or easy money.

Learning was of the utmost importance, to make sure such a crisis wouldn’t happen again. Kaufman (2016, p. 24) explains how “attempts to identify the true causes of the crisis, in order to design and adopt appropriate corrective policies, are the necessary step to breaking with the past.” Wallison (2016, p. 99) cautions us against bad learning: given the popular narrative of the crisis (that the private sector was to blame), “it is likely that the same policies will be adopted again”; that is indeed what we have seen. Barth et al.

(2016b, pp. 399, 409) bluntly concluded that the federal government misdiagnosed the causes of the crisis, focusing on the wrong factors, such that several major reforms are unlikely to improve the financial system; “by not rigorously dissecting the regulatory and supervisory failures, reform efforts have been materially incomplete” (ibid, p. 409). Allison (2013, p. 3) concludes that “unfortunately, both the popular press and many academics have provided arguments that lack basic understanding, ranging from the simplistic greed on Wall Street argument to the idea that complex derivative instruments caused the crisis.”

Because of this lack of learning, the reforms have been universally flawed. Allison (2013, p. 6) fears that “almost every governmental action since the crisis started, even those that may help in the short term, will reduce our standard of living in the long run.”

The sad result of the lack of concern for the truth behind the financial crisis is that it is only a matter of time before history repeats itself. Because of the political success of keeping Wallison’s explanation away from the general consciousness, and the absence of honest debate regarding opposing views, politicians are free to continue pursuing dangerous and counter-productive regulatory and monetary policies.

The only lesson to have come out of the financial crisis of 2008 seems to be that no lessons were learned. Science has been politicized and the US is stuck in an idea trap.<sup>9</sup>

## NOTES

- 1 There is some disagreement in the literature on whether monetary policy was a primary cause or an accelerator of the crisis. Wallison (2016, p. 91), argues that low interest rates accelerated, but didn’t cause, the housing bubble, because the Shiller Index of housing prices was already higher in 2000, before the Fed decreased interest rates aggressively, than it had ever been. However, Horwitz and Boettke (2009) place blame squarely on the Federal Reserve as a root cause of boom and bust cycles. Likewise, Allison (2013) lists monetary policy as the “primary cause” of the crisis (with the FDIC as a “background cause” and government housing policy as a “proximate cause”). Regardless, the Federal Reserve provided the fuel.
- 2 In this paper, we adopt an admittedly Austrian approach (see Ebelling 2014). A parallel theory, which we might call neo-Georgian (after George ([1879] 1979), points to the fixed supply of land, and real estate speculation, as the major cause of recessions (see Harrison 1983 and 2010, or Gaffney 2009). While this explanation has compelling elements, we find it to be incomplete, as it does not examine financial markets and malinvestment from expansionary monetary policy. We thus point to a “Georgist-Austrian” synthesis, to complete the insights of Austrian Business Cycle Theory (see Foldvary 1997, 1998, 2007).
- 3 White House Archives, “President George W. Bush: Record of Achievement.” The White House. Accessed May 10, 2016. <https://georgewbush-whitehouse.archives.gov/infocus/achievement/chap7.html>.
- 4 As a simple, but revealing example, the Privacy Act punishes banks for sharing customer information, while the Patriot Act forces banks to share customer information with the federal government—these Acts are quite literally contradictory, and banks are caught in a catch-22, which allows for selective regulatory enforcement (Allison 2013, chapter 13).
- 5 One could also argue that market discipline would be better than regulation in general. The point here is that the regulation in place during the bubble (a) created perverse incentives; and (b) was not applied completely.
- 6 Of course, the Fed is technically independent. However, the sitting administration (and Congress) can (and do) put pressure on the Fed and coordinate economic policy with it.
- 7 Note that we are not arguing that bankers and other speculators were not greedy during the heady days. Of course many were! But greed has always existed; without the moral hazard of government subsidies and implicit guarantees, the market participants would have seen their greed tempered by the market discipline of potential loss. The “greed explanation” is thus unhelpful.
- 8 “How the Sugar Industry Shifted Blame to Fat,” by A. O’Connor, The New York Times, September 12, 2016, <http://nyti.ms/2cynHOS>. See also O’Keefe et al. on sugar industry funding of anti-fat research.

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# The Liberal Defense of Immigration Control

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**Abstract:** Contemporary liberal theorists generally support open borders and some argue that liberalism is incompatible with substantive immigration control. We argue that it has not been shown that there is an inconsistency in the idea of a liberal state enforcing such controls and that it may be obligatory for a liberal state to impose substantive restrictions on immigration. The immigration control on which we focus is that concerning people from societies that resemble closed societies, particularly those in which Islamic fundamentalism is endemic. We suggest that, if the threat we envision is real, then a liberal state has a right to limit immigration from such societies.

**Keywords:** Closed society; immigration; Islamic fundamentalism; liberalism; freedom; sovereignty.

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## 1. INTRODUCTION

There is a vast literature on the ethics of immigration, much of it written by classical liberal or libertarian scholars, henceforth referred to as ‘liberals’. Liberalism is a philosophy of freedom in which a—or the—primary obligation of the state is to protect the freedom of persons. From a liberal point of view then, the following proposition may appear to be internally inconsistent:

(P) a liberal state is entitled to enforce substantive immigration controls.

Thus, many liberals hold that substantive immigration restrictions are unjust because they violate the rights of citizens to invite foreigners to visit their private property as well as the rights of individuals to freedom of movement. Christopher Freiman and Javier Hidalgo argue that ‘you can accept liberalism or substantive immigration restrictions, but not both’.<sup>2</sup> A substantive control on immigration is one that goes beyond excluding international terrorists or fugitives from the law.<sup>3</sup>

We explain why the arguments that are intended to show that (P) is internally inconsistent are invalid. Thus, whether or not (P) is true appears to be an empirical matter: whether the state’s obligation to protect freedom can best be met by controlling immigration depends upon empirical facts about immigration. Further, we note that recent experience of immigration in Europe suggests that there are some types of immigrant whose admission in large num-

bers would lead to a substantial diminution of the freedom of the persons living in the territory of the state. If that is so, then (P) may be true, since substantive state controls on the numbers of such immigrants, rather than being inconsistent with a liberal state's duty to protect or promote freedom, would be required by that duty. We therefore propose the following hypothesis to be tested empirically:

- (H) immigrants from societies that closely resemble closed societies, including societies in which Islamic fundamentalism is endemic, if admitted in large numbers, will reduce the freedom of persons in the host society.

We suggest some specific questions to be answered by social-scientific research in order to test (H). We note that, despite a good deal of social-scientific research into the impact of immigration on immigrants and on the societies to which they immigrate, the specific questions that we pose have not yet been investigated.

Like Freiman and Hidalgo<sup>4</sup>, and Michael Huemer<sup>5</sup>, we do not specifically address the moral status of refugees. The right to freedom of movement of those in deadly peril poses a complex question: on the one hand, they are in more exigent circumstances; on the other, they may be aided by means other than migration, and there may be ethical and practical reasons for favoring closer destinations if relocation is unavoidable.

In section 2 we give a brief summary of liberalism as a philosophy of freedom. We consider a putative liberal defense of immigration control that likens the state to a voluntary association. We reject that defense after summarizing the arguments against it. In section 3 we set out a liberal account of the function of the state and we explain how (P) could be true. The explanation depends upon the possibility of there being a type of immigrant such that the freedom of the persons in a liberal state would be diminished if immigrants of that type were admitted in large numbers. In section 4 we expound, criticize, and reject the arguments of Huemer, and of Freiman and Hidalgo, that are intended to show that (P) is internally inconsistent. In section 5 we summarize some information which suggests that immigrants from some Islamic societies may instantiate the type of immigrant whose admission would undermine freedom in the host society. In section 6 we explain our hypothesis (H) and we make proposals for testing it. In section 7 we suggest the sorts of controls on immigration that may be appropriate if (H) survives testing. In section 8 we rebut some objections to our proposals. In section 9 we conclude.

## 2. LIBERALISM

The two guiding principles of liberalism are freedom and equality. The idea is that every person has the right to direct her own life, so no person has an inherent right to direct any other. The freedom at issue, then, is the freedom to direct one's own life. However, since a person's goals in life may conflict with the goals of other persons, and since each should have the freedom to direct her own life, then liberalism demands the maximum freedom of each person that is compatible with the equal freedom of all persons. Liberals accept restrictions on individual freedom if they are required to secure the maximum of individual freedom attainable.<sup>6</sup> A substantially similar account of liberalism is given by Freiman and Hidalgo.<sup>7</sup> Differences between liberals emerge, however, with regard to the question of the state.

The liberal commitment to the maximum freedom of each individual to direct her own life may be expressed as 'individual sovereignty'. This equal moral status that liberalism accords to persons is grounded in the facts that:

- persons have the reflective capacity to direct their own lives;
- the flourishing of persons depends upon their freedom to exercise that capacity.<sup>8</sup>

Individual sovereignty may seem to imply anarchism, which some liberals accept. Other liberals, however, equate anarchy with lawlessness, chaos, or the violation of the weak or the good by the strong or the bad. If these latter liberals are right, which we simply assume here, then the freedom and the flourishing of persons depends upon a *liberal state*, that is, a state that has the *duty* to secure the maximum equal freedom of the persons under its jurisdiction, whoever those persons happen to be, and the *right* to impose on those persons laws that secure that maximum equal freedom.<sup>9</sup> That is so whether one takes a deontological or natural rights view of the freedom of persons to direct their own lives or, instead, grounds that freedom in the flourishing of persons. Just as maximum equal freedom requires the sovereignty of each person to be limited by the sovereignty of each other person, so it also requires the sovereignty of each person to be limited by the sovereignty of a liberal state. However, the sovereignty of a *liberal state* extends no farther than its right to maintain the laws and other conditions required to secure the maximum equal freedom of the persons under its jurisdiction.

In political theory it is often assumed that the state is an ensemble of individuals. In fact, the state is an *institution* that is constituted by a set of relations that exist between individuals, a relational structure that continues to exist even when specific individuals are replaced by others (as, over time, they all are). The state has a characteristic set of rights and duties, including the duty to maximize the equal freedom of the persons within its jurisdiction; and those rights and duties are *realized* in a structure of offices or roles which bestow more specific rights and duties on the persons who occupy them *insofar as* they occupy them.<sup>10</sup> The distinctness of the state from every person means that the sovereignty of the state, which gives it a (limited) right to direct the lives of others, is consistent with the *equal* sovereignty of all the *persons* under its jurisdiction.

That a liberal state has the duty to safeguard individual freedom *seems* to imply that it has the duty not to interfere with individuals' freedom of movement.<sup>10</sup> That in turn seems to imply that, if more than one state exists, then a liberal state has the duty to maintain open borders so that persons can exercise their freedom of movement by immigrating or emigrating freely. So it may seem inconsistent to maintain that a liberal state has the right to impose substantive controls on immigration. However, two points must be noted.

First, the question of where one person's freedom ends and another's begins is a notoriously difficult one, due to the existence of 'negative externalities', that is, by-products of an action of one person that have a negative effect on other persons, such as pollution or exposure to risks.<sup>11</sup> For example, it might seem that my freedom of movement entitles me to run on the spot for exercise. But by exercising in that way at 3:00 a.m. I may prevent my downstairs neighbor from sleeping, thereby encroaching on her freedom to sleep at night. Therefore, the *seeming* inconsistency of a liberal state interfering with individuals' freedom of movement will not be a *real* inconsistency if such restrictions on movement or migration are required to ensure maximum equal freedom.

Second, when a question of consistency arises, the onus is always on the person who alleges *inconsistency* to make her case. The reason for that is that consistency cannot be proved. Russell's Paradox showed that a proposition that seemed to be self-evident (Frege's fifth axiom for arithmetic) could actually be demonstrated to be internally inconsistent.<sup>12</sup> So, a claim that a theory is self-evidently consistent is worthless. Further, any attempted proof of consistency is question-begging because it can succeed only if the premises of the proof and its rules of inference are consistent: in short, any attempt to prove that a theory is consistent assumes the consistency of some propositions the consistency of which is open to doubt. Since the consistency of a theory cannot be shown, it is up to those who allege that a particular theory is inconsistent to make their case by deriving a contradiction from the theory.

Such a case can sometimes be plausibly made. For example, some theorists have argued that the citizens of a liberal state have a collective right of self-determination that entitles them, through the democratic process, to control immigration. That may be done to preserve the culture or to control its development or to protect sectional economic interests (such as the low-paid or net taxpayers), or for some other reason that appeals to the majority of citizens.<sup>13</sup> However, changes to the culture, and changes to the relative for-

tunes of sectional groups, are often brought about by a state's own citizens acting in new ways without anyone, or any group, having overall control of what results. A state that tried to prevent such change would not be a liberal state because it would have to stifle innovation thereby substantially encroaching on the freedom of its citizens. Further, whilst a voluntary association, such as a club, might collectively agree that its members refuse to eat vegetables or refrain from expressing political opinions, a state (even a democratic one) that imposed such conditions on its citizens would not be a liberal state. Accordingly, a theory of the liberal state that endorsed state control of immigration *on such grounds* would be a theory of a non-liberal state; it would thus be self-contradictory.<sup>14</sup>

David Miller suggests that the contradiction may be avoided by accepting that a liberal state may permissibly resist *externally generated* cultural change and use immigration control to do that.<sup>15</sup> Freiman and Hidalgo rebut the suggestion: such a state could achieve its aim only by preventing its citizens from adopting, adapting, imitating, or even just taking some form of inspiration from, ideas and practices that originate abroad; it would therefore stifle the freedoms of its citizens.<sup>16</sup>

These arguments of the advocates of open borders seem strong. They are not formally valid derivations of a contradiction, but they do make a plausible case that it is inconsistent to maintain that the citizens of a liberal state have a collective, democratic right to impose substantive immigration controls to protect the culture or sectional interests or any purpose that undermines the maximum equal freedom of the persons under the state's sovereignty. In the next section we offer an account of a liberal state restricting immigration and we explain away what may appear to be inconsistencies.

### 3. LIBERALISM AND SUBSTANTIVE CONTROLS ON IMMIGRATION

A liberal state, we noted, has the *duty* to secure the maximum equal freedom of the persons under its jurisdiction, whoever those persons happen to be, and the *right* to impose on those persons laws that secure that maximum equal freedom. Reciprocally, persons within the territory of a liberal state have the duty to obey the laws of that state, at least to the extent that the state, in making those laws, has not defaulted on its duties. Each state, like any other moral agent, has the duty not to violate the rights of *any* persons, whether those persons are in its territory or not. But if persons outside of the state's territory are suffering suppression of their freedom by other states, it is not immediately clear what, if any, duties the liberal state has to redress that inequality of freedom. It might help to resolve the problem if we consider a simpler case.

Suppose that the world is governed by a single liberal state the laws of which are administered locally at country-sized territories. The administration of territory *L* is efficient and effective; and the persons in the territory enjoy maximum equal freedom. The administration of territory *D* is corrupt and despotic; and in consequence the freedom of the persons in the territory is severely curtailed. The administration of *D* is perpetrating an injustice upon the persons in its territory. Until the injustice is rectified, there may be a large migration of people from territory *D* to territory *L*; and the administration of *L* is duty-bound to permit it, since (we can suppose) the world-state, being a liberal one, guarantees freedom of movement within its territory (the world). The administration of *L* has no duty to rectify the injustice being perpetrated by the administration of *D*. That is the duty of the world-state, which is a consequence of its duty to secure maximum equal freedom of *all* persons.

We approach our actual situation by removing the world-state, so the administrations of *L* and *D* become the *states* of those territories. Each still has the duty to secure maximum equal freedom for the persons within its territory. But there is no overarching state that has the duty to secure the maximum equal freedom of *all* persons and the consequent duty to reform states that suppress the freedom of persons in their territories. Those duties cannot simply devolve to the territorial states, because 'ought' implies 'can'. A single state, typically, would not have the power to do what the duties require. We may consider three possibilities:



- a) each liberal state has the duty to secure the maximum equal freedom of the persons within its territory and no duties with regard to alleviating depredations of freedom of persons outside of its territory;
- b) each liberal state has the duty to rectify all depredations of freedom perpetrated on persons outside of its territory to the extent that that is consistent with fulfilling its duty to secure the maximum equal freedom of the persons within its territory;
- c) each liberal state has the duty to secure the maximum equal freedom of the persons within its territory *and* the duty to rectify all depredations of freedom perpetrated on persons outside of its territory, and when the two duties conflict the first may sometimes be overridden by the second.

Option (a) seems borderline incoherent. The ideal of liberalism is maximum equal freedom, so a state that has *no* duties to rectify or alleviate suppressions of freedom outside of its territory hardly seems liberal. Option (c) seems incoherent because it implies that a state may be liberal while failing to secure the freedom of the persons in its territory, thereby being illiberal. That leaves us with option (b). The question of how far a liberal state can go in assisting the freedom of foreigners without reducing the freedom of the persons within its territory is a complex one. For example, such a state has the duty to use force to defend the persons in its territory from military aggression; but waging wars against despotic states that are not threatening its citizens will be ruled out normally but perhaps not always. However, we can put such complex issues on one side because our concern here is just immigration.

If every state in the world were a liberal state that fulfilled its duty and did only what it had a right to do, it might be the case that substantive state controls on immigration were impermissible. However, in our actual circumstances, none of the states in the world is a (fully) liberal state and there are only a small number that approximate the liberal ideal. On the liberal view, of course, those states, and all others, *ought* to secure the maximum equal freedom of the persons under their sovereignty. In fact, many states fail very badly to do what they ought: they are highly illiberal.

Let us, to avoid circumlocution, say that the laws that are required to secure the maximum equal freedom of the individual persons under a state's sovereignty are 'just laws'. Just laws are ones that the state has a right to enforce within its territory and that the persons in its territory have a correlative duty to obey. If a person moves from one state's territory to that of another, he loses the duty to obey the just laws of the former state and he acquires the duty to obey the just laws of the latter state. If the latter state has a just law prescribing that any immigrant of a specific type who enter the jurisdiction without permission must leave, then any immigrant of that type who has entered the state's jurisdiction without permission has a duty to comply with that law, and thus to leave. Therefore, so long as the state is entitled to exclude immigrants of a specific type, the state's enforcement of that control does not violate the rights of those who are excluded. Even advocates of open borders seem to admit as much insofar as they deem it permissible for a state to bar or expel persons who are international terrorists or fugitives from the law.

Our question is whether a liberal state has the right to implement immigration controls that go beyond that. If it has, then such controls do not violate the rights of the would-be immigrants who are thereby excluded. Such controls will restrict the freedom of the persons within the state's jurisdiction who will, for example, be prevented from inviting some foreigners to become employees. But, again, so long as the state has the right to implement the controls, the rights of the persons in the state's jurisdiction will not be violated: the restrictions of particular freedoms will be necessary to secure maximum equal freedom overall. In other words, if substantive controls on immigration are just, then such controls do not violate anyone's rights.

#### 4. THE CHARGE OF INCONSISTENCY

In section 2 we conceded that the idea of a liberal state substantively controlling immigration in order to secure putative benefits other than the protection of freedom has been shown to be inconsistent by advocates of open borders. In this section we show that the arguments of those advocates do not succeed in showing

an inconsistency in the idea of a liberal state enforcing substantive controls of immigration for the protection of freedom.

Huemer initially<sup>17</sup> poses the question of substantive immigration control in terms of harm: how can it be right to exclude people who are simply seeking a new home and a better life, when such exclusion causes them harm? However, he later recognizes that there are many actions that cause harm to others that are permissible, as when a person obtaining a job harms the other people who also applied for it,<sup>18</sup> so it becomes clear that his objection to substantive immigration controls is that they cause harm *in an impermissible way*. He tries to substantiate that by drawing analogies between immigration control and actions that advocates of such control deem impermissible. As he explains it, his method is ‘to describe a case in which nearly everyone will share a particular, clear intuitive evaluation of some action, and then to draw a parallel from the case described to some controversial case of interest’.<sup>19</sup> He hopes thereby to convict of inconsistency any liberal theory of substantive immigration control.

Huemer’s method is flawed. Whether one classifies one particular case in the same way as one classifies another depends upon what theories one holds: without theories, or ‘conceptual frameworks’, we could not classify at all.<sup>20</sup> When a particular case is controversial, it is because its classification is disputed, which is in turn due to the parties to the controversy holding rival theories. Finding cases that are classified the same way by the rival theories can be of no assistance in reaching agreement on cases which the rival theories classify in different ways. Huemer’s procedure amounts to this: ‘we agree that case *A* is impermissible; but, according to *my* moral theory, case *A* is of the same type as case *B*; therefore, you are being inconsistent if you deny that case *B* is impermissible’. It is question-begging because his interlocutor holds a rival moral theory according to which case *A* is relevantly dissimilar to case *B*. The following is Huemer’s most relevant example.

Marvin is in desperate need of food but Sam forcibly prevents him from going to the market to buy some, as a result of which Marvin suffers malnutrition or starvation. In the absence of some unusual circumstances, Sam’s harmful coercion impermissibly violates Marvin’s rights. Therefore, says Huemer, a state preventing a foreigner from entering its domestic market, as a result of which the foreigner suffers serious harm, is also an impermissible rights-violation.<sup>21</sup> However, the two cases are not at all parallel: Sam is just an individual, not a state; Marvin resides under the state’s jurisdiction, not outside of it; and the state may have a duty to keep out foreigners of some types if that is required to safeguard the equal freedom of the persons under its jurisdiction.<sup>22</sup>

Huemer’s flawed method is endorsed by Bas van der Vossen and Jason Brennan, who employ his example of Marvin and offer some variations on it.<sup>23</sup> They do, however, go beyond Huemer in raising the question of whether restrictions on immigration enforced by a state differ from restrictions on freedom of movement enforced by an individual. Noting that it is sometimes supposed that states are agents of their people, they say that an agent derives its powers from its principal(s), and a group of individuals has no more right to restrict Marvin than an individual has. That fact is not changed if the group makes its decisions democratically. We agree that the legitimacy of state control of immigration cannot derive from individual rights to restrict freedom of movement. But, as we explained in section 2, individuals do not stand to the state as principals to agent.

Freiman and Hidalgo maintain that freedom of movement is a constituent part of some ‘basic liberties’ that a liberal state is obliged to protect, such as freedom of occupation and freedom of association.<sup>24</sup> They then adopt Huemer’s faulty strategy by claiming that, if it is wrong for a liberal state to interfere with domestic freedom of movement, then ‘it is hard to see why’<sup>25</sup> it would be permissible for such a state to restrict movement across borders. It is odd that they commit that fallacy because they acknowledge<sup>26</sup> that some state restrictions on basic liberties are permissible: for instance, the state may permissibly forbid ordinary citizens from entering a military base or impose some restrictions on freedom of speech.<sup>27</sup> So, even if we accept that freedom of movement is a basic liberty, that leaves open the question of what, if any, particular limitations may need to be imposed on freedom of movement for the sake of the maximum attainable equal liberty; so it may be that a liberal state may restrict individuals’ freedom to migrate.

Freiman and Hidalgo consider whether a theory of a liberal state enforcing substantive immigration controls can avoid contradiction by appealing to differences between freedom of movement and other basic liberties. It cannot be evaded by claiming that other basic liberties are more important to persons than is the liberty to migrate. For, the importance of a liberty to a person varies with the person and her circumstances.<sup>28</sup> For instance, when a person is seeking work, she may regard freedom of occupation as more important than freedom of speech; but when she has a job she may regard freedom of speech as more important. It cannot be evaded by claiming that states have weaker obligations to foreigners than to their own citizens, for three reasons. First, immigration restrictions curtail the liberties of a state's citizens (for example, the liberty to employ immigrants) as well as the liberties of foreigners. Second, a state's obligations not to violate 'negative liberties' are just as stringent in the case of foreigners as in the case of its own citizens.<sup>29</sup> Third, if it is claimed that a state has stronger obligations to its citizens than to foreigners with regard to positive duties to provide resources or assistance, and that the costs imposed on citizens by immigration mean that these positive duties owed to citizens outweigh the negative duties owed to foreigners, it may be retorted that negative duties to foreigners normally override positive duties to compatriots.<sup>30</sup>

We accept those arguments (though we would express them differently). However, proposition (P), that a liberal state is entitled to enforce substantive immigration controls, does not imply a differential importance of freedom of movement vis-à-vis other freedoms, and it does not imply that the state gives greater weight to its duties to its own citizens vis-à-vis foreigners. It requires only that all persons, indigenous or foreign, have the duty to obey the laws of a liberal state if they are under its jurisdiction and that a liberal state may have a law excluding foreigners of some types.

Therefore, the advocates of open borders have failed in their attempts to show that there is an inconsistency in a liberal state enforcing substantive immigration controls.

## 5. THE STORY FROM WESTERN EUROPE

That there may be some types of immigrant the numbers of which a liberal state may be obliged to control is suggested by experiences in Western Europe, which in recent years has accepted a large influx of immigrants from Islamic societies. According to polling conducted by the Pew Research Center, 99 percent of Afghans favor making Sharia the official law of their country; 94 percent completely or mostly agree that a wife must always obey her husband; 85 percent favor stoning as a punishment for adultery; 79 percent favor the death penalty for converts. The data from Pakistan, Bangladesh, Iraq, Egypt, and other major Muslim-majority states are only slightly more encouraging.<sup>31</sup> A poll carried out for Channel 4 in Britain in 2016 indicated that high proportions of British Muslims have similar views: 52 percent do not believe that homosexuality should be legal in Britain, 39 percent agree that wives should always obey their husbands, 32 percent refuse to condemn those who take part in violence against those who mock the Prophet, and 23 percent support the introduction of Sharia Law in Britain.<sup>32</sup>

In recent years, people in Western Europe who do not conform to the norms of the Islamic societies from which the immigrants hail have suffered a substantial increase in intimidation and violence perpetrated by such immigrants who, often in groups, abuse, threaten or physically violate people. Victims include females who subscribe to Western mores (including underage girls subjected to rape and molestation),<sup>33</sup> people who are openly homosexual or transgender,<sup>34</sup> as well as journalists, entertainers, artists, novelists and politicians who may decline to express themselves freely out of fear of being victims of violence.<sup>35</sup> Additionally, in many urban centers in France,<sup>36</sup> Germany,<sup>37</sup> England<sup>38</sup> and elsewhere, there has been over the last decade or so an alarming rise in the vandalism of Jewish-owned property; harassment and intimidation of Jewish children in the public schools, compelling many thousands to withdraw; and physical assaults on identifiable Jews, up to and including murder.<sup>39</sup> Such hate-crimes do not victimize only those who are directly harmed: entire communities may live with fear and anxiety. As a consequence, tens of thousands of Jews have relocated internally or have left their homelands for Israel, the U.S., or other nations.

One has, of course, to be careful in interpreting poll results and reports in the press and other media. Indeed, one may be inclined to dismiss such purported evidence as ‘anecdotal’. It does, however, suggest a hypothesis that can be subjected to empirical testing.

## 6. OUR HYPOTHESIS

Our hypothesis concerns immigrants from societies that are so illiberal that they closely resemble what Karl Popper calls ‘closed societies’.

A closed society is like a herd or a tribe whose members are held together by ties of kinship, living together and sharing efforts, dangers, joys and distress. The members of a closed society have a magical or irrational attitude towards social customs, which they do not distinguish from the regularities found in nature, regarding both type of regularity as enforced by a supernatural will. The customs are consequently rigid. They are also very restrictive: all aspects of life are regulated by taboos that leave few loopholes, so the right way of acting is almost always specified; though, in difficult situations, doing what is deemed right may demand courage or other virtues. The society’s institutions, including its castes, are sacrosanct. The rigidity of social structure and customs mean that competition for status among the society’s members is limited. Changes in the tribal ways of life are relatively infrequent and when they happen, they have the character of religious conversions rather than rational attempts to improve social conditions.<sup>40</sup> In a closed society, the tribe is everything and the individual nothing.<sup>41</sup>

In contrast, in an open society many people strive to rise socially, to take the places of other members, or to define a social place for themselves which is different to the one in which they find themselves. Open societies function largely by way of abstract relations, such as exchange or co-operation, and the social groups they contain typically do not provide for a common life.<sup>42</sup> An open society is characterized by individual initiative and self-assertion, interest in the human individual as individual, and not only as tribal hero and savior, and the belief that there is nothing more important in human life than individual persons.<sup>43</sup>

Contemporary Western societies are more or less open societies. Some contemporary non-Western societies, while they are not closed societies as described by Popper, nevertheless closely *resemble* closed societies. Notable amongst such societies are those that are permeated by Islamic fundamentalism. For example, we expect that most, if not all, readers of this paper will find appalling the sorts of views attributed to people in such societies in the Pew Research reported in Section 5; but what distinguishes a closed society is not the barbarity of its prevailing views but the fact that its members do not hold those views open to criticism and are intolerant of dissent. Attempts to criticize those views, or even just to deny them, are not rebutted by argument but are met with some form of sanction, often a severe one, such as ‘the death penalty for converts’.

Open societies evolved gradually from closed societies under the stimuli of trade and colonization, which brought people into contact with differing views and customs.<sup>44</sup> It therefore seems reasonable to assume that in relatively small numbers, people from societies that resemble closed societies can be absorbed into more-or-less liberal societies, learn to tolerate the existence of views that differ from their own and even, over time, listen to criticism of their own views and amend them in the light of argument. That can be expected to happen through the immigrant mixing with the indigenous population who are neighbors or other members of the local community and, more particularly, those who are customers or colleagues.

However, we conjecture that a large and rapid influx of migrants from societies that resemble closed societies can lead to the development within a more-or-less liberal society of illiberal and intolerant enclaves. That may happen when the clustering of such immigrants frustrates the process of assimilation. In such an environment, immigrants need not have many interactions with the indigenous population: they may run or work for businesses that serve largely or entirely the local immigrant community, or that sell goods or services online, so that the people in the business have little personal contact with people who are outside of their community. If large numbers of them have immigrated simply because they want to be bet-

ter off materially, they may retain a preference for living under the restrictive norms to which they are accustomed. Even those of them who would prefer to live according to the norms of the host society (which may for them have been one attraction of migration) may have difficulty shedding their inherited norms when the people in their immediate vicinity are endorsing or enforcing them. It is possible that members of those illiberal enclaves might try to impose their restrictive norms not only within their enclaves but also on the wider society or on the parts of it with which they come into contact. That could lead to intimidation and violence perpetrated against people who do not conform to the closed-society norms, such as gays, or Jews, or women who dress and behave appropriately to Western mores. As a consequence, persons would suffer substantial curtailment of their freedom to express publicly (verbally or by means of dress or behavior) their identities, in their preferred but peaceful ways, and thus also serious truncation of their freedom to discover and associate with persons with similar or complementary identities. In short, the freedom of persons to direct their own lives would be subverted.

It could also lead to premeditated acts of terrorist murder. We are familiar with the existence of disturbed or disaffected people, often young men, who want to wreak vengeance on the world and who may become serial killers or school shooters or terrorists, depending on their circumstances. It seems that one thing that often plays an important part in their development is the existence of a narrative containing the role of violent hero or avenger that appeals to them, whether it be the Joker in *The Dark Knight* or the revolutionary of Marxist-Leninist theory or the kamikaze of Islamic fundamentalism. Such disturbed people arise in probably every culture but one would expect that whether they develop into terrorists depends in part upon the features of the culture they inhabit. The culture of an illiberal enclave that has a tradition of celebrating violent kamikazes may be expected to produce more terrorists per head of population than a liberal culture, even if both cultures have the same proportion of disturbed or disaffected individuals who have the potential to develop in that way.

It may, contrarily, be the case that the development and persistence of illiberal enclaves is, at least in part, attributable to dysfunctional regulatory and welfare policies that permit or compel immigrants to become welfare dependants living in ghettos. A liberal state would not have such regulatory and welfare policies, as it would enforce laws protecting the freedom of the people under its jurisdiction.

Although there is a good deal of social scientific research on issues of immigration and integration, the following questions, raised by our hypothesis, seem not to have been addressed directly.

- Does a large and rapid influx of immigrants from societies that closely resemble closed societies inevitably lead to clustering?
- Does such clustering tend to result in illiberal and intolerant enclaves?
- Is the existence of such enclaves strongly liable to lead to intimidation of, and violence against, persons outside of the enclaves?
- Are such enclaves more than usually liable to engender terrorists?
- To what extent, if any, are the above problems remediable by abandoning dysfunctional regulatory and welfare policies?

For example, in a discussion that covers a rag-bag of issues, obscurely related, Paul Collier<sup>45</sup> raises concerns about immigrants, including some Muslims, who do not assimilate and thereby have a detrimental effect on the culture of the host society, primarily its national identity and traditional mores. He suggests a model according to which the unassimilated immigrants attract from their home countries further immigrants who desire to live in a more prosperous country without adapting to its mores. He does cite an empirical study, conducted by Harvard political scientist Robert Putnam, that suggests a link between higher levels of immigration and lower levels of social trust. But he cites no social-scientific studies, conducted by himself or others, that examine a relationship between large-scale immigration from intolerant communities and a reduction of freedom consequent upon an increase in intolerant violence or intimidation. He does not even raise that question, at least, not explicitly. Similarly, in their rebuttal of Collier's claims, Mi-



chael Clemens and Justin Sandefur do not raise that question or report any social-scientific findings on the matter.<sup>46</sup>

Some research has indicated, what is hardly surprising, that second-generation immigrants inherit, via their parents, aspects of the culture of the society from which the parents migrated.<sup>47</sup> Consistently with that, other research has indicated that tolerance of homosexuality, and positive attitudes towards women working, are lower amongst second-generation immigrants in Europe the greater the proportion of Muslims in the countries from which their parents migrated.<sup>48</sup> However, the research did not investigate whether the immigrants would be inclined to use, or to favour, intimidation or violence against homosexuals or working women or people who advocate equality for homosexuals and women. For instance, tolerance of homosexuality was measured by responses to the statement, 'gay men and lesbians should be free to live their own life as they wish.' A person who responds negatively to that statement need have no inclination to perpetrate intimidation or violence against homosexuals or their advocates. What diminishes the freedom of persons in a liberal society is illiberal behaviour, not illiberal views.

A liberal state has the duty to enforce laws that safeguard the maximum equal freedom of the people under its jurisdiction. If a rapid and large influx of immigrants from societies that resemble closed societies would make it more difficult for a liberal state to enforce its laws and would prevent or inhibit the people under its jurisdiction from exercising their freedom to direct their own lives, then one of the laws that the state ought to enforce will be a law specifying controls on immigration from societies that resemble closed societies. If it does not enforce such a substantive control on immigration, then the freedom of persons under its jurisdiction will be compromised and the liberal state will fail to fulfill its duty. That sort of control of immigration is substantive in that it is not focused on known or suspected criminals: it discriminates against people on the basis of their culture. Such a control will be just where the persons in the state's territory lose less freedom from its implementation than they would lose from not implementing it.

## 7. OPTIONS FOR IMMIGRATION CONTROL

If our hypothesis survives testing by social-scientific research that yields answers to the list of questions in section 6, there seem to be three options for the appropriate immigration control.

The first option is to exclude all immigrants from societies that resemble closed societies. The second is to set a limit for the number of such immigrants. The third is to admit only those of such immigrants who pass tests that are designed to weed out people who are likely to intimidate or violate people with whom they disagree. We believe the second option should be effective since we assume that so long as their numbers are kept relatively small, closed-minded and intolerant immigrants can be assimilated by a liberal society and liberated from their closed-society mindset through peaceful mutual learning and acculturation. That seems to rule out the first option, since its benefits could be achieved by the second with fewer restrictions of the freedom of people under the state's jurisdiction to invite immigrants to join them. The choice, then, is between the second and third options.

The third option might allow more immigrants by excluding only those who are likely to cause a problem. But it is doubtful that social science is sufficiently advanced to enable identification of the problematic people. Part of the difficulty is that how a person behaves depends not just on his views and psychological traits but also on his social circumstances. Thus, a potential immigrant currently immersed in a closed society may be identified as problematic even though he would be assessed differently after being transplanted to a liberal society. There is a similar difficulty with the second option, in that arriving at a suitable number of potentially problematic immigrants to admit will inevitably be a matter of guesswork. However, the third option compares unfavorably with the second in that detailed screening using reputable social-scientific techniques seems likely to be expensive.

We tend therefore to favor the second option of simply limiting the numbers from societies that resemble closed societies. That raises the question of how the selection could be made from among all the potential immigrants from societies that resemble closed societies. The state might, for example, prefer those ap-

plicants with genuine offers of gainful employment or who have gained admittance to domestic institutions of higher learning. In those cases, denial of entry would frustrate not only the would-be immigrant but also the domestic employer or college. Assuming that the number of immigrants admitted on these grounds would be smaller than the overall number to be admitted, how could the further selection be made?

It might seem reasonable to admit those applicants who have academic accomplishments or relevant vocational training or demonstrable professional skills, that is, those likely to make a valuable economic contribution. However, no one has privileged knowledge about what skills or abilities will be most valuable to an economy. Every economic actor (person, firm or other organization) makes its own guesses about future consumer wants and makes its purchases, hiring and firing decisions accordingly; but only future market success or failure reveals who was right. Attempts by governments to forecast future public wants have been generally unsuccessful and often catastrophically wrong.<sup>49</sup>

It would seem sensible for the state to prefer those who can speak the dominant language in the host society, those who are familiar with the traditions and mores that are dominant in the state's jurisdiction (though familiarity does not imply endorsement), and family members of those who have already immigrated. If further selection needed to be made amongst potential immigrants who qualify on these grounds, perhaps a lottery would be the fairest means.

There appears, then, to be no inconsistency in a liberal state instituting substantive immigration controls; but only so long as they are necessary to safeguard the freedom of the persons under the state's jurisdiction to direct their own lives. It is at least possible that a large and rapid influx of immigrants to a liberal polity from those that resemble closed societies would diminish the freedom of persons in the host society. If such a threat eventuated either under present circumstances or future ones, a liberal state would be required to institute substantive immigration controls, perhaps of the kind we have discussed. However, a liberal state may not institute such controls in order to safeguard other putative benefits of persons under the state's sovereignty, such as preserving the culture or protecting the incomes of the low-paid.

## 8. OBJECTIONS

We noted above that the questions we have raised about the possible negative impacts on freedom of a large and rapid influx of immigrants from societies permeated by Islamic fundamentalism have yet to be taken up by social-scientific researchers. Although philosophers sometimes acknowledge questions of that type, they tend to be dismissive of them. For example, van der Vossen and Brennan acknowledge that there is a concern in European countries that the high levels of criminality, and low levels of employment and education exhibited by Muslim immigrants from Northern Africa, is a consequence of their culturally inherited lack of support for the rule of law, democracy, and freedom. Such immigration therefore seems a threat to Europe's liberal values and institutions (they cite Collier's book, discussed earlier).<sup>50</sup>

In an attempt to undermine such concerns about the failure of some Muslims to integrate, van der Vossen and Brennan cite two pieces of empirical evidence, each of which appears to be irrelevant.<sup>51</sup> First, they say that immigrants often absorb the norms of their host countries and take them with them when they return home. But the problem at issue concerns immigrants who do *not* absorb the norms of their host countries. Second, they say that immigrants today integrate better than those in recent past decades. But, even though their earlier expressed concern relates to the integration of Muslim migrants into *European* societies, the evidence they cite concerns *America*, which has not experienced the same level of such immigration as has Europe, and where in any event immigration is far lower than it would be under open borders.

In addition to that unsuccessful attempt to dismiss the problem, van der Vossen and Brennan offer a counter-argument which is similarly wide of the mark.<sup>52</sup> They express the 'loss of liberal values' in terms of money. Suppose, they say, that everyone in country A has an annual income of \$1,000, that everyone in country B has an annual income of \$50,000, and that immigration from country A to country B would make the annual income of everyone in country B \$30,000. Then such immigration would make the people of B \$20,000 a year worse off (or the equivalent loss of liberal values) but the immigrants from A \$29,000 a

year better off. They ask, rhetorically: why do the *people* in *B*, or the *state* of *B* (van der Vossen and Brennan conflate the two), have a right to exclude the people from *A*, that is, a right to prioritize *B*'s standard of living over *A*'s?

The problem, recall, is that immigration from country *A* reduces the *freedom* of the people in country *B*. By expressing the change in terms of money, van der Vossen and Brennan risk diverting attention to the different question (the one they actually pose) about the justice of a state restricting immigration in order to protect the *standard of living* of its inhabitants. But the question at issue is that of the justice of the state of country *B* restricting immigration from country *A* in order to prevent a reduction in the *freedom* of the inhabitants of country *B*. The justice of such restrictions follows immediately from the characteristic duty of a liberal state to secure the maximum equal freedom of the people under its jurisdiction. If the state of *B* permitted immigration from country *A*, it would bring about a reduction of the freedom of the people within its borders; but a liberal state is duty-bound not to do such a thing.

In short, the discussion of the concerns about Muslim immigration by van der Vossen and Brennan is unhelpful because it cites empirical evidence that is irrelevant and it ignores the duty of the liberal state to protect the freedom of its lawful residents.

Hrishikesh Joshi<sup>53</sup> contends that whether or not liberalism requires open borders depends upon whether it is possible that a large and rapid influx of illiberal immigrants would undermine a liberal society. If it is, he says, then substantive immigration controls can be defended, first, by appeal to the sorts of intrinsically valuable relationships between people, and the scientific and cultural achievements, that a liberal society allows and fosters. Second, he says, the preservation of the liberties enjoyed by people in the host society provides a 'liberty-based reason' for substantive immigration controls.

Joshi's first sorts of reason offer a defense of liberty in terms of other values; so they do not amount to a strictly liberal defense of substantive immigration controls. Joshi's appeal to them does not attempt to rebut Freiman and Hidalgo's contention that liberalism, understood as a philosophy of freedom, is inconsistent with substantive immigration controls. His second sort of reason is the one that we offer; but, unlike us, Joshi does not relate it to the characteristic duty of a liberal state. Instead, he says that the value of retaining a liberal democracy trumps the value of unrestricted immigration. That seems to be an alternative way of showing that liberalism is compatible with substantive immigration controls.

Of course, it is possible that dire circumstances could arise, such as an impending natural disaster, in which millions of people from a society that resembles a closed society will die unless they are admitted to a particular liberal state permanently, rather than for temporary asylum. In that case, that liberal state may have the duty to admit the immigrants and consequently become, by degrees, unable to fulfill its duty to secure freedom within its territory. But that does not show that a liberal state cannot, consistently, impose substantive immigration controls; it shows, rather, that there may arise circumstances under which it is a moral requirement to give up liberalism for the sake of avoiding a monumental catastrophe.

It may be objected that, quite apart from immigration, some of the citizens of liberal societies hold illiberal views, intimidate others, or assault others. Some of them even set up illiberal communities with repressive norms. When these people actually break the law, by threatening or assaulting others, they are liable to criminal penalties. Why not simply apply the same rules with the same penalties to immigrants?

Of course, that is what does happen and it is effective so long as the numbers of immigrants from societies resembling closed societies are relatively small; but it is doubtful that it is effective when those numbers are relatively large, as the story from Europe seems to attest.

It may be objected that, for most of the twentieth century, the more-or-less liberal societies of the West were permeated with large and vocal groups of people who subscribed to a political ideology, Marxism, that was opposed to liberal, open societies, and that regarded the institutions and customs of the West as decadent. Many of those people actively pursued the long-term aim of bringing the places in which they lived under a Marxist regime that suppressed freedom and the associated liberal values. Yet the more-or-less liberal societies did not succumb. Marxism, though it still has its advocates, has been defeated by argument, including most importantly the argument from experience: wherever it has been tried it has had bad, usu-

ally disastrous, outcomes. One of the *strengths* of a liberal order is that its framework of principles and values is constantly debated and tested in critical argument and stands up better to such treatment than do its rivals. So, the objection continues, liberal societies can also survive Islamic fundamentalism by remaining open. That will allow the propositions and consequences of Islamist ideology to be criticized and its bad and disastrous outcomes to be publicized and debated.

The objection fails to observe the distinction between illiberal views and illiberal behavior. For, despite the fact that the Marxists held illiberal views that they were disinclined to give up in the light of criticism, most of those present in more or less liberal societies were generally tolerant of contrary views and inclined to use argument rather than force to try to change them. There were, of course, some who resorted to terrorism, but the bulk of them were not typically so closed-minded as to use intimidation or violence against people who thought or acted differently. We acknowledge that, so long as the numbers of immigrants from Islamic fundamentalist regimes are relatively small, the presence of their illiberal views and closed-minded behaviors (so long as they fall short of intimidation and violence) can strengthen a liberal society, since they provide opportunities for criticism and learning. But a large and rapid influx of such people, especially when clustered together, might not only undermine freedom in the short term but also erect barriers to its recovery in the long term.<sup>54</sup>

It may be objected<sup>55</sup> that some Islamic-fundamentalist thugs and terrorists have been home-grown, so it is at least conceivable that, at some future time, a large number of people residing under a liberal state's jurisdiction convert to some kind of closed-society ideology and pose the same threat to freedom as would a great influx of Islamic fundamentalists. If the liberal state ought to exclude the latter from entering in large numbers it ought also to expel or otherwise dispose of the internally generated, intolerant, closed-society advocates. But that would require a liberal state to have on its schedule of laws some highly illiberal measures to be imposed upon its own citizens in some emergency situations.

It may be that a rapid and large-scale conversion to some closed-society view with accompanying intolerant behavior would never happen from within a liberal state because its inhabitants have generally been brought up in a more or less liberal culture. In that case the problem raised would never have to be dealt with. But if that predicament should arise, then a liberal state can maximize the equal freedom of the persons under its jurisdiction only by enforcing laws that restrict their liberties in various ways; for example, by limiting freedom of expression or forbidding membership in certain groups on pain of incarceration or some more suitable penalty. Such an emergency measure *pertaining only to such special circumstances and only for as long as such circumstances obtain*, would certainly be less than perfect; but it may turn out to be the best that a liberal state can achieve. It would still be liberal because the restrictions of freedom would be necessary to secure the maximum equal freedom practically attainable within the territory.

## 9. CONCLUSION

We have shown the failure of recent attempts by advocates of open borders to demonstrate that the idea of a liberal state enforcing substantive controls on immigration is self-contradictory. What those advocates overlook is the possibility that a liberal state's duty to secure maximum equal freedom for the persons under its jurisdiction may, in some circumstances, require it to impose some substantive restrictions on immigration. We have argued that the imposition of substantive immigration controls would be a duty of a liberal state if it were faced with large-scale migration from populous and unprosperous countries that resemble closed societies, and if this circumstance posed the danger we have hypothesized. The controls would be intended to limit, but not prohibit, immigration from such societies, to prevent the freedom of the persons under the jurisdiction of the liberal state from being undermined. However, we hold that in relatively small numbers, immigrants from societies that resemble closed societies should be welcomed by a liberal state in the same way as immigrants from other parts of the world.<sup>56</sup>

## NOTES

- 1 The author names are ordered alphabetically; the authors' contributions to the article are equal.
- 2 See Christopher Freiman and Javier Hidalgo, 'Liberalism or Immigration Restrictions, But Not Both', *Journal of Ethics and Social Philosophy* 10, no. 2 (2016), pp. 1-22, at p. 1, accessed online at: <https://jesp.org/index.php/jesp/article/view/99>
- 3 Michael Huemer, 'Is There a Right to Immigrate?' *Social Theory and Practice* 36, no. 3 (2010), pp. 429-61, at p. 430.
- 4 Freiman and Hidalgo, 'Liberalism'.
- 5 Huemer, 'Right to Immigrate'.
- 6 See Immanuel Kant (1797), *The Metaphysics of Morals: the Doctrine of Right*, ed. and trans. Mary Gregor (Cambridge: Cambridge University Press, 1996), pp. 24, 30-31 [6: 230, 237-38].
- 7 Freiman and Hidalgo, 'Liberalism', pp. 2-3. They cite Stanley Benn, *A Theory of Freedom* (Cambridge: Cambridge University Press, 1988); Joel Feinberg, *Harm to Others* (Oxford: Oxford University Press, 1987); Gerald Gaus, 'The Place of Autonomy Within Liberalism'. In *Autonomy and the Challenges to Liberalism*, ed. John Christman and Joel Anderson (Cambridge: Cambridge University Press, 2005); Michael Huemer, 'Right to Immigrate'; John Locke, 'The Second Treatise of Government' (1689). In *Two Treatises of Government*, ed. Peter Laslett (Cambridge: Cambridge University Press, 1960); John Stuart Mill, *On Liberty* (1859). In *Utilitarianism and On Liberty*, second edition, ed. Mary Warnock (Oxford: Blackwell, 2003); John Rawls, *A Theory of Justice* (Cambridge, MA: Harvard University Press, 1971); and Samuel Scheffler *Equality and Tradition* (Oxford: Oxford University Press, 2010).
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- 9 See Nozick's 'framework for utopia'. In Nozick, *Anarchy, State, and Utopia*, Part III, for a stimulating version of the ideal.
- 10 Compare Dorothy Emmett, *Rules, Roles, and Relations* (London: Macmillan, 1966), pp. 1-16 and 138-48.
- 11 See Freiman and Hidalgo, 'Liberalism', 3-4.
- 12 For discussion see Ronald Coase, 'The Problem of Social Cost' and 'Notes on the Problem of Social Cost', both in Ronald Coase, *The Firm, the Market, and the Law* (Chicago: Chicago University Press, 1988), pp. 95-156 and 157-185.
- 13 Bertrand Russell, *My Philosophical Development*. (London: George Allen and Unwin, 1959), p. 58.
- 14 For varieties of that view see Peter Brimelow, *Alien Nation* (New York: Random House, 1995), pp. 178-81; Michael Dummett, *On Immigration and Refugees* (London: Routledge, 2001), pp. 50-52; Joseph Heath, 'Immigration, Multiculturalism, and the Social Contract', *Canadian Journal of Law and Jurisprudence* 10, no. 2 (1997): 343- 61, at 347-50; John Isbister, 'A Liberal Argument for Border Controls: Reply to Carens', *International Migration Review* 34, no. 2: (2000): 629-35; Stephan Kershnar, 'There Is No Moral Right to Immigrate to the United States', *Public Affairs Quarterly* 14, no. 2 (2000): 141-58, at 143; David Miller, 'Immigration: The Case for Limits'. In: *Contemporary Debates in Applied Ethics* eds. Andrew Cohen and Christopher Wellman (Malden, MA.: Blackwell, 2005), pp. 193-206, at pp. 200-201; Margaret Moore, *A Political Theory of Territory* (Oxford: Oxford University Press, 2015), p. 195; Ryan Pevnick, *Immigration and the Constraints of Justice* (Cambridge: Cambridge University Press, 2011); Michael Walzer, *Spheres of Justice* (New York: Basic Books, 1983), pp. 38-41; and Wellman, 'Freedom of Association', pp. 110-14.
- 15 See Huemer, 'Right to Immigrate', 437-39, 447-50, 455-58; Freiman and Hidalgo, 'Liberalism', 1, 6-9, 11-14.
- 16 Miller, 'Immigration', p. 28.
- 17 Freiman and Hidalgo, 'Liberalism', pp. 9-11.
- 18 Huemer, 'Right to Immigrate', p. 429.
- 19 Ibid., 436-39.
- 20 Ibid., 430.



- 21 See Karl Popper, *The Logic of Scientific Discovery*. (London: Hutchinson, 1959), appendix x; and Karl Popper, 'The Bucket and the Searchlight'. In: Karl Popper, *Objective Knowledge* (Oxford: Clarendon, 1972), pp. 344-47.
- 22 Huemer, 'Right to Immigrate', 431-36.
- 23 For more detailed criticism of Huemer's style of philosophizing, see Danny Frederick, 'Ethical Intuitionism: A Structural Critique', *Journal of Value Inquiry* 50, no. 3 (2016): 631-47. A further problem with Huemer's example is that his description of Marvin as 'starving' suggests a parallel with refugees; but as it is generally agreed that refugees are a special case, we have excluded consideration of them from our discussion. Chandran Kukathas disputes that refugees are special in 'Are Refugees Special?' In: *Migration in Political Theory*, eds. Sarah Fine and Lea Ypi (Oxford: Oxford University Press, 2016), pp. 249-68, accessed online at: [https://www.academia.edu/12167749/Are\\_Refugees\\_Special](https://www.academia.edu/12167749/Are_Refugees_Special)
- 24 See van der Vossen and Brennan, *In Defense of Openness*, pp. 23-28.
- 25 Freiman and Hidalgo, 'Liberalism', 2-5.
- 26 Ibid., 6.
- 27 Ibid., 5, footnote 12.
- 28 See Mill, *On Liberty*, p. 131, for a defense of restrictions on the time, place and manner (but not the content) of speech.
- 29 Freiman and Hidalgo, 'Liberalism', 11, 15-16.
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- 52 *In Defense of Openness*, p. 40.
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- 54 Hrishikesh Joshi, 'Is Liberalism Committed to Its Own Demise?' *Journal of Ethics and Social Philosophy* 13, no. 3 (2018): 262-66, accessed online at: <http://jesp.org/index.php/jesp/article/view/367>
- 55 A version of the last two paragraphs, jointly authored, has appeared in Danny Frederick, 'O'Hear on Popper, Criticism and the Open Society', *Cosmos + Taxis* 6, nos. 6 + 7 (2019): 43-48.
- 56 Compare Freiman and Hidalgo, 'Liberalism', 7-9, 14, and Huemer, 'Right to Immigrate', 449.
- 57 Acknowledgement: the authors would like to thank Jonathan Anomaly for helpful critical comments on a draft of this paper. We have not been able to include responses to many of the points that he raised, in part because to do so would have made the paper too long, and in part because we disagree with each other on some of the issues. We would also like to thank two referees for this journal for helpful and constructive comments and suggestions.

## The Highway to Serfdom

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**Abstract:** F. A. Hayek's *Road to Serfdom* argued central planning in lieu of market economies inevitably resulted in a new 'serfdom.' A similar dynamic arises within the capitalist variant of a market economy, where all values are subordinated to profit and price signals have become price commands, creating a "systemic collectivism." Organizations adapting to this environment seek to buffer themselves from uncertainty by changing rules and increasing control over resources, including human beings. As a consequence, a new serfdom is arising. The cause arises from the central tension within all free societies/ The organizations people create, Hayek's *taxis*, have interests at odds with the spontaneous orders, *cosmos*, that arise within such societies. If they possess the power, organizations will seek to control them.

**Keywords:** capitalism, civil society, collectivism, corporations, ecology, freedom, markets, serfdom, slavery, surveillance capitalism, system.

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"Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends. And whoever has sole control of the means must also determine which ends are to be served, which values are to be rated higher and which lower, in short, what men should believe and strive for."

F. A. Hayek, *The Road to Serfdom*

Hayek's comment was focused on individuals and political parties who advocated replacing the market process with central economic planning. But his reasoning goes well beyond this. *The Road to Serfdom* offers a much deeper analysis of the foundations for serfdom in the modern world than his usual fans imagined.

### THE ROAD TO SERFDOM

When it appeared in 1944, F. A. Hayek's *Road to Serfdom* attracted well-deserved attention. His basic message was simple: substituting deliberate planning to replace the market process not only would not improve our material well-being, it would lay the groundwork for an oppressive state where the worst among us would end up in charge, and po-

litical and personal freedom would be suppressed. This outcome would happen no matter how well-intentioned those who initially sought to replace markets with central planning might be. In a variant of an invisible hand explanation, Hayek argued central planning and a free society were antithetical to one another, independently of anyone's intentions.

In making his case, Hayek distinguished between what he would later call spontaneous orders and organizations created to pursue specific purposes. A market system established procedural rules common to all but silent as to the specifics of what anyone might pursue within their framework. These rules facilitated voluntary agreement among status equals. The resulting price system created a distributed network of information sending signals as to where resources might be most effectively deployed compared to alternatives. Broad systemic information was simplified into prices able to assist decisions ultimately based on local and irreducibly individual knowledge.

As an alternative to the market, central planning subordinated local information to directives originating from the top of a hierarchy. It inevitably concentrated control at the top, divorced from most citizens, and from any local or tacit knowledge they possessed. The necessity of subordinating the economy to direction from the top would inevitably favor the ruthless, as he explained in a chapter titled "Why the Worst Get on Top" (1944, pp. 134-52).

Hayek contrasted these two ways of conceiving society as individualist and collectivist, the first based on individuals' freedom to use their knowledge in ways of their own choosing, the second subjecting them to centralized direction in service to a large group. Collectivist ideologies valued individuals in terms of their ability to serve the whole, but a whole defined in different and competing ways. Hayek analyzed collectivism from two perspectives, ideological and systemic.

Hayek distinguished three basic collectivist ideologies: nationalism, racialism, and classism (1944, p. 140). When he wrote, Nazi Germany and Communist Russia were the two dominant collectivist societies. The Nazis believed people were of value to the degree that they served Aryan supremacy. The Communists valued people in terms of their service to the proletariat. Nationalist collectivism long outlived the other two. While often equated with the Nazis, with whom the Italian Fascists were allied, nationalist collectivism served other values, and remains important in many countries.

Hayek argued every collectivist system "has two central features . . . the need for a commonly accepted system of ends of the group and the all-overriding desire to give to the group the maximum of power to achieve these ends . . ." (1944, p. 146). Collectivist political systems sought to implement collectivist ideologies, and to do so they needed to create and maintain a strong state able to dominate society as a whole. Totalitarianism, a term coined by collectivists themselves, described unchecked organizational power, or what Hayek later called *taxis*. In Benito Mussolini's words, totalitarianism meant "all within the state, none outside the state, none against the state" (Editors, 2019). One set of values dominated all others, and a society's strongest organizations existed to enforce them.

While modern collectivisms were justified in terms of an ideology, the ideology itself was interpreted by the ruling organization and, in practice, by those who controlled it. Serving the Aryan race meant serving the Nazi Party, which served Hitler. Serving the proletariat meant serving the Communist Party which, at its totalitarian height, meant serving Stalin. Mussolini never achieved such control over what serving the nation meant, but came close. *In short, collectivism is an ideology and its expression is an organizational system able to dominate all others.*

## DIGGING DEEPER

There is one more dimension to this feature. During WWII collectivist states were under the control of single men, Hitler, Mussolini, and Stalin. The first two had largely created the parties that came to power, installing them as supreme rulers. Stalin had not, but used his position as party secretary to gain control of the organization and execute all potential rivals. Totalitarianism was associated with one-man autocracies.

Nazism and Italian Fascism were defeated during the war, and only the Soviet Union survived, accompanied by the rise of new Communist powers, most importantly China, which was also dominated by a single person, Mao Tse-tung. However, as both the Soviet Union and China persisted, an important change in totalitarianism's nature developed.

Organizations are tools, but they are not just tools. While created to pursue a goal, over time they tend to redefine that goal in terms beneficial to the organization itself. In totalitarian organizations the initial goal is one of conflict against powerful enemies. Such framing of a goal reinforces the rise of charismatic leaders, of Hitlers and Maos and Lenins and Stalins and Mussolinis.

Success alters the dynamic. Subsequent Russian and Chinese Communist leaders arose out of service to and identification with a successful organization. Conflict within as well as without was de-emphasized. In established Communist nations, serving the proletariat was never a major goal of the Communist Party, serving the Party was. Redefining of their goals in self-serving ways is a feature of all large organizations, but most lack the power to take this redefinition very far (diZerega 2015). Totalitarian parties have the power.

By distinguishing between the charismatic leaders who had risen to power during the time Hayek wrote, and the organizations they established to enforce their rule, we can deepen Hayek's analysis. There is the ideology and the organization created to enforce it, both of which Hayek discussed. But once created, the organization is in many ways an independent entity redefining the ideology to serve its interests. *Ultimately, universal subordination is not to the ideology, or even to the leader, but to the organization implementing the ideology and shaping its leadership largely on its own terms.*

By emphasizing the independent power of organizations as distinct from why they were organized, we can understand the rise of a new kind of collectivism, and the serfdom it is bringing with it.

## SYSTEMIC COLLECTIVISM

*Systemic collectivism* is new in human experience. It has arisen largely independently of human intent, and ironically, its ideological justification is in terms of individualism. In these ways it seems very different from the collectivism Hayek criticized.

Hayek described collectivism as an ideology and the organizations used to implement it. Central to collectivism is elevating one value above all others, and evaluating individual worth in its terms. The value might be race, class, or nationality, and could easily be others, such as gender or language.

How, then, can capitalism as a *system* be collectivist? To understand this issue, we must distinguish between capitalism and markets.

Markets describe any system of cooperation where formally voluntary exchanges are made, coordinated by signals from a price system reflecting the pattern generated by all such exchanges. Capitalism is included here, but so is a craft fair, a farmers' market, proprietorships, cooperatives, the worker-controlled firms based in Mondragon, Spain, and other forms of economic cooperation where prices serve only as signals. Non-capitalist market economies have proven very successful, even in the context of contemporary world trade (diZerega 2014).

Ludwig von Mises wrote prices in the market are *signals* facilitating participants as to how and what to produce (Mises 1981 [1922], II.5.35). While conducting business, an independent businessperson can integrate many values beyond profit maximization and often these values will reduce total money profits even if it increases the businessperson's 'psychic income.' Prices signal how great such a monetary reduction might be from prioritizing other values, and the businessperson determines whether the monetary cost is worth the gain. For example, Brian Gitta created a test for malaria that could change how one of the most destructive diseases in human history could be treated. He explained he created his company "to close the gaps between communities and their rightful access to healthcare" (Thomson 2019, p. 47). For Gitta prices are important signals, as Mises described, but other values than money are more important.



Capitalism is a certain kind of market society distinct from other market orders in that economic success depends on subordinating *all* other values to profit (diZerega 2019). The organization most typical of capitalism, and exemplifying its dominant values, is the joint stock corporation. The logic of corporate ownership replaces individuals' pursuit of varied values with maximizing profit alone. Milton Friedman famously argued CEOs who subordinate profit to any other value are essentially robbing shareholders by using their wealth (Friedman 1962, chapter 8). In addition, corporate ownership is structured to reward anyone who, upon noticing unmaximized profits, can take the company over, replace its management, and reap the reward of more valuable shares. As more and more of an economy becomes dominated by such corporations, price signals become price commands because corporate structure penalizes prioritizing any other value. Prices shift from being signals to being commands, and those responding most quickly amass more capital at the expense of those who react more slowly or in response to other values.

In this way, as a coordination system, capitalism rewards those who best serve it by transferring additional wealth to them, at the expense of those who serve it less ably. As with the collectivism Hayek described, we find a single ideological value trumping all others: maximizing money profit. Theorists, such as Milton Friedman, arise who justify this system ideologically. But the theory is secondary to the systemic biases that push for such behavior.

Of course, individual business people with complex values motivating their actions can still exist. For many years I was one, myself. But such people must adapt to an environment increasingly shaped by organizations subordinating everything to money profit. In the process institutions traditionally not reducible to a pure business model increasingly become so, such as the news media (diZerega 2004). Many huge tech firms, such as Google, were begun with countercultural values (Markoff 2006). Despite their founders' intentions, they soon ended up dominated by capitalist values alone (Zuboff 2019, pp 82-5).

A totalitarian state is an organization that dominates all others. In stark contrast to a totalitarian party, and the organization it creates to rule, there are thousands of corporations, often in competition with one another. It is here that we must shift from Hayek's focus on organizations of rule, or *taxis*, to the larger systems within which they exist, to *cosmos*.

## COSMOS AND ECOLOGY

Hayek described a free society as including family, farm, manufacturing plants, firms, corporations, other associations, and all public institutions, "including government" (Hayek 1973, p. 46) Along with individuals, all "are integrated into a more comprehensive spontaneous order" he called "society." Society in this sense can be a particular society such as France, existing within a more inclusive "Great Society." Crucially, "different partial societies . . . will often overlap and every individual may, in addition . . . be a member of numerous other spontaneous sub-orders or partial societies of this sort as well as of various organizations existing within the comprehensive Great Society" (Hayek 1973, pp. 46-7).

This and similar passages emphasize two elements in Hayek's thinking often ignored by many theorists claiming roots in his thought. First, there are many spontaneous orders. Second, a free society is not subordinate to any of these orders, but knits them all together in, to use more contemporary terms, a dynamic network of relationships, or a social ecology (diZerega 2018). When considered within specific national boundaries, such a society is called "civil society," but civil society's boundaries often extend far beyond political ones, as with the worldwide community who are members of different scientific disciplines.

We are not describing a hierarchy, we are describing a network, and the umbrella word for networks of this type is "ecologies." "Ecology" describes the network of relationships that emerge, adapt, and even transform their environment, all in the absence of any directing goal. This term applies to both biological and social spontaneous orders and for the same reasons. Causal relationships flow in every direction, depending on linkages of mutual influence between a network's elements. For this reason, Garrett Hardin emphasized in an ecology you can never do only one thing, because linkages are so all-pervasive that any change will influence a multitude of other conditions and, in systemic terms there are no "side effects," only

effects, intended and otherwise (Hardin 1985). To say something is an “externality” is an ideological value statement imported from outside the phenomena studied, not a scientific one.

How inclusive and extensive an ecology is depends on the questions asked because, in principle, a network extends as far as linkages exist between its elements. The ecology of a lake can be studied on its own or in relation to the larger forest ecology of which it is a part, which might be studied in an even larger ecology that includes the ocean, from which salmon swim to the lake, fertilizing the forest and lake alike. And of course, even this more inclusive ecology can be viewed as a part of the larger ecology of life on earth.

The same is true for social ecologies. The ecology of farmers’ markets could be studied, as could that of agricultural production for the market as a whole, and both could be incorporated into a study of the market ecology in the U.S. Depending on the questions, these studies could also incorporate other ecological process in nature and society. For example, Jane Jacobs’ work emphasized the importance of “the root processes at work... in human and natural ecologies” (1984, p. 224; also 1961, p. 433). Her study of networks within urban neighborhoods alerted many to the complex social coordination strong neighborhoods made possible. She also showed how the larger ecology of the city, such as its networks of roads, could enrich or retard them.

Michael Polanyi’s, John Ziman’s, and David Hull’s studies of science as a spontaneous order described how knowledge vastly greater than any human being could ever grasp was made accessible to those needing it to conduct their own research. The same process enabled their new research to be made available to others engaged with the scientific ecological network (Polanyi 1969, pp. 49-72; Ziman 1968; Hull 1988, pp. 397-476). Perhaps the most important social spontaneous order is language, another ordered adaptive pattern in constant motion and arising spontaneously out of the independent actions of all its speakers (Hayek 1988, p. 147).

Specific values are embedded within the rules generating a system generated by people following general procedural rules. The spontaneous order of science privileges values different from those privileged by the market. This is why market signals do not give evidence of scientific validity. It is also why science is not a reliable source of investment guidance. These systemic values are distinct from the individual values that might motivate people engaged in business or science. No spontaneous order is value-free because the rules generating such an order carry their own bias.

Employing an ecological framework enriches our understanding of spontaneous orders as themselves embedded in networks with other such orders, both social and biological. Hayek’s “Great Society” is the inclusive network of all social spontaneous orders and the patterns arising from those acting within them. Whereas specific spontaneous orders privilege some values over others, in such a society, individuals are free from domination by specific systemic values and so pursue the projects they believe in harmony with their own values. As such, the Great Society is in profound harmony with liberalism’s basic ethical insight: the individual is society’s basic moral unit and all individuals are equally so.

This view shares much with the continental liberalism rooted in thinkers such as Wilhelm von Humboldt rather than a purely negative concept of liberty as described by Isaiah Berlin and the general libertarian model inspired by him (Berlin 1969, p. 122; diZerega 2020). Humboldt considered the good society one facilitating “the absolute and essential importance of human development in its richest diversity” (Humboldt 1969, p. 51) Hayek agreed with Humboldt’s insight rather than a purely negative idea of liberty (Hayek 1960, p. 394).

Hayek emphasized that collectivist ideologies subordinate individuals to serving some all-embracing value, from which individuals derive their worth. In ecological terms, central planning seeks to impose a social monoculture on a complex natural ecology. Capitalism simplifies the social ecology as the constraints on variation progressively strengthen. If civil society is like a rich rainforest ecosystem, capitalism is like a more constrained one such as a harsh desert, where biological variation is narrowed dramatically.

With this observation in mind, consider a statement by Lawrence Summers, once chief economist for the World Bank, adviser to presidents, and a former president of Harvard (among other positions at the

apex of the corporate world). Summers *explicitly* demoted *all* human values, *even human life itself*, to ‘efficiency’ in responding to price commands (Summers 1991):

The measurements of the costs of health impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view, a given amount of health impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages. I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that.

Summers argued economic logic subordinated all human beings to serving economic efficiency, as measured by profit. Some have argued Summers was ironically describing the implications of this kind of thinking rather than advocating such policies, which perhaps he was (Weisskopf 1992). But Summers’ logic is *identical* to much standard capitalist economic analysis, and some ‘free market’ economists have explicitly defended his statement (Johnson et al., 2007). Given his own argument, Milton Friedman could have no objection to it as a guide for corporate CEOs.

No Stalin era Soviet Commissar or Nazi *Gauleiter* could have put a collectivist subordination of human beings to an ideology any more bluntly. Rather than serving classes or races, people exist to serve economic efficiency as measured by prices. In defending this reasoning, Jay Johnson and others, argued any harms inflicted now were the price of overcoming poverty, and so deaths and disease were acceptable prices to pay for the greater good (Johnson 2007, pp. 405-6) Similar arguments were used to justify suffering inflicted in the present to secure a glorious future for the proletariat or the Aryans.

Those not entranced by the ideology could see the implications. Jose Lutzenberger, then Brazil’s Environment Minister, responded, “Your reasoning is perfectly logical but totally insane . . . Your thoughts [provide] a concrete example of the unbelievable alienation, reductionist thinking, social ruthlessness and the arrogant ignorance of many conventional ‘economists’ concerning the nature of the world we live in” (Smith 2011, p. 100).

Capitalism’s reigning values are collectivist. This is its ideological dimension.

## THE ORGANIZATIONAL DIMENSION

We can now turn to capitalism’s organizational dimension. As members of a market ecology, organizations are created to take advantage of opportunities their founders see. But, as with the term “ecology,” “market economy” is too coarse-grained a concept to shed light on the kinds of organizations that tend to define a particular economy.

Natural ecologies vary in the kinds of organisms they encourage, the patterns of adaptation they encourage, and the degree to which organisms can in turn modify the ecology. A tropical rainforest and arctic tundra are both ecologies, but differ profoundly on all these points. The same is true for market economies as a social ecology within the more inclusive ecology of the Great Society.

The structure of property rights, as well as contract and labor law, actively shape the kinds of organizations that arise in market economies, and in turn the organizations that arise will influence the content of property rights, as well as labor and contract law. The antebellum South was a market economy, with its dominant cotton production a major resource involved in world trade (Baptist 2016; Starobin 1970 a, b). It was also a slave economy shaped by laws different in crucial ways from those in states that had banned slavery. In principle, market economies may vary as much as a tundra ecology varies from a tropical rainforest one.

It is from this perspective that we can understand the “Capitalist Road to Serfdom.”

## LEVELS OF BIAS

There are two levels of systemic bias in a market system. The first is its systemic bias, where the market's procedural rules lead to different plans, different feedback, and different outcomes than those pursued within other spontaneous orders, such as science or language. However, like the term "ecology," this level allows for many different variations. Just as different sciences will employ what we broadly call the 'scientific method' in different ways, over time people develop different languages with different grammars and vocabularies, so the particular rules which structure market transactions can generate different market ecologies.

The logic of capitalism is that, subject to general rules, acquiring maximum profit justifies the means employed to achieve it. Organizations acting in harmony with it flourish at the expense of other organizations and other values. Like ideological collectivisms, capitalism's systemic collectivism subordinates individuals to a single value that they must serve if they are to succeed in systemic terms. But whereas ideological collectivisms elevate an organization to ultimate power, systemic collectivism subjects all organizations to domination by the system, and those organizations most in harmony with its dominant value flourish best.

The second level is that imposed by the dominant organizations within a market.

We are always creating organizations, ranging from the very small and ephemeral to the very large and long-lived. Most are not collectivist in practice but all have an inner collectivist logic to the extent members are expected to serve its ends. What prevents most organizations from being collectivist is not whether their goals are good or bad, but their limited demands combined with their members' freedom to leave without paying a high price. Most organizations cannot go very far in disciplining dissident or otherwise unsatisfactory members and most members see their membership as but one activity among many, one that does not claim supremacy over the others. The dynamic is different in capitalism.

Hayek wrote competitive capitalism "is a system which imposes upon enterprise a discipline under which the managers chafe and which each endeavours to escape" (1973, p. 62). Like successful organizations in other contexts, successful businesses will often employ their resources to try and modify the governing rules to weaken threats to their existence rather than competing and adapting under conditions of uncertainty.

Managers have two strategies, to adapt to challenges or suppress them. Not surprisingly, when the necessary resources exist, they often seek the latter. As Hayek emphasized "The interests of the organized producers is . . . always contrary to the one permanent interest of all the individual members of society . . . the continuous adaptation to unpredictable changes . . ." (1979, pp. 93-4). This dynamic between the logic of powerful organizations seeking to stabilize their environment and the resulting subordination of increasing realms of the market and, ultimately, civil society to capitalist values, gradually erodes the vitality and creativity of civil society as a whole.

## CAPITALISM VS. CIVIL SOCIETY

Civil society is a complex network of mutually interacting people, values, and organizations which, taken together, facilitate people's pursuit of a wide range of choices and opportunities. Civil society cannot be reduced to any particular spontaneous order, but rather is an interlocking network of different spontaneous orders and the organizations existing within them. Spontaneous orders such as the market and science co-exist within this network, providing common threads of practice and knowledge within which smaller and more concrete communities exist, such as families, neighborhoods, and clubs.

Usually members of a civil community pursue their own projects without much attention as to how their projects fit into the broader community. The pattern of individual relationships arising within a common frame of ethical and procedural rules *is* the community. Crucially, people make use of more than one

spontaneous order to achieve their goals. This multiplicity of spontaneous orders within which people live provides a powerful institutional check on organizational power within any one of them. And organizations will seek to subordinate this complexity to their own interests.

Capitalism increasingly subordinates this complexity to market values alone, forcing organizations and people alike to subordinate themselves to serving a single value above all others. *Everything* is either a resource for capital or irrelevant. A person or thing's value reflects how much it serves to increase capital. As Hayek observed in this paper's opening quotation, "Economic control is . . . the control of the means for all our ends. And whoever has sole control of the means [determines] which ends are to be served, which values are to be rated higher and which lower, in short, what men should believe and strive for" (1944, p. 92).

The values of the impersonal market increasingly infiltrate and dominate many other dimensions of civil society, from education, science, and philanthropy to sports, medicine, and the arts. Civil society, the realm of maximum social liberty, is increasingly subordinated to capitalist values without anyone deliberately imposing them. Powerful organizations within the market are prone to seeking control over their uncertainties, while at the same time being subject to its domination to the degree they fail. And to the degree they succeed, the uncertainties arising from free human action are subordinated to corporate priorities. The system imposes a single dominant value on the dominant organizations within it, and those which are most responsive to this value seek, in turn, to subordinate their environments to their control. *This systemic collectivism sets the stage for the capitalist road to serfdom.*

## THE RISE OF SERFDOM

Capitalist power initially arises from procedural rules shaping economic incentives to favor the logic of joint stock corporate ownership over other forms of enterprise. These rules increasingly subject relations between people and everything else to their utility in serving capital. Over time, more and more of life either serves capital, becomes irrelevant, or is a problem to be eliminated.

The power of capitalism is reflected in the relationships it rewards or punishes, transforming a society from one of relative freedom to one of increasing subjugation to an impersonal system that rewards everything in terms of their service to it. Hayek observed the basic operating principle of a collectivist organization is "the end justifies the means," which "makes collectivist morals so different from what we have known as morals that we find it difficult to discover any principle in them, which they nevertheless possess" (1944, p. 146). In human society ethics primarily applies to individuals or groups of individuals *distinct* from their contribution to a collective goal. By its very nature, in all its forms, collectivism *must* elevate power over ethics. This is as true for organizations embedded within a systemic collectivism as it is for a single organization seeking to enforce a collectivist ideal on society as a whole.

Anything that can be owned, and thereby controlled, becomes a potential target for corporate control. Corporations will also have an incentive to weaken or deny property rights over anything they cannot control. We have seen laws about copyrights extended far beyond the constitutional reasoning for their existence. We also continually witness efforts by powerful companies to free themselves from any responsibility for harmful 'externalities.' How either issue is addressed does not determine whether or not a market exists, but the answers will powerfully shape how it manifests. *In the absence of insurmountable barriers, there is no logical end point in this effort at seeking control of their environment and reducing others' control as well.*

## ANOTHER LOOK AT SERFDOM

By "serfdom," Hayek meant being dominated by an all-powerful state whose subjects were mere resources existing to serve the interests and desires of its rulers. Travel was limited, entrance into important professions was controlled, freedom of speech, press, and organization was banned. This description fit Hitler's Germany, Stalin's Russia, and the other collectivist states of his time. However, Medieval serfdom, which shares these general features, did not originate in powerful states. It arose in their absence.



While earlier kinds of European serfdom had existed in the late Roman Empire, the better known Medieval serfdom began around the 10th century, with the breakup of the Carolingian Empire. Its demise ushered in a long period when no strong central governments existed in most of Europe. During this period, serfdom characterized the status of most people living in agricultural societies controlled by powerful landlords dominating others legally, politically, and economically.

Serfs were not quite slaves, for they could not be sold to another and were tied to the land they worked as farmers. However, like slaves, they lacked many personal liberties held by freedmen. They could not permanently leave their holding or village, marry, change occupations, or dispose of property, without their lord's permission. They were bound to a designated plot of land and could be transferred with that land to a new lord.

Feudalism's property arrangements were neither private nor public in any modern sense. In general, the lord could not sell his land, but rather held it in trust for his family as a corporate unit. In a sense, the land owned the lord. Upon his death the land in its entirety generally went to the eldest son. In other cases, absent a son, it was divided equally among daughters, who were expected to marry a nobleman and so continue the system.

The law of entail existed to preserve primogeniture from the normal affections parents had for their children. As one study of entail in England emphasized (Jamoussi 2011, pp. 13-14):

The estate was the foundation, not only of the family's prosperity, but also of its social status and political influence, and as such, it had to be transmitted undivided and, ideally, improved, or at least undiminished from one generation to the next, according to the lineal order of succession established in the entail. This meant the exclusion of all except the first-born of the children, if any, and restrictions on the freedom of the possessor with regard to the estate in his possession.

Variations of these principles upheld serfdom and similar kinds of domination throughout much of Europe at one time.

Unlike the totalitarian serfdom Hayek warned of, this serfdom was not connected to strong states, though in time some states helped enforce it (and would later weaken it when stronger kings sought to undermine the power of nobles). Rather, serfdom emerged from economic circumstances where people were entirely dependent on others for their livelihood and protection. To be sure, serfdom was frequently described as 'contractual,' but to the degree these were contracts, they were made under radically unequal circumstances, and applied across generations.

This earlier pattern is re-emerging under capitalism: a market economy is developing whose "commanding heights" are dominated by giant businesses who use their resources to increasingly free themselves from normal market pressures. As they do, political and legal enablers replace consumers as their primary focus of concern (diZerega 2019b).

Corporate 'ownership' also dissolves traditional ideas of private property. Neither traditional concepts of individual control or responsibility remain in a corporate context. Unless they are majority owners, share owners are essentially trustees who succeed to the degree they maintain the value of shares and are weeded out of economic influence to the degree they do not. But they generally have neither control nor responsibility for what organizations so 'owned' actually do. So, as with feudal property, the crucial connections of individual ownership with responsibility and control is broken (diZerega 2019a, pp. 22-3).

What we would recognize as corporations long predated the "free market." In early European cases corporations enjoyed politically guaranteed monopolistic privileges and some became powerful players in colonial affairs, wielding the power of repressive governments over the lands and people they dominated. The Dutch East India Company slaughtered inconvenient natives on islands it devoted to growing nutmeg (Thriving 2010). The British East India Company was also guilty of plenty of slaughtering, and prevented Alexander von Humboldt, probably the most famous scientist of his time and friend of Thomas Jefferson, from visiting India. Despite Humboldt's trying to visit for years, like any dictatorship with the power to

control access by a potential critic, the corporation never allowed it (Wulf 2015, pp. 193-6, 216). The joint stock corporation is in no way the outgrowth of a free society, and when possessing the power, acted despotically towards all who were an impediment to its goals. Modern corporations are as compatible as their ancestors with unfree societies, as their growing business with China demonstrates.

Having their roots in unfree societies, it is quite reasonable to expect corporations to seek to re-establish and expand any and all legal privileges that protect them from market uncertainties, and free men and women. Today corporations are seeking to re-establish societies based on privilege and domination rather than equality under the law and freedom of contract.

What follows proves this statement.

### “TRADE SECRETS:” SERFDOM BY ANOTHER NAME

Corporations continually seek to privatize cultural and scientific values that have rarely, if ever, been privatized before. Water in any controllable form, literature, and scientific discoveries have all been targeted as appropriately owned and controlled by corporations that have created none of them. Even the genes in our bodies have been controlled by corporations, although, for now, that control has been set aside (Sturges 1999, p. 248).

If they can, corporations seek to appropriate what they call “human capital.” Many corporations now argue that anything an employee learns on the job belongs to them and cannot be used without their permission due to “non-competition” agreements. This practice lays the foundation for a 21<sup>st</sup> century serfdom.

In order to take a job, a prospective employee must sign such an agreement. Even unskilled workers such as janitors are now being prevented from taking similar work at better pay because they signed ‘non-compete’ agreements (Westneat 2014a, 2014b). They learned a company’s “intellectual property.” The logic of this argument is that anything a person learns on the job is no longer theirs but remains the property of their employer. If this argument applies to janitors, to whom might it not apply?

Since in a real sense we are our minds, to the extent that our mind’s contents belong to someone else we are enslaved. Something remarkably close to serfdom or slavery is arising disguised in the language of freedom of contract. Some states, such as California, have outlawed these attempts. But other states have not. If corporations have their way, laws banning such ‘non-compete’ agreements would be repealed as interfering with “freedom of contract.”

### CONTROLLING UNPAID TIME: SLAVERY BY ANOTHER NAME

Increasingly, people do not control their time, even when they are not on the job. Many workers are forced to be “on call” in case their manager wants them to show up, but will not be paid unless they are actually called in to work. In addition, employers don’t need to give any notice for changes in workers’ schedules, making it impossible for them to organize the most basic elements of daily life —things like childcare, dental appointments, or the family dinner. Employees who cannot count on regular hours cannot plan a monthly budget because they have no idea what they will make.

Laid off after 20 years because of a budget squeeze, a former teacher applied for retail jobs and discovered that “You had to be available every minute of every day, knowing you would be scheduled for no more than 29 hours per week and knowing there would be no normalcy to your schedule.” He explained that when “I told the person I would like to be scheduled for the same days every week so I could try to get another job to try to make ends meet” his interviewer “immediately said, ‘Well, that will end our conversation right here. You have to be available every day for us’” (Greenhouse 2014b).

In a *New York Times* study of this trend, Jim D. Taylor, a small businessman who runs a combined law and real estate firm said, “As a small-business owner for over 30 years, I have always been able to provide my part-time employees with a firm, steady and predictable schedule.” Taylor explained “My employees are a vital and important asset. I treat them right, and they do their best for me. It’s so easy . . . Why can’t big

business run by MBAs and highly compensated executives figure that out?” He added “In a small business, if you’ve scheduled someone to work, there should always be enough to do—you don’t send them home. I don’t know why big business is any different” (Greenhouse 2014b).

In April, 2015, *The Atlantic* reported the New York attorney-general’s office issued a warning to major retailers; “We have been informed that a number of companies in New York State utilize on-call shifts and require employees to report in some manner, whether by phone, text message, or email, before the designated shift in order to learn whether their services are ultimately needed on-site that day.” *The Atlantic* explains that this “practice might be in violation of a state regulation that employees who report for work must be paid for at least four hours (or the number of hours in a regular shift) of work” (Lam 2015).

Even medieval serfs controlled their time once they had served their lords. A report by the Economic Policy Institute found that the lowest income workers face the most irregular work schedules. The poorest are the first to be enslaved (Golden 2015). If left unchecked, many of the rest will follow.

Today’s abuses have gotten so bad that some more liberal places, such as Vermont and San Francisco, are passing laws giving employees the right to demand flexible or predictable schedules. Seattle, the city with the enserfed janitor, is now finally discussing ending this practice (Hanauer 2016). Of course opponents to any change argue this interferes with the mythical “free market” (Greenhouse 2014c). In capitalist “Newspeak,” serfdom is freedom when it is ‘contractual.’

## NON-DISCLOSURE AGREEMENTS: THE END OF FREEDOM OF SPEECH

Non-disclosure agreements make a certain sense for some business purposes, but their use has been broadened to include increasingly large areas of our lives, including areas unrelated to revealing genuine trade secrets, in government now as well as between private individuals (Dean 2018). Such agreements undermine public knowledge by prohibiting giving the names of people who broke the law, and protecting guilty parties in court cases (Philip 2003). Donald Trump has aggressively used such agreements for his employees and business partners, volunteers in his campaigns, and even public employees (Pace and Day 2016). Whether involved in his businesses, presidential campaign, or in the White House, Trump required nearly everyone to sign legally binding nondisclosure lifetime agreements prohibiting them from releasing any confidential or disparaging information, even about his family. Unpaid volunteers for his presidential campaign who would never meet any of the Trumps would be prevented from criticizing Trump, *for life* (Ruper 2016).

This practice is hardly limited to Trump. Harvey Weinstein made extensive uses of such agreements to prevent his victims from reporting what had happened to them. So did Bill O’Reilly. The NDA is an extraordinarily elastic way of suppressing freedom of speech because even if it might be ruled inapplicable in one case or another, the financial threat and cost of litigation will serve to prevent plaintiffs of limited means from taking the risk of losing. Organizations imposing such agreements on their employees eliminate freedom of speech through the language of private contract.

## ARBITRATION: ENDING EQUALITY UNDER THE LAW

Gretchen Carlson generated national attention when she sued FOX News CEO Roger Ailes for sexual harassment. Under existing law Ailes’ behavior was illegal, but many thought Carlson would never have her day in court. When she began work at FOX she signed a binding arbitration agreement. Disputes between her and her employer would not go to a court of law, but to binding arbitration in the private sector. Ailes’ lawyers argued that, as a result of this agreement, she had no standing to sue.

*The New York Times* reported that, under arbitration, a typical plaintiff “would at least be able to speak publicly about his or her case. But Ms. Carlson . . . had a contract . . . stipulating that ‘all filings, evidence and testimony connected with the arbitration, and all relevant allegations and events leading up to the arbi-

tration, shall be held in strict confidence.” A complete gag order would be applied to all facts and evidence (Scheiber 2016).

Carlson won her case in the court of public opinion, not in a court of law, from which she might well have been barred. Had she been a less visible victim, with such avenues of publicity closed to her, she could have been denied the right to a court case and forced to go to binding arbitration in a private court dominated by corporate lawyers, who also serve as the ‘judges.’

In a 2014 study of binding arbitration *The New York Times* reported “Over the last 10 years, thousands of businesses across the country — from big corporations to storefront shops - used binding arbitration to create an alternate system of justice. There, rules tend to favor businesses, and judges and juries have been replaced by arbitrators who commonly consider the companies their clients.” According to the *Times* (Silver-Greenberg 2015):

Winners and losers are decided by a single arbitrator who is largely at liberty to determine how much evidence a plaintiff can present and how much the defense can withhold. Strict judicial rules limit conflicts of interest by judges. Such rules do not apply in private arbitration. To deliver favorable outcomes to companies, some arbitrators have twisted or outright disregarded the law, interviews and records show.

Not surprisingly, employees and consumers almost always lose. For example, “a cruise ship employee who said she had been drugged, raped and left unconscious in her cabin by two crew members could not take her employer to civil court over negligence and an unsafe workplace” (Silver-Greenberg 2015).

These agreements are hidden in contracts most consumers and employees never read. Additionally, their proceedings are kept secret, and so have become major weapons in corporations insulating themselves from both the law and from public knowledge. Wells Fargo engaged in fraudulent activities involving millions of Americans (Corkery 2015). Since its conviction Wells Fargo has been sued by many customers over its fraud. In response the bank has argued their victims must enter into private arbitration rather than the public courts. *The New York Times* describes customers arguing it is impossible for them to agree to arbitrate a dispute over an account that they had never even signed up for and had no knowledge of. In response, Wells Fargo claimed arbitration clauses in the legitimate contracts customers signed to open accounts also cover disputes related to the false ones set up in their names (Corkery 2016). Surreally, courts often accepted the bank’s claim.

Corporate-dominated binding arbitration strikes at the very foundations of civil society and the rule of law. Corporations are establishing themselves as legal aristocracies not bound by laws that mere human beings must follow.

## INTELLECTUAL PROPERTY AND THE END OF PRIVATE PROPERTY

“Intellectual property” is creating another road to serfdom, by eliminating important realms of what has traditionally been considered personal property once someone buys it. From a traditional liberal standpoint the importance of private property is that it gives the property holder independence from the power of others. From the yeoman farmer ideal to the thousands upon thousands of small businesses who make a living and preserve independence by providing services to others, independence has been a primary supporter of freedom from great power. The right to say “no” and not suffer enormously is perhaps one of the most basic supports of freedom in any form.

John Deere, joined by many other corporations, is now arguing that since their products make use of software that is licensed, not sold, customers no longer own what they thought they bought. As John Deere put it to the U.S. Patent Office, rather than owning their tractors, farmers only own a lifetime license “to operate the vehicle.” They are licensees, and the terms of the license spell out where the person can buy services, parts, apps, and other rights traditionally associated with the powers of ownership. Corporations

making this argument contend any licensee who violates corporate imposed terms is guilty of a felony on their first offense (Wiens 2015). Corporations are abolishing private property and people's ability to create independent businesses in yet another area of life.

Interestingly, Tesla did not join these corporations seeking to reduce people's rights of ownership, because Elon Musk and his personal values still dominate the company. Tesla is not (yet) a capitalist enterprise responding only to market values. Musk's values as a human being, and not a capitalist corporation, still matter.

## PRISONS AND THE NEW SLAVERY

Privatized prisons are profit making corporations benefiting from incarcerating people and keeping their facilities full (Sanchez 2011). Corrections Corporations of America, provides approximately 45% of all private prison beds in the US. They reported, "We believe we have been successful in increasing the number of residents in our care and continue to pursue a number of initiatives intended to further increase our occupancy and revenue" (Meyerson 2013).

According to the *Columbia Journalism Review*, the Corrections Corporation of America and the GEO Group, which between them provide a majority of private prison beds, have (Chavkin 2013):

more than doubled their revenues from the immigrant detention business since 2005 . . . Prison companies have spent heavily during this time to influence government: over the last decade, according to the Associated Press, the industry has spent more than \$45 million on campaign contributions and lobbying at the state and federal level.

Many federal prison inmates are in for drug offenses, and most drug offenses are nonviolent. Private prisons make money off these inmates. Corrections Corporation of America revealed in a regulatory filing that continuing the drug war is part and parcel of their business strategy. Matt Stoller reported prison companies have spent millions supporting pro-drug war politicians (Stoller 2011).

Of course, these corporations claim they do not try to influence legislation that would imprison more people. But the truth appears to be quite different. NPR reported that the CCA engaged in a "quiet, behind-the-scenes effort to help draft and pass" an Arizona law allowing police to demand papers from individuals suspected of being undocumented immigrants and imprison those who failed to provide them (Sullivan 2010). The CJR reported that "Most of that law has since been struck down by the Supreme Court." More corporate friendly justices would have ruled differently.

Private prisons have flourished as never before under the Trump administration. The morning after his election, stocks in CoreCivic and the GEO Group of private prisons rose dramatically. Both two companies have informed their shareholders that federal government contracts are essential to their profitability, and acknowledged policies likely to reduce the U.S. detainee population threaten their business model (Ahmed 2019).

Nor are private prisons the only capitalist institutions with a financial interest in criminalizing nonviolent behavior. Beer sales are declining in states that legalized marijuana, dropping about 2% in Colorado, Oregon and Washington, while marijuana use has increased. The decline was around 4.4% for mainstream beers such as Bud Lite and Coors Lite. Craft beers did not decline nearly so much (Peterson 2016).

Rather than seek to improve quality or accept that tastes have changed, the beer industry seems to prefer jailing their competition. In an interview, Howard Wooldridge, a retired police officer active in efforts to decriminalize marijuana reported that (Fang 2012):

The beer wholesale industry donated five figure money to defeat [California] Prop 19 [to legalize marijuana] because marijuana and alcohol compete right today as a product to take the edge off the day at six o'clock. Just because marijuana is illegal, doesn't negate the fact that there's still com-



petition. The beer companies don't want it, same thing with big PhRMA. [...] Private prisons fight me because they want more people in jail. Is it good policy? These lobbyists don't care.

Giant corporate beer producers are not alone. Insys Therapeutics donated \$500,000 to oppose legalizing marijuana in Arizona in 2016. This amounted to about 10% of the total donated to the group "Arizonans for Responsible Drug Policy," that led opposition to legalizing marijuana. No other pharmaceutical company made similar donations. In 2017 Insys Therapeutics' synthetic marijuana was accepted by the DEA as a schedule 2 drug, a category containing many prescription painkillers. Marijuana remains a Schedule I drug, supposedly without any accepted medical use (Ingraham 2017).

The huge American prison population of well over 2 million people is providing the foundation for the reintroduction of slavery into this country. Increasingly prison labor, paid next to nothing, is farmed out to corporations to compete with free labor. From manufacturing solar panels to clothing, modern-day slaves are proving profitable investments for the capitalist world. In the process they are forcing companies employing free labor to lay workers off as they cannot compete with enslaved labor (Starr 2015). As Wooldridge's comments illustrate, this growing slavery is supported not only by corporations directly profiting from it, but also by other corporations who support it as a means of eliminating potential competition.

## THE END OF FREEDOM OF THE PRESS

On September 3rd, Journalist Amy Goodman filmed private security guards attacking Native American protesters with dogs and pepper spray as they sought to stop a pipeline whose construction involved bulldozing Indian graves and sacred sites. Reporting corporate violence resulted in negative press for the Dakota Access Pipeline company. Goodman's footage received widespread coverage from CBS, NBC, NPR, CNN, MSNBC and Huffington Post, all of whom found it newsworthy. This was an example of why freedom of the press is important. An arrest warrant was then issued for Goodman, charging her with criminal trespassing, a misdemeanor offense (Raymond 2016). The charges did not stand up, and the warrant was withdrawn . . . this time.

Seeking to arrest journalists doing their job is an escalation in efforts to subordinate freedom of the press to corporate interests. In an earlier action the FAA closed off access to airspace over a pipeline spill while the corporation responsible for the spill barred others from accessing it on the ground (Heidelberger 2016). And that action was itself an escalation from the BP oil spill in the Gulf of Mexico when local law enforcement forced people, including the press, away from beaches BP did not want people to see. Government's concealing corporations' misdeeds and disasters from public awareness leads to a corporate-controlled police state.

When access to major news events can be banned because they are on private land, and more and more land is corporate-controlled, increasingly freedom of the press becomes irrelevant. When the government can even close airspace to protect the interests of corporations, there is no limit to how news can be blocked when a well-positioned corporation wishes it to be so.

## CRIME

On one level, the financial and real estate collapse of 2008 was the result of the kinds of speculative bubbles that have plagued market economies since the Dutch tulip mania of 1637. Before that bubble burst, a single bulb could sell for many times the income of a skilled craftsman. However, in the case of the real estate collapse of 2008 considerable genuine crime was involved as well, and it exposed a double standard that made one more mockery of equality under the law.

Corporate crime not only helped cause the bubble and subsequent collapse, but also prevented the most practical counter-measures. One idea to help prevent the growing economic chaos was for the government

to buy up the bad loans, which would have helped both Main Street and Wall Street. However, this could not be done because no one could determine who actually owned the loans.

The basic problem was simple. At one time, banks would create two main contracts to buy a house, one for the loan and one for the mortgage, which safeguards the lender if the buyer defaults. Both contracts required a genuine signature before they could be transferred. Usually, banks would keep both documents.

This practice changed in the run-up to 2008. Banks would sell both contracts, which in turn, could be sold to still another bank in a process called “securitization.” Banks had turned loans into securities, which they then sold. The people who made the original decisions about the loans were no longer at risk of a default. If loans can be made and then passed along to somebody else, there is no incentive to care about risk.

Investment banks bought millions of mortgages from fly-by-night companies and then packaged them into bonds for sale to investors around the world. Often no signatures were involved and the steps that legally transferred ownership were not taken. When the bubble collapsed and homeowners began to default, no one could prove who owned what property. In response, many banks just faked the missing signatures. In his book *Chain of Title* David Dayen explains how big banks fraudulently counterfeited signatures and otherwise engaged in illegal activity (Dayen 2016).

In a later interview, Dayen explains how the banks (quoted in Parton 2016):

hired third-party companies (or sometimes mortgage servicing companies and “foreclosure mill” law firms did this in-house) to fabricate the necessary documents after the fact. Because they needed these documents by the millions, they prized speed over accuracy. So they would have multiple people sign the same person’s name to double the output, or sign on behalf of companies that were out of business, or backdate the documents, or whatever . . . So whatever the lawyers needed to get the foreclosure done, they would fabricate.

The damage to millions of mostly working-class families from this fraud was extensive. For many Americans, decades of accumulated wealth were wiped out by illegal foreclosures. The sanctity of contracts, essential to markets’ capacity to serve human well-being, was subordinated to enhancing corporate wealth.

In an interview, Dayen argued that had the government conducted a genuine investigation, the criminal behavior would have been traced up to the highest people in American banking. But once the Justice Department got involved, this wasn’t done. Only one low-level person was ever convicted. Immunity from prosecution of top bankers is now routine, as the case of Wells Fargo’s widespread fraud discussed earlier demonstrates.

The most powerful corporations are above the law that applies to mere citizens. So are their executives.

## WAGE THEFT

David Weil, director of the federal Labor Department’s wage and hour division, explains “wage theft is surging because of underlying changes in the nation’s business structure. The increased use of franchise operators, subcontractors and temp agencies leads to more employers being squeezed on costs and more cutting corners, [and]. . . companies on top can deny any knowledge of wage violations” (Greenhouse 2014a).

The size of the problem is hidden by the decentralized nature of our legal system. When federal and state court records are viewed as a whole, corporations have paid out billions of dollars resolving wage theft lawsuits brought by workers. The most-penalized companies include Walmart, Bank of America, Wells Fargo and many other large banks and insurance companies as well as major technology and healthcare corporations. Many are repeat offenders, and 450 firms have each paid out at least \$1 million in settlements and/or judgments (Mattera 2018).

Recently a jury fined Walmart a paltry penalty of \$54 million for refusing to pay truckers for work they were required to do. Total civil and other penalties could amount to \$150 million. However, a long series of

appeals by the corporation will drag the process out and, from Walmart's perspective, hopefully derail it (Bender 2016).

Private companies now use eminent domain laws that destroy the property rights of the weak when they impede their projects. Eminent domain's logic was that public purposes, such as building a road, were of such importance that private land could be taken for its use, so long as just compensation was provided in turn. Now increasingly it is used by the economically powerful to increase their personal wealth. George W. Bush used eminent domain to seize land for a stadium parking lot when he owned the Texas Rangers. The parking lot was officially 'publicly owned,' but Bush had control over it while paying a 'rent' of one dollar per year (Somin 2016).

This corruption is widespread among the economically powerful. Donald Trump used or attempted to use eminent domain on numerous occasions to try to seize others' land to increase his wealth. In one case he tried to demolish a widow's home to make room for a limousine parking lot, though for the moment, legally that was a step too far. David Boaz writes (2015):

Trump turned to a government agency—the Casino Reinvestment Development Authority (CRDA)—to take Coking's property. CRDA offered her \$250,000 for the property—one-fourth of what another hotel builder had offered her a decade earlier. When she turned that down, the agency went into court to claim her property under eminent domain so that Trump could pave it and put up a parking lot.

The *ultimate* logic of capitalism is not the logic of seeking maximum profits, but of the powerful taking whatever they want from the less powerful. It grows out of the market once it begins to free itself from the context of civil society. Having done so, organizations adapted to capitalism run roughshod over the rules of the market as well. Of course, there is pushback, but as more and more wealth is concentrated in those serving capital alone, the effort to do so gets more difficult.

## DESTRUCTION OF FUNDAMENTAL FREEDOMS

Privatization *always* implies exclusion. That is both its strength and its weakness, and where to decide the balance between what is truly social and what is truly private is always contested. Different rules apply when I rent out a room within my house than when I rent out rooms in an apartment building I own. Few people find this distinction unreasonable. I have freedom of speech in public spaces, but the owner determines whether I can speak as I wish in private space. The degree of private control is limited by the larger relationships within which it is exercised. Capitalist frames of thought are incapable of appreciating this point. From within them there is no limit to privatization, and thus control by the 'owner.'

Consider this disturbing example.

After eating his lunch, Chip Py took a walk in downtown Silver Springs, Maryland. He took out his camera and started to photograph the contrast between the tops of the office buildings and the blue sky. Within seconds, a private security guard informed Py that picture-taking was not permitted. In his report of this episode, Marc Fisher of the *Washington Post* quoted Py: "I am on a city street, in a public place . . . Taking pictures is a right that I have, protected by the First Amendment" (Fisher 2007).

The guard informed Py that he was on private property, and sent him to the office of the developer. "There, marketing official Stacy Horan told Py that although Ellsworth Drive—where many of the downtown's shops and eateries are located—may look like a public street, it is actually treated as private property, controlled by Peterson." It had once been a public street, until the county 'privatized' it. In Silver Springs, a basic constitutional right disappeared without debate and, until Py sought to exercise it, apparently without notice.

*There could be no freedom in a fully privatized Silver Springs.*

Public space is space for the community, the public. As more and more public space is privatized, the liberties associated with political freedom begin to lose their power. For example, shopping centers and malls have attempted to limit the kinds of expression people can exercise within their spaces. They argue that private property is properly subject to control by the owner. A mall is not a public street with stores alongside it. So long as adequate public space exists this argument is of no great issue. However, the shrinking of the public sphere leads to the elimination of political freedom of speech and organization.

So far, I have described efforts to re-establish serfdom based on variants of traditional feudal-style domination. But the capitalist system is collectivist in an all-embracing way feudalism was not. With the aid of modern technology, a kind of totalitarianism is arising that dwarfs anything previously existing.

## BIG BROTHER AND SURVEILLANCE CAPITALISM

Viewed from one perspective the tech giants of Google, Facebook, and such are examples of monopolistic power, a recurrent problem within capitalism (Wired 2019; Askonas 2019, p. 47). But something more is happening that makes surveillance capitalism an even deeper threat to a free society. Ironically, this new threat does not grow from traditional monopoly problems, for exploited consumers do not fuel it. When we use Google or Facebook or drive our car we do not engage in a monetary exchange. Consumers increasingly engage in varied kinds of interactions with ever more sophisticated apps, often for free.

At the same time, surveillance capitalism enables dominant corporations to know the books and magazines we read, movies we see, places we go, our health issues, and ever more intimate details of our lives. This information is then sold to others. That initial market lies in organizations' desire to control their environment. Surveillance capitalism's origins lie in the intersection of three factors: a technology originally unconnected with the market, a perennial problem facing all businesses, and capitalism's systemic logic.

The rise of personal computers and the internet was originally rooted in institutions and values far removed from modern capitalism. Or from even the market. The young engineers who pioneered the personal computer often opposed the logic of big business, and its reliance on IBM mainframes. Many were also involved in the 'counterculture' of the time. Using a slogan common at the time, the personal computer was to give "power to the people" (Markoff 2006).

The internet was initially developed by scientists seeking better communication with their peers, aided by DARPA's interest in decentralized networks less vulnerable to hostile attack. In practice it was uniquely fitted to science's gift economy rather than the market's exchange economy. Knowledge could circulate as a gift rather than a commodity, available only for a price (Hyde 1988, pp. 77-81).

Vint Cerf, who developed the protocols that underlie the internet, explained "We made it as open-ended as possible, and invited anyone to participate in the system's design and evolution. We decided not to patent the technology at all, to remove any barrier to its adoption" (Webb 2019, p. 42). However, as the internet grew from the academic and scientific community to include the population at large, ever more resources were needed to support it.

In the absence of public funding, (as for public highways) private financing was needed for information highways. Private funds were raised, but the problem facing the new companies was how to integrate the values of the gift economy with the market's commodity economy. Who would pay the tolls?

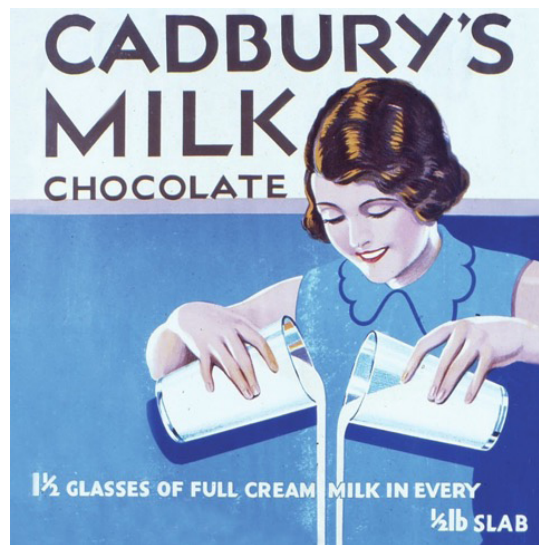
## ADVERTISING WAS THE KEY

A friend, who has been involved in networking and internet-working since being a student at Stanford in the 60s, wrote me:

I remember in the '90s being involved in discussions on the future of the Internet. A raging argument was whether the future was paywall (pay for service), or advertising. It was a foregone conclusion that money had to be made to support development and growth. The consensus was mov-

ing towards advertising. The Internet tradition of free services (the gift economy) transitioned by economic need into an advertising model, getting the necessary money by continuing to give away content and services for free but charging for advertising.

A complex market economy depends on advertising for linking potential consumers with products they might want. Early advertisements were straightforward descriptions of a product and those to whom it was targeted. For example, the Cadbury Chocolate Company, initially a family owned business run along Quaker principles, sought to balance good business practice with the Quaker values they sought to exemplify (Cadbury 2010). Cadbury Chocolate Co. exemplified civil society's complex values, not capitalism's simplified ones. Here is an example of a Cadbury advertisement from 1928.



Today chocolate is often advertised with quite a different depiction of its associations.



Advertising exists to increase sales. The desire for effective advertising is intrinsic to organizations whose well-being depends on purchases from people they do not know. When advertisers discovered pictures of sexy women could sell products better than describing the product itself, a first step was taken in



the search for ever greater information about consumers, in order to get them to do what the advertiser desired. Advertising privileges manipulation over providing information.

Google Search was initially created to improve people's ability to find what they were looking for. Doing so required the company to collect data enabling it to coordinate search results with users' interests. While users themselves generated no income, the data they provided opened the door to another income source: targeted advertising.

In her important study of surveillance capitalism, upon which much of this section's analysis depends, Shoshanna Zuboff observes "The idea of delivering a particular message to a particular person at just the right moment when it might have a high probability of actually influencing his or her behavior was . . . the holy grail of advertising" (Zuboff 2019, pp. 77-8). The internet made approaching this grail more possible than ever before.

Initially this alternative was rejected. In 1998 Sergey Brin and Larry Page, who co-founded Google, described a tension between their goal and devotion to advertising (Brin 1998 quoted in Zuboff 2019, p. 71):

We expect that advertising funded search engines will be inherently biased towards the advertisers and away from the needs of the consumers. . . . we believe the issue of advertising causes enough mixed incentives that it is crucial to have a competitive search engine that is transparent and in the academic realm.

However, under pressure from impatient investors, the company's founding ideals were abandoned in favor of profit (Zuboff 2019, p. 288). Google shifted from serving its users to collecting increasing amounts of data from them. In Zuboff's words, Google made "a 180 degree turn from serving users" to the "unilateral expropriation of behavioral data" (Zuboff, 2018, pp. 85-7).

This data enabled companies to better target others' ads to potential customers. This targeting could be continually improved beyond that needed to improve search services through acquiring what Zuboff describes as "behavioral surplus" (Zuboff 2019, p. 75). This data surplus separated Google's interests from its users'. Other companies soon followed Google's example.

Today Google, Facebook, Samsung, and Amazon, among others, seek to collect every imaginable fact about anyone who uses them, or a smart device, the better to target ads to potential customers. Online websites often provide tracking data to Google and Facebook. For example, today 76% of the websites most popular for mental health information in the UK, Germany, and France contain third party trackers, often from Google, Facebook, and Amazon (Lu 2019). Once connected, this technology also tracks other sites' users visit. Once downloaded, apps launch other apps unknown to the user, particularly those with Android phones. Even applications like weather and flashlights possess tracking programs unconnected with their user's reasons for wanting them (Zuboff 2019, pp. 136-7).

Consider Google Glass, which, as Zuboff wrote, "combined computation, communication, photography, GPS tracking, data retrieval, and audio and visual recording capabilities in a wearable format patterned on eyeglasses" (Zuboff 2019, p. 156). At the time, Google Glass was a step too far for most. However, as John Hanke, a leading Google manager, noted, "Ultimately we will want these technologies, wherever they are on your body, to be totally optimized based on the job they are doing. . ." (Zuboff 2019, p. 156). And their primary job is not serving the user. Google refuses to allow apps providing disconnect abilities to be sold on its otherwise very open site, confirming Brin and Page's initial observation about the disconnect between serving its original consumers and advertisers (Zuboff 2019, pp. 137-8).

Facebook is no better. Mark Zuckerberg introduced the 'like' button as a way of continuously transmitting users attitudes on a wide variety of things to the company for its use (Zuboff 2019, p. 159). Facebook's 'likes' could "automatically and accurately estimate a wide range of personal attributes that people would typically assume to be private" (Zuboff 2019, p. 274). Among the information revealed by such actions are sexual orientation, religion, ethnicity, happiness, intelligence, age, gender, parental separation, and use of addictive substances (Kosinski 2013).

Samsung's television is activated by voice commands. These commands are also sent to third parties (Zuboff 2019, p. 264). Its smart phones appear to have other capacities as well. If I spend an evening at an open mic session here in Taos, I will often get a message the next day on my Galaxy, asking me to rate the place I had been at, even though I never used my phone. Google Maps does not have a decent option for disconnection because doing so threatens the phone's operating system (Zuboff 2019, p. 154).

This kind of surveillance appears to go deeper still. In early December of 2019 my friend Adrienne had a lengthy phone conversation with a friend who:

wanted my feedback on some ideas she had for a skin care product she was developing. She had some money to invest and needed to start small and so was researching co-packers who would allow her to order a lower amount of units to begin with. I knew a few people in the industry, and told her I would speak with them. I also advised her to consider investing more money as it takes money to make money, as they always say. We mulled over different ideas for ways to raise the funds. No amount of funds was ever mentioned on the phone. However, when we finally hung up, immediately—within one minute—I received a call from an unidentified number. I never answer them. I wait to see if a voice mail is left. It was, and when I checked it, it was a male voice telling me the he was a lender who could get \$2 million to me within 38 hours.

Even our cars are becoming surveillance devices. Geoffrey Fowler of the *Washington Post* wrote “On a recent drive, a 2017 Chevrolet collected my precise location. It stored my phone's ID and the people I called. It judged my acceleration and braking style, beaming back reports to its maker General Motors over an always-on Internet connection.” Importantly, “the data it produces doesn't belong to you. My Chevy's dashboard didn't say what the car was recording. It wasn't in the owner's manual. There was no way to download it” (Fowler 2019). Nor is the information only about directly car-related issues, such as driving habits. Fowler hired a hacker to see what could be obtained from a used Chevrolet infotainment computer: “It contained enough data to reconstruct the Upstate New York travels and relationships of a total stranger. We know he or she frequently called someone listed as “Sweetie,” whose photo we also have. We could see the exact Gulf station where they bought gas, the restaurant where they ate (called Taste China) and the unique identifiers for their Samsung Galaxy Note phones.” And more. Cellphones are perfecting even more invasive surveillance out of all proportion to their supposed utility as phones with apps. Claims this data protects privacy through anonymity is false (Thompson 2019).

We are witnessing an unprecedented ability of organizations with no stake in our well-being to know increasingly intimate details about ourselves and others, the better to manipulate us. Hal Varian, Google's chief economist observed approvingly, ultimately, “Everyone will expect to be tracked and monitored, since the advantages in terms of convenience, safety, and services, will be so great . . . continuous monitoring will be the norm” (Zuboff 2019, p. 257, note on p. 607). Advertisers will be able to know what websites you visit, what books you read, where you go for entertainment, conversations in your bedroom (via a smart mattress) and the layout of your home (via Roomba) (Zuboff 2019, pp. 235-8). Once enough is known about a target, the technologies used to collect information can also be used to manipulate it (Zuboff 2019, p. 203).

Data useful to sellers of commodities and services are also useful to others with different intentions. The Obama campaign got data about 21 million Americans, including online and behavioral data from Facebook, and developed a “persuasion score,” rating how easily each undecided voter could be persuaded to vote Democratic. This information helped their outreach efforts (Zuboff 2019, pp. 122-3). In itself this is not necessarily objectionable, but it was only a small step to shift from targeting information to receptive recipients to sending false information to recipients deemed uniquely receptive to it.

Cambridge Analytica possesses 4 or 5 thousand data points for every adult in the United States. Facebook played an important role in their acquiring this information, enabling them to micro-target information to people based on their personalities (Zuboff 2019, pp. 278-80). Much of this information was not true. In *New Scientist* Annalee Newitz observed in a healthy democracy politicians can (Newitz 2019):

Spout as many lies as they wanted. The whole citizenry could mull their words over [alerting] each other to falsehoods or distortions . . . But Facebook has destroyed the public sphere where such a debate might take place. Instead a politician can craft one set of lies for urban voters and a totally different set for rural ones . . . the problem isn't that politicians can lie on Facebook. It is that Facebook's micro-targeting prevents liars from getting caught.

Newitz points out this is why Facebook's former chief security officer, Alex Stamos, has called for Facebook to stop microtargeting ads. They have refused, and refused to even seek to weed out lies.

People naturally suffer from confirmation bias and so generally prefer sources that confirm their beliefs. A complex society of intertwined relationships provides constant pressures to keep this bias from reaching toxic levels. However, Michael Hogg observes, the Web "provides nonstop access to unlimited information that is often cherry picked by individuals themselves and algorithms that do it discreetly. . . [separating] information and identity universes that fragment and polarize society" (Hogg 2019, p. 87).

In the hands of government this capacity to micro-target individuals creates opportunities for totalitarian control dwarfing the dystopias of George Orwell (1992)[1949] and Aldous Huxley (1946). China is well-known for using the data it collects in its "social credit" system to control people through perpetual surveillance, with rewards for good behavior and penalizes others who act differently (Roth 2019). Less known, this possibility was first explored in the US in an explicit alliance of corporate and government surveillance after 9-11.

Former NSA director Mike McConnell explained the government valued the information Google possessed about citizens. He foresaw it becoming part of a "seamless" empire where "the boundaries of public and private melt" in the name of combatting terrorism (Zuboff 2019, pp. 114-21). McConnell admitted achieving this "will muddy the waters between the traditional roles of the government and the private sector" (Quoted in Zuboff 2019, p. 120).

The Chinese state controls its computer industry whereas in the U.S. it is owned and managed by corporations. But given the growing melding of the state and the corporate elite, this may be a difference that makes no difference. Alternatively, the Chinese may develop an updated "oriental despotism" similar to what long characterized its empires, whereas the American model will be more feudal. *Either way serfdom will be most people's fate.*

Secure property rights provide a critical foundation for preserving freedom from the powerful. A defining feature of capitalism is the gradual merging of government and corporations. Central to this is the subordination of property rights to corporate power, and nowhere more deeply than in surveillance capitalism.

## PROPERTY RIGHTS

Shortly before the invention of surveillance capitalism, Georgia Tech described a smart home that existed to serve homeowners. Their study emphasized the individual alone would decide what counted as data for such a home's functions. Its purpose was to enrich each individual's life on their own terms. It was a vision in harmony with the values motivating the inventors of the personal computer and the internet. It was also the opposite of today (Zuboff 2019, pp. 234-5). The reason is that advertisers and others who pay for tech companies for data are the ultimate customers.

Google and Facebook are doing all they can to prevent individuals from having any rights to their own privacy, and incessantly lobby against online privacy protection (Zuboff 2019, p. 105). As Zuboff observes, the result are companies that "aggressively, secretly, and unilaterally" extract information from people immersed in a modern economy (Zuboff 2019, p. 112). Technology makes this greater control possible, but its motivation is a traditional one, the need to ensure long-term profitability in the face of competition by controlling as much that would otherwise be uncertain as is possible.

This apotheosis of capitalism's inner logic would be undermined if individuals had property rights in the personal data they now provide freely and involuntarily to companies such as Google. If they owned this information, and had to be paid for its use, and only for uses of which they approved, a different economic ecosystem serving people rather than advertising, and ultimately government control, would emerge.

Jaron Lanier, "Father" of virtual reality technology, explained "we got into this [mess] by trying to be socialist and libertarian at the same time, and getting the worst of both worlds" (Lanier 2018). Lanier is stressing the contradictions of combining the gift economy with the commodity economy. In his view there are two superior options. "You either have to say, 'Okay, Facebook is not going to be a business anymore.' . . . We're gonna turn it into a nonprofit; we're gonna give it to each country; it'll be nationalized." His preferred alternative is a market-centered solution.

The other option is to monetize it. And that's the one that I'm personally more interested in. . . . we'd ask those who can afford to—which would be a lot of people in the world, certainly most people in the West—to start paying for it. And then we'd also pay people who provide data into it that's exceptionally valuable to the network, and it would become a source of economic growth. And we would outlaw advertising on it. There would no longer be third parties paying to influence you . . . people would pay into it in the same way that we pay into something like Netflix or HBO Now.

Lanier argues we should own this data and provide it to others only when we choose to, and perhaps by being paid for it. We are paid when it is used and we pay for services made possible by its use. On balance, Lanier says, we come out ahead, and simultaneously free our society from the most totalitarian use of the net. In his terms, "You should have the moral rights to every bit of data that exists because you exist" (Lanier 2019; also Lanier and Weyl, 2018 ). Property rights is the answer.

## A HISTORICAL CONTEXT

For thousands of years most people in civilized societies live in one form of bondage or another (Scott 2017, pp. 155-6). Slavery, serfdom, and other kinds of unfree status was the fate of most. Even the first quasi-free societies, such as Athens, enabled only a minority to live in ways we would consider free, while supported by an enslaved majority (Finley 1959, cited in Scott, 2017 pp. 156-7). It is easy today to forget just how recent this had been the fate of most human beings. James C. Scott quotes Adam Hochschild that, as late as 1800, perhaps 75% of the world's population lived in bondage (Scott, 2017, pp. 155-6).

History has long demonstrated that profit-seeking organizations, even joint stock companies seeking to sell their wares to willing consumers, were compatible with the most extreme kinds of domination and even enslavement of others. Strong states were not necessary, for powerful organized economic interests did so as well. If they could ally themselves with states the subjugation of others was increased.

Alexander deTocqueville saw this pattern earlier than most (Tocqueville 1972, pp. 193, 4):

I am of the opinion that the manufacturing aristocracy which is growing up under our eyes, is one of the harshest which ever existed in the world; but at the same time it is one of the most confined and least dangerous. Nevertheless the friends of democracy should keep their eyes anxiously fixed in this direction; for if ever a permanent inequality of conditions and aristocracy again penetrate into the world, it may be predicted that this is the channel by which they will enter.

In Tocqueville's time the danger was not great, though important business interests in the antebellum South explicitly pursued aristocracy (Sinha 2000). But today there are no limits to what capitalism can bring under its control by making it corporate property or denying property rights to others, nor are traditional freedoms safe from being destroyed in the name of contract and private property. A new serfdom unlike any that previously existed is arising around us.

Already theorists who embrace surveillance capitalism are anticipating a 'utopia' where virtually everything is known about people, and so they can be shaped and steered into paths required in service to the

collective good (Lanier 2103; for detailed discussions, see Zuboff 2019, pp. 398-474). As with earlier forms of collectivism, they assume those in charge will be well-meaning people like themselves. And they believe the organizations they devise to oversee this coordination will selflessly do so. This vision is as collectivist as that of any fascist, Nazi, or Communist, and as assured to result in tyranny.

Capitalism today is a kind of “inverted totalitarianism,” in Sheldon Wolin’s words, a totalitarianism without a ruling political party or terror (Wolin 2008). It is closer to Aldous Huxley’s *Brave New World* than to George Orwell’s *1984*, unless it is challenged. But, like all totalitarian power, it seeks to enlarge its sphere of domination until its all-encompassing edges harden into the fetters of genuine serfdom and slavery. Anything that can be controlled to serve corporate power can be privatized, and in the process basic rights checking this power evaporate, in the name of freedom. Slavery is re-entering the world, in the name of freedom.

## THE BIG PICTURE

By subordinating the institutional and organizational richness of civil society to a single standard rooted in the control of resources, capitalism has grown a new, systemic, collectivism (diZerega 2019a). However, like organizations within any other environment, organizations within this system, will seek to buffer themselves from external threats, such as new competitors or unexpected shifts in consumer desires. Unlike organisms in a biological ecology, organizations in a cultural one can seek to modify its rules in their favor. Deer cannot outlaw cougars nor cougars require deer run with handicaps, but unlike them, organizations in social ecologies can seek to change the rules in their favor.

Under capitalism, first the value complexity of markets embedded in civil society is gradually reduced to serving one value alone: profit. Secondly, within this process, successful organizations will seek to better control their environment by influencing basic rules of property right and contract to enhance their freedom from competition. For example, in the United States, The IMF’s updated estimate of fossil fuel subsidies (defined as fuel consumption times the gap between existing and prices warranted by supply costs, environmental costs, and revenue considerations) is estimated at \$649 billion (Coady 2019). At the same time fracking companies are not required to pay for clean-up of their polluted sites after fracking ceases (Scofield 2019).

Some have suggested that this manipulation of law and government enables corporations to plan the economy rather than relying on the market (Galbraith 1985). This is an oversimplification. A market economy coordinated by prices remains, but one whose most powerful economic organizations have freed themselves from much of its uncertainty and the discipline of prices to occupy privileged places. It is through this process that corporations responding to capitalism’s inner logic might to re-establish serfdom in societies that have long abandoned it, and do so in the name of freedom.

As Hayek observed for the collectivisms he criticized, this outcome is happening despite the hopes of those who gave us the personal computer and the internet that they were expanding the realm of freedom. But unlike these earlier totalitarianisms, the villain is not so much the organizations of rule ideologues created to make their dreams come true, but a two-fold process. First is corporate domination of the economy, and second is successful corporations’ efforts to free themselves from subservience to that economy.

As of this writing, capitalist serfdom has not yet penetrated deeply into society. Pushback sometimes gives it pause. Google Glass went too far. Some cities are forbidding controlling employees’ time when they are not paid for it. But the pressure is relentless, and systemically rooted.

Too often today, a worker’s knowledge gained on the job remains his or her employer’s intellectual property. NDAs nullify the First Amendment. A worker’s time even when not on the job remains under the control of their employer, on pain of losing their job. What jobs exist are increasingly poorly paid due to the impact of one-sided power over employees. This tendency is magnified by trade rules that advantage the most exploitive countries, while growing robotization setting an absolute ceiling on the income from jobs



a robot can do. And for the jobs left over, growing numbers of job seekers will become increasingly poor as wages continue to fall.

Picture-taking on city streets has been classified as an infringement of corporate property rights (Fisher 2007). Hundred-year-old names of natural features have become the copyright-protected property of corporations (Doyle 2016). Any disputes an employee or consumer might have are increasingly decided by private arbitration where, even more than in public courts, the advantage is with the corporation. What you learn is no longer yours to employ as you wish. Even when neither working nor paid, people increasingly have no control over their time. Meanwhile, powerful pressures exist to expand or at least maintain the number of incarcerated citizens because full prisons mean enhanced corporate profits. This is not government making life hard for business, it is business allying with government to extract profits they could not make in the absence of those privileges.

The defense that this situation arises from ‘consumer sovereignty’ is absurd. *None* of these examples was desired by consumers. *None* of them serve consumers, let alone people as members of civil society. *None* resulted from people trying to regulate business against its will. *No* regulations here were denounced as “socialist” by the companies affected. Most of these measures victimize people as members of civil society, or as consumers, and the rest victimize labor or smaller property owners. All of these measures serve a new kind of totalitarianism: the subjection of everyone in society to power operating free from all values save a systemic greed removed from any other human motive.

Increasingly the old Eastern European joke about the difference between capitalism and communism applies as much to us as to them: under capitalism, man exploits man. Under communism it is the other way around.<sup>57</sup>

## NOTES

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## REVIEW

*Michael Oakeshott and  
the Cambridge School  
on the History of  
Political Thought*

by Martyn P. Thompson

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This book is unlikely to become famous. It offers nothing to the Harvard school of political thought strung out between Rawls, Nozick, Nagel, Walzer and others which is staggering on in the late writings of Michael Sandel and which will remain to influence at least one line of concern in *Political Theory*. It offers nothing to the Verso school of political thought which for a long time has perpetuated, along with Polity Press, a provocative licensed subversion of the pieties of the Harvard School, by publishing everything that men like Alain Badiou and Slavoj Žižek have ventured to write. These are the two great streams of published political theory of our time: Liberal and Marxist, concerned with those two idols of the political thinking of our age, 'normativity' and 'praxis'. They mostly ignore each other. Neither of them should be taken fully seriously, though, of course, both should be read to see what they say. The most serious tradition for the understanding of politics in English, at least, has come not from Oxford, or Harvard, or even Chicago, or from the pages of *New Left Review* or *The Journal of Political Philosophy* or *The American Political Science Review*. It has come from Cambridge—not Cambridge, Massachusetts, but Cambridge, England. And, so far, and though many interesting things have been written about the 'Cambridge School', this is by some way the best book on the subject. Since it is almost the only book on the subject, I should perhaps say it is a good book on the subject.

In the classification of political theory, 'Michael Oakeshott' is an established subject, a fairly small one, but one with a phalanx of committed scholars, with their own Association. 'The Cambridge School' is far less focused an endeavour. It has a university, so lacks an association: indeed, it has sometimes aspired to be more like a *universitas* than a *societas*. There is little overlap between them, though Oakeshott taught at Cambridge for a long time. He left Cambridge long before Quentin Skinner and John Dunn arrived there as undergraduates; and, in historical terms, Oakeshott represents the hostility of a certain sort of 1920s mind to the slackness which preceded the First World War, whereas Skinner and Dunn represent the hostility of a certain sort of 1960s mind to the slackness of what came after the Second World War. There is of course J.G.A. Pocock, who, slightly older than Skinner and Dunn, fell more under Oakeshott's influence than they did. But between Oakeshott and the Cambridge School there is a great tacet. Perhaps the only writer who offered some sort of response to both was Maurice Cowling, whose *Religion and Public Doctrine* included reflections on both Oakeshott and Skinner. (See Cowling, Vol. I, pp. 251-82 and Vol. III, 619-21). I was one of the last to be taught by Cowling, and acquired from



him an interest in Oakeshott and also a sense that, despite what everyone seemed to be saying in Cambridge in the 1990s, Skinner's way of doing history was not the only way it could be done. So there may not be many in the 'Cambridge School' who will engage with *Michael Oakeshott and the Cambridge School on the History of Political Thought*. Oakeshott was Cambridge, though not of the School. He to some extent lay behind the School, he reviewed its work, he wrote alongside it on similar themes, but he had no direct influence on its most famous writers. Partly this was to do with his doctrine of history, and his pure concept of philosophy: naturally, it was also to do with his politics, which were not those of the Cambridge School. But this book is very important because it locates a complicated crux, which is important if we are to understand what has happened to academic political thinking since the late nineteenth century.

I want to use this article to say some things which Thompson does not say in his book, to broaden the frame of reference, and also use my slightly privileged position as a student who encountered the School in the late twentieth century to offer some fairly informal reflections on it. The School is now diffuse, or diffused, and there are lines of thought it inaugurated which are continuing to stimulate writing. Some young and formidable writers are perpetuating themes which obviously began with the School. But most of the reflection on the subject has remained caught up in its academic commitment and has not really cut loose to try to say something general about what has gone on. And, speaking for myself, I find much of the academic reflection a bit shackled by indebtedness or introversion. No one, for instance, has really ever noticed how shallow and involved and contorted some of the Cambridge School writing is when compared to the writing of, say, Collingwood and Oakeshott.

It is hard to recover an intellectual culture, especially when one is trying to make sense of the confusion of one's own educational experience, but it seems to me now that no one else has exercised such intellectual influence as Skinner over Cambridge History since the age of J.R. Seeley and Lord Acton a century before, except perhaps Herbert Butterfield. Skinner has exercised his influence through his own writings, whereas Butterfield exercised most of his influence through the hints taken up in the next generation by Peter Laslett and Duncan Forbes, as well as Pocock and Cowling, and also—what was the same thing—through the argument of *The Whig Interpretation of History* (1931). Skinner, appointed lecturer in the 1960s, Professor of Political Science in 1978, Regius Professor of Modern History in 1997, was already a towering figure in Cambridge when I arrived in 1991, as towering in reputation as Annan said Oakeshott was in 1946. 'The History of Political Thought' was, in Cambridge, the only really good way to make history seem as if it had a point, and was not just 'history for history's sake'. I had found history appealing as a subject when it was limited by the definition given it by a sixth form teacher (and by the maps of old imperial Europe on the wall). But when the books were opened and the lectures began at university, the subject suddenly came to lack all structure: there was an endless set of problems, authorities, books, archives, literatures, cultures and fashions (imagined communities, invented traditions etc): each library sprawled far more than it should. Only the history of political thought—not 'intellectual history', a relatively much weaker subject (despite what everyone is now coming to say)—seemed to offer something like intellectual rigour, and a *genuine subject*: those great texts, from Plato's *Republic* and Aristotle's *Politics*, through Machiavelli's *Prince*, to Locke's *Two Treatises*, Hobbes's *Leviathan*, Rousseau's *Social Contract* and beyond—and of course the most complicated subject in the world, *politics*. Just as Pocock did fifty years before, I read G.H. Sabine's *History of Political Theory*—not 'a history', as Pocock now tells us (in 2019). And I wrote about these books textually—no matter what I thought I was doing—certainly not contextually. The point of the history of political thought was to escape from the endless reading lists, to achieve clarity, some rising above the fray, to settle on one book for a moment. I was an innocent. I read Sabine; I also read Russell's *History of Western Philosophy* and some other dubious books. If they had existed, then, God forbid, I might have read some of A. C. Grayling's books.

I found out later—when attempting to make some sense of my own education in around 2002—that there had been two schools in Cambridge, one of which was more or less dominant until about 1960, and the other of which has come to be dominant since 1960. The first had its ancestor in Seeley's idea that history and politics should be studied together (though it had no ancestry in Seeley's own conception of the subject,

which ignored the history of political thought together for the sake of a classificatory science built out of the ordering of historical facts). The idea here was that history, which meant the history of political thought, was a good subject for allowing undergraduates to exercise some sort of intelligence on an intelligible and indeed intelligent subject matter. Cowling was still arguing like this in the 1970s, though by that time fewer and fewer historians could agree with him. For, by then, the tide had turned. The second position, which had its ancestor in F.W. Maitland's and J.N. Figgis's idea that anything historical should be studied historically, had been given an important statement by Butterfield in *The Whig Interpretation of History*—still, despite E.H. Carr and Richard Evans (about whom the verdicts of Norman Stone apply) the most important single work of historical thought in the twentieth century. Butterfield's conception cast a great shadow over *everyone* who came up afterwards: and that means not only the generation of Pocock, Forbes, Laslett and Cowling, but also the generation of Skinner, Dunn and the rest. Unlike Oakeshott, whose influence faded in Cambridge in the 1950s and disappeared with a death knell when he declared himself emphatically on 'the wrong side' in 1962 with the publication of *Rationalism in Politics and Other Essays*—as Dunn explained it to me in 2002—Butterfield still casts a shadow, over even those who have never heard of him. And the shadow cast was not just over the history of political thought, but over history itself. No one in Cambridge—and I believe this is still the case, despite subaltern studies, resurgent radicalism and 'postmodernism'—is allowed to write Whig history. It is forbidden. Skinner did it once, contradicting his own methodological instruction that he should not do so: later, of course, he recanted, recanting *not* the instruction but the error of having broken it. In his later reflections on *The Foundations of Modern Political Thought* he admits that his greatest error was to write a Whig history of the state. This is, he assures us, no longer his practice. (For this see Skinner 2006, p. 237.) He has, in effect, reverted to the position of Butterfield in 1931.

The doctrine amongst Cambridge historians, by the 1960s, was therefore overtly against my own practice as an undergraduate—against reading Sabine, Russell, *texts* etc—and for contextualisation, which was the requirement that everything be as historical as possible, referred back to the appropriate context: Skinner's 1513, Laslett's 1689, Pocock's 1790. No one was willing to admit, as F.R. Leavis had suggested a long time ago—for which see 1968, Vol. II, p. 293—that the context is not the context of history but the context of the historian. (Consider many recent 'Cambridge School' books in which the context is at least half the 'contexts of the historians', that is to say, the writings of Pocock, Hont, Sonenscher, Dunn etc, in addition to the more predictably required 'context of the history'.) One of the oddities of Pocock's six volumes of *Barbarism and Religion* is that, despite his endless exploration of the 'contexts' of Edward Gibbon, he never seems to reflect on the fact that much of the work seems to emerge out of the 'contexts' of J.G.A. Pocock. This emphasis on context could be why I was so alienated when I studied for the first ever M.Phil in Political Thought and Intellectual History in 1994-95: though there were other reasons for alienation, foremost among which was the fact that John Dunn and Raymond Geuss conducted political discussion at a level which failed to convey anything to my mind, a mind in search of simplicities rather than sophistication. Dunn and Geuss were clearly not 'the Cambridge School' in the sense of 'practising historians' though they were important in continuing to suggest the editorial benefit of knowing practising historians and reading their writings. What they were doing in 1994 was editorialising against what we might call normative or analytical political theory with the benefit of a historical knowledge that normative and analytical philosophers were likely to lack. This did not make much sense to me, since I had had at that stage only the smallest exposure to any sort of abstract thought about politics. I considered myself to be a historian, but since I had fallen into the 'history of political thought' I was also disengaging myself from history without yet engaging with anything else.

History is a vexed subject. There have been three major views taken of history in the last three hundred years. Each says something about the utility of history for the present. The first is Bolingbroke's, which is that history supplies us with examples for our theories. We should read history to become better statesmen. So history is a practical subject. The second is James Mill's and also John Stuart Mill's (and Smith's, and Condorcet's, and Comte's, and Hegel's), which is that history is the record of the rise of humanity from one stage of civilisation to the next, and is therefore the record of progress. The third is Coleridge's or Car-

lyle's, which is that history is an exercise in imagination and sympathy, a matter of recreating what has almost been lost, 'history for history's sake', the study of 'the past for its own sake', therefore not relevant, or, at most, complicatedly relevant. Most historians share the third view, but it must be evident to anyone who thinks about this that the emergence of this originally idealist but now academic history stripped history of its practical point in the present. It was about 'the world we have lost', to use Laslett's phrase, and not the present world. This third view is much more negative, or merely historical, than the first two views. So ever since the nineteenth century, and increasingly in the professionalised twentieth century, historians have worried about what the *point* of history is, including the history of thought. The great Victorians Acton, Seeley and Maitland, worked with habits of mind which were destroyed by the First World War. After the war what was wanted was exactitude. We could define modernity as the era in which we sought exactitude. (The entire history of 'political science', 'political theory' and 'political philosophy' is the history of the conflicting exactitudes which replaced the old Victorian vague generalities.) Oakeshott and Butterfield offered grand suggestions or hints, which were taken up by the next generation of historians in Cambridge. Cambridge was important because Seeley had legislated, in a law which was never repealed, that history and politics should be studied together. This is the context out of which the distinctive 'Cambridge School' emerged.

What is the 'Cambridge School'?

First of all, 'It is not a school'. The term has been disparaged by almost all of the names associated with it. The name was coined, we are told, by Caroline Robbins in 1973. It probably had more purchase in America than in England. But now everyone knows to what it refers. So, 'It is a school'.

We have to proceed stepwise if we are to understand it.

There are circles within the Cambridge School.

Firstly, at its core, there is Quentin Skinner, who could well claim, like Leavis, that 'I was Cambridge—the essential Cambridge', though certainly not 'in spite of Cambridge'.<sup>58</sup> He is the author of the famous methodological article of 1969, 'Meaning and Understanding in the History of Ideas' (which was followed by many other fascinatingly elaborated, arcane and technical articles developing the argument), and the author of the famous two-volume book *The Foundations of Modern Political Thought* (1978), which was about Renaissance and Reformation political thought. He made much of 'intention', became associated with 'context' rather than 'text', elaborately adapted some ideas of J.L. Austin to suggest the history of political thought might have its own method, worked practically to extend the canon of texts so it became a bit historically richer, and in his writings on Hobbes and Machiavelli offered clear and ingenious insights which were supposed to be consequences of his approach—rather than of his own ingenuity. Skinner is a remarkable figure: with the mind of an eagle, or a hawk, a great gift of lucid lecturing (as well as a great knowledge of the rhetorical arts), and, at his best, a crystalline style of writing: his greatest writings are unique in having something of the atmosphere of a classic game of chess. They always issue in victory.

Secondly, there is the triumvirate Skinner formed with John Dunn and John Pocock.

It is worth comparing the three famous 'methodological' pieces of the 1960s, Pocock's 'The History of Political Thought: A Methodological Enquiry' (1962), Dunn's 'The Identity of the History of Ideas' (1968) and Skinner's 'Meaning and Understanding in the History of Ideas' (1969). There are stark divergences between them which have never seemed to receive adequate attention. Skinner banished philosophers from the history of ideas and insisted that it should only be studied historically by historians. Or, at least, he mostly did this, while also managing to suggest that if the history of ideas were studied historically by historians then this might throw up something of philosophical significance—a suggestion which he was to expand in his later writings. Pocock was much more tolerant and reasonable than Skinner. His point was that though the history of ideas could be studied in different ways, it was usually studied at a high level of abstraction: though he, for one, was more interested, historically, in a lower level of abstraction where 'theory' was 'thought' and so blurred into practice. Here he sketched some of the ideas he was to develop later about the 'traditions' or 'languages' out of which theories emerged. Dunn, however, asked for more than did Skinner and Pocock. He was not content with excluding philosophy, as Skinner did early on (or in

bringing a philosophical rabbit out of the historical hat, as Skinner did later on), or merely disentangling historical and philosophical approaches, as Pocock did, because he wanted history and philosophy to be fused at a higher level where they would, in effect, become the same thing. These three articles had much in common—let there be no doubt of that—but their fundamental doctrines were completely different. Skinner was intolerant and exclusive, Pocock tolerant and inclusive, Dunn intolerant and inclusive. It should come as no surprise that, as compared to Skinner, Pocock has always been much more of a straight historian of ideas, while Dunn has always been more of a critic of not only the history of political thought but also of political theory.

Dunn, after making his contribution to methodology—and also, by Skinner's own account (1988, p. 327 n. 14), suggesting to Skinner the rigmarole of *How To Do Things With Words*—and after making one contribution to the historical study of political thought in the form of a book on Locke, shifted tack entirely to contemplate (in what was in effect, though not in intention, a far more Oakeshottian manner) the editorial significance of all this for political theory: which eventuated in books on contemporary themes but with a continual historical inflection: books such as *Modern Revolutions* (1971), *Western Political Theory in the Face of the Future* (1979), *The Politics of Socialism* (1984), *The Cunning of Unreason* (2000), etc. When I say 'the editorial significance of this' I mean that Dunn has done something which Ernest Barker and Michael Oakeshott had done before him, and which perhaps only Raymond Geuss and David Runciman have done since, which is to read researches but write thoughts—that is, to avoid reading theory but inevitably to write theoretically, while basing that theoretical writing on some sort of amassed sense of the historical nature of the subject. One of the great weaknesses of most modern academic writing is that it has lost the old Victorian crop rotation which made the older writings on history, philosophy, politics, society and law writing so broad and sonorous. Consider the learning of Fitzjames Stephen or Maine, or of Leslie Stephen or Maitland. Historians now read history and write history. Philosophers, or perhaps I should write 'philosophers' (those who teach in departments of philosophy), read philosophy and write philosophy. It seems to me that the signal merit of the Cambridge School was that there was not supposed to be any one-to-one correlation between the subjects of reading and writing. Maurice Cowling continually lectured on and supervised in the history of political thought and not the subject he very conspicuously wrote three great books about between 1967 and 1975, British political history. Dunn, though always associated with the Cambridge School, has in large part in his writings embodied a protest against the narrowing involved in the professionalisation of academic subjects, including the professionalisation which made the emergence of the School possible. Where the complication in Skinner has come from ingenuity, the complication in Dunn has come from not only his range and his perennial sense of political urgency but also from a highly worked syntax in which the irony is not always as obvious as perhaps it ought to be.

Pocock, older by fifteen or so years than Dunn and Skinner, is a part of the triumvirate by pure allegiance and some sort of inheritance rather than by institutional continuity. Skinner has kept his own flame, with some help from his students and colleagues—like David Armitage, Annabel Brett, James Tully, Kari Palonen and Mark Goldie. Pocock has kept his own flame, and, though as mighty a scholar, has done so with not so much a theoretical anxiety—he is even more assured than Skinner—but with more anxiety about status (an eagerness not to be forgotten, but to state his proximity but also distance from Skinner). Dunn has kept his own flame, or set of flames, or even holocaust, too, though, as I say, this is only relevant in so far as his own work acts as a satire of the pretence of the Cambridge School to be saying anything at all. Pocock is a magisterial figure, perhaps the most erudite historian of our age—certainly since the death of Trevor-Roper—and also interestingly one of the greatest collaborative historians of his time. By this, I mean that he has not only acknowledged the work of other authors, but has used them, assimilated them. So Pocock, in his autobiographical reflections, offers more than a merely defensive account: he actually knows what his contemporaries have been up to, and his own work is an attempt to extend his own frame so it can include those of, say, Momigliano, Baron, Arendt, Skinner, Robbins, Hont and even Burrow. What separates Pocock from Skinner and obviously from Dunn is that Pocock has always worked exclusively as a historian. He writes with a self-denying ordinance which states that he shall not directly point to the sig-

nificance of his history except that it shall extend our historical understanding. Skinner has not had such an ordinance. He has always looked for the present relevance of the history purified by proper historical seriousness. As regards Dunn, I would say he has mostly played truant from the School, though he has maintained his relations with those who have continued to write the history and those who have tried to find some specific in the history to offer to the present. Dunn has found no specific, and so has always written as a generalist who is critical of specifics. In fact, he has done more than anyone else in the Cambridge School to attempt to reconstruct the old system which existed before 1960 or even 1900 of approaching the subject of politics from all angles. He has always been resolutely opposed to the narrowing and splitting apart of the academic study of politics.

Thirdly, to return to the circles of the Cambridge School, there is the community of those from whom something was inherited—importantly Laslett (it should be noted that Pocock (for instance in 2006, p. 37) has always preferred to find the origin of the Cambridge School in Laslett's 1949 than in Skinner's 1969)—and those with whom there was some sort of affinity—Forbes—but also those who themselves inherited the doctrines and added their own twists—Richard Tuck, Istvan Hont, Michael Sonenscher, and also those who came before, including the famous Oxford name of R.G. Collingwood, and also those who came before and remained sceptical or committed to their own variants of similar or sometimes contradictory themes—Butterfield and Oakeshott. This is as yet understudied. Collingwood is often mentioned by the Cambridge School, though it is only the Collingwood of *The Autobiography* and *The Idea of History*, and not the Collingwood of *Speculum Mentis*, *The Essay on Philosophical Method* or *The New Leviathan*. Oakeshott is hardly ever mentioned, though, as Thompson reminds us, Collingwood thought Oakeshott was—apart from himself, no doubt—the 'high-water mark of English thought upon history' (p. 7). 'If Collingwood, then Oakeshott' is a powerful argument. But Collingwood's politics fit better with those of the Cambridge School than Oakeshott's—'We are engaged in a war of ideas' rather than 'I don't find it necessary to have opinions on such matters'—(to take lines from Collingwood 1989, p. 233 and Oakeshott as quoted in Annan 1991, p. 540). I have already said that Oakeshott and Butterfield were behind everything, perhaps especially and actively Butterfield, who remained in Cambridge until his death in 1979. Oakeshott certainly imposed himself on the minds of Laslett, Forbes, Pocock and Cowling: sometimes positively and sometimes negatively. I would say that in Pocock the influence was subtle and pervasive, since Pocock adapted and made more historically sensitive Oakeshott's emphasis on traditions and languages. And on Cowling the influence was significant—because Cowling was on the 'wrong side' politically too, and more defiantly—though Cowling eventually took the Oakeshottian doctrine that history is 'what the evidence obliges us to believe', took out the 'us', replaced it with 'me', and decided to write in what he considered was a Macaulayan or Gibbonian free manner, in a style of open war on behalf of Christianity against all manner of Whiggisms, from Gibbon's through Macaulay's to Marx's. Cowling, too, had at first been more influenced by Butterfield. It should always be remembered that Butterfield was most important as the author of *The Whig Interpretation of History*. His advice was that for the sake of one's historical sense one should *never* study Whigs. He led Laslett to the reactionary Filmer, Pocock to the reactionary Brady, and he probably was at least partly responsible for Cowling's writing of Tory histories of situation in his three strenuous books on British political history.

Finally, there is the absolute historical context of the Cambridge Historical Tripos, and its exponents, running back to Seeley, Acton, Maitland, Figgis, as well as Henry Sidgwick and William Cunningham, and that other important Oxford figure, Ernest Barker—who sometimes struck me, though I could be wrong, as the only completely clear writer in the whole of this canon, perhaps because he came to Cambridge from outside—though this may be, alas, because Barker sometimes suggests to readers that though he was first class in worth and work he may have been less than first class in insight. Perhaps this is Cambridge tortuous disdain for easy Oxford. Everyone I know seems to think less of Barker than I do. Barker was as receptive as Pocock, but had a greater range and some of the writing in his collection of ancient texts on politics, *From Alexander to Constantine* (1959) is remarkable and, as far as I can see, still unmatched—since more recent scholars of classical politics simply do not know enough about everything that came afterwards.



If I am forced to say what the ‘Cambridge School’ is, I would first stand by the claim I made in an article some years ago (2016) that the School makes two assumptions: the first is that politics should be studied in relation to history (this dates from Seeley, however interpreted), and the second is the more particular one that political theory should be studied historically (this dates from Laslett, Pocock and Skinner though it has ancestry in Figgis and others—and was established institutionally by Barker). The first of these was rather relaxed about the present relevance of the past, since there was no single doctrine of history: journalism, scholarship, theory all co-existed for half a century while men like Lowes Dickinson and Barker were dominant. But with historical intensification in the 1950s, an anxiety arose. If, as Butterfield had suggested, history should be done properly, historically, then did this not relegate the entire canon of history of political thought to the archive? Ever since then, it seems to me, the School therefore has made two suggestions, which are strictly contradictory:

The first is that works of political theory should be studied historically—that is, explicitly, not in contemporary terms.

The second is that the historical study of works of political theory is not simply of historical significance, but turns out to be of significance for contemporary political theory.

Let me restate this so it is a blunt contradiction. The claim is that history should be less relevant to the present so it can be more relevant. The reason that Skinner is so famous is because he embraced the contradiction with the most vigour.

I studied at Cambridge. I was confused by the writings of Skinner. I am not sure I saw through them at the time. His writings legitimate much, especially for historians of a certain sort—most of them Cambridge historians, but also some historians who come from elsewhere and settle in Cambridge, and also some who find that what is said in Cambridge accords with their own work in Hull, Exeter, Sussex or elsewhere. But I have to say, here, that Skinner’s work is, in effect, the projection of a contradiction. Some of the next generation may have explicitly abandoned it, or abandoned parts of it. Some may have—I suspect (having looked at works by Richard Bourke, Christopher Brooke and Paul Sagar)—implicitly abandoned some of it while implicitly retaining some of it. But most of them are gilded by the gold of Cambridge, or shrouded in its smoke. It suits historians to have had it claimed with full trumpeting force that *history is relevant*, and not only that, but relevant in certain ways that make it indispensable. This has been a good marketing strategy. It has enabled things to be sold. But it also suits historians, when they are justifying themselves as historians, to say that *history should be done historically*. It should be ‘serious history’ and not too obviously relevant.

As I have said, the relevance of history was not a problem for either Bolingbroke or J.S. Mill. But it has become a problem for us. And while Oakeshott had a complicated and some would say conservative or dismissive view about the relation of past to present—as a consequence of his distinction of ‘practical past’ and ‘historical past’—Skinner and those who have come after him have had a far less coherent view, in fact, a confused and confusing view, about it. The imperatives do not point steadily in any one direction. Strictly, history should at most contribute to the present by showing us how our standard stories are mistaken. But this is a negative, only scholarly, insight, and at other times some more positive insight has been sought.

To be sure, Skinner has in the last twenty or so years wanted the history of political thought to offer us positive alternatives to our own received ideas. This is how he has written about the state, in what is perhaps his most admired contribution to the history of political thought—the only work of his that I see cited by his contemporaries, Dunn and Geuss, over and over again. The classic essay—and rightly considered his masterpiece—‘The State’ (1989) has been, if such a thing is possible, exceeded in quality by ‘The Sovereign State: A Genealogy’ (2010). And this is, even more emphatically, how he has written about liberty in *Liberty before Liberalism* (1998), where he has found an ally among political theorists in Philip Pettit in urging some sort of republican theory which Skinner has extracted from historic writers. Tuck has done something similar in *The Sleeping Sovereign* (2016) to what Skinner did in *Liberty before Liberalism*—found a positive alternative to some received idea in history—in relation to sovereignty. Hont wanted to do something similar in form, though he disagreed with both about the content. And recently Paul Sagar in *The*

*Opinion of Mankind* (2018) has done something similar in form, that is, he has extracted an argument from a discernible historical past, in his case, Hont's favourite subjects of Smith and Hume, though not using them in a way that Hont could exactly sanction, since, for Hont, the point was always about economics. But if this is the apex of the achievement of the Cambridge School in terms of relevance, what we have to observe is that not only Pocock but many others have expressed doubts about it. For Pocock, it is not obvious that the history of political thought should eventuate in theories at all: he has remained a practising historian. For Dunn, who has not remained a practising historian, it is certainly not obvious that the history of political thought should throw up theories as simple and therefore as objectionable as the current theories he thinks we should use history to be complicated about. Others have followed Pocock in choosing to study 'commercial society' rather than 'the state', or, rather, have made much of the need—conjured up from the study of political thought in the eighteenth century—to study 'the state' in relation to 'commercial society'. This was the purpose of Pocock's *Virtue, Commerce and Society* (1985), though he was following Hont and Ignatieff's *Wealth and Virtue* (1982): though the manifesto for this line of thought was only finally published in Hont's *Jealousy of Trade* (2005). Hont, mostly in conversation, was always withering about Skinner's way of trying to show the 'relevance' of political theory: though, alas, and despite Sagar's enterprising recent attempt to join the dots, Hont gave no indication of how his own historical writing—though it had joined the dots between Hobbes and Hume and Smith—could continue to join the dots even as far as Pocock's Burke or Burrow's Bagehot or beyond. Skinner got as far as Hobbes. Pocock got as far as Burke. But for all of these historians—all of the major Cambridge School historians (and I cannot think of an exception)—the French Revolution has been the terminus or even *telos*. There are some associated historians now like J.C.D. Clark, Richard Whatmore and Michael Sonenscher who are now troubling with the boundary between the *ancien régime* and the *novo ordo saeculorum* of our revolutionary, ideological, liberal modernity. But despite them, and despite the 'intellectual history' of Donald Winch, John Burrow and Stefan Collini who drew a controversial wandering essayistic line between the Scottish Enlightenment and the origins of the Cambridge Historical Tripos via Bagehot in *That Noble Science of Politics* (1983), there is still a vast hiatus or caesura between what came before and what came after the French Revolution. Only the out-and-out non-historians like Dunn and Geuss, or pre-Skinnerian historians like Oakeshott and Cowling, have tried to grasp modernity without some sort of strange historical inversion or contortion. I think that what I shall call the 'ingenious' works of the 'Cambridge School' would repay study: by which I specifically mean Skinner's *Liberty Before Liberalism*, Tuck's *The Sleeping Sovereign* and Sagar's *The Opinion of Mankind*. Hont's *Jealousy of Trade* does not count, for though it had the aspiration, it lacked the achievement. It is hard to be ingenious with a sledgehammer or with erudition. Hont remained as committed to the eighteenth century, despite his urgent sense he should not be, as Pocock, who has been far more relaxed about it, has been. Pocock's vast Gibbonian volumes of *Barbarism and Religion* (1999–2015) are in effect a satire against ingenuity, choosing erudition instead. But neither of these ways, the ingenious or the erudite, was Oakeshott's way.

Thompson's book attractively simplifies all of this by narrowing the 'Cambridge School' down to Pocock and Skinner. As he no doubt knows, Dunn would confound the encounter between Oakeshott and the Cambridge School too much; while mention of Butterfield or Cowling—or the estimable Charles Smyth or even F.E. Simpson—would tangle it up in actual history and also religion. Thompson's concern is with those who have devoted themselves to the history of political thought. The argument of the book is simple. It is, in effect, though I put the point historically rather than argumentatively, that it was a disaster that the Cambridge School as it came to be after 1960 failed to understand Oakeshott. The reason this was a disaster is that apart from in a few corners most Cambridge historians have written as if Oakeshott did not exist. This would not matter if it were not the case that Oakeshott was by some way the most thoughtful of writers about politics in the twentieth century. I say 'thoughtful' in order to suggest 'subtle', but I also want to make it clear that he was nothing as poor as *only* being 'subtle'. He was an extremely bold, indeed, coercive thinker: able to coerce vast tranches of historical researches into schemes which he sketched, explored, reconsidered. His unpublished writings—as I recently suggested in a chapter in a recent Oakeshott book (see Alexander 2019)—from 1950 onwards indicate how he worked over the same ideas again and again in order

to get them right in *On Human Conduct* in 1975. By that time, the Cambridge School had long lost interest. Oakeshott was on the ‘wrong side’ politically. (Only Cowling read *On Human Conduct* with any care. But as a frankly conservative historian he also was on the ‘wrong side’.) Stephen Turner has recently written about Oakeshott’s use of ‘antinomies’ in *Cosmos and Taxia*. (See Turner 2018.) The observation is correct, though I fear that Turner has not stated the case strongly enough. Oakeshott’s mature thought was almost entirely antinomial. Oakeshott was a fully Sagittarian thinker: a painter of the skies in black and white. Consider *Experience and Its Modes*. There is no book like it. And in his later more ‘political’ writings he attempted to make sense of a much *harder* subject than mere ‘history’, ‘philosophy’ or ‘science’—the harder subject being the mixed one of ‘politics’—by attempting to *divide* it. I use ‘divide’ here in the Platonic sense. There was no point collecting meanings of politics, in, to use Dunn’s phrase, a ‘weakly nominalist’ manner (Dunn 1994, p. 207). But division should not be crude. So, for Oakeshott, division involved the recognition that politics was best understood as being on a scale, dominated by poles, a binary of two inclinations, which were strictly contradictory. He found different names for them at different times: nomocracy, telocracy, *societas*, *universitas*. We may disagree with Oakeshott’s argument here. But there is no point failing to recognising how *simple* it was: bold, brutal, bloody and coercive. The thinker *thought*, and was not dismayed by the *researches*. (‘Research will never take the place of thought’, said Oakeshott in the 1930s. This thought, neglected by the modern research university, can be found in Oakeshott 2007, p. 118.) Oakeshott’s manner of presenting his arguments is sometimes sinuous or sly. Consider his theory of conservatism, a marvellous and insolent act of minimisation, or his theory of ‘poetry’ which, he says, offers nothing to the poet or the critic because, as he does not say, it is not a theory of what we would usually call poetry at all. That is one side of Oakeshott. But he is often simple: contrasting ‘ideology’ with ‘tradition’, or ‘vocational’ with ‘academic’ education, or (perhaps most insolently) ‘the individual’ with ‘the individual *manqué*’.

Skinner, though also Sagittarian, tends to avoid binary oppositions. A man of his time, he has tended to favour limited complication, compromise and ‘third ways’. His theory of liberty was at first a ‘third way’ between Isaiah Berlin’s negative and positive concepts of liberty. His theory of the state was a ‘third way’ between the monarchical and the republican theories of the state. He has exercised much ingenuity in abstracting from history arguments to be counterposed to contemporary arguments. Skinner is not a *coercive* thinker, but a compromising, ingenious thinker—a high wire act—the simplicities of whose thought are not systematic but occasional vertiginousnesses, issuing in suggestions rather than in schemes, but always complicated by historical presentation and reference. One would struggle to find a ‘history of political thought’ in Skinner—though, it should be said, that one would struggle to find a ‘history of political thought’, a *genuine* one, in *anyone*: for reasons which Oakeshott gave in a very late essay on the subject. There is simply no such thing as a ‘history of political thought’: there is a ‘scrapyard’ on the one hand and some sort of more determinate history on the other. Oakeshott left to one side histories of political thought which took the form of a philosophy of history. And a few people have written those: Carl Schmitt furnished one in his *Nomos of the Earth*, Ernest Barker sketched one in his introduction to Aristotle’s *Politics*, and Francis Oakley—another interesting commentator on both Skinner and Oakeshott (as well as Lovejoy, Ullmann and McIlwain)—has developed one in his books on the history and theory of kingship.

Thompson’s argument in the end (pp. 156–8) is that the Cambridge School has tended to mistake the nature of its own subject because it has failed to understand two very comprehensible things that Oakeshott has said. Let me begin with these two things. They are:

1. The past which concerns the historian (‘the historical past’) should be distinguished from the past which concerns most of us at other times (‘the practical past’): and, strictly speaking, the past which concerns the historian, ‘the historical past’, is the creation or construction of the past by the historian—not a *recreation* or a *reconstruction*—in terms of evidence that has survived from the past into the present.

2. 'Political thought' can take place at many levels: it ranges from a 'practical' extreme in which the purpose of thinking is to achieve some particular thing to a 'philosophical' extreme in which the purpose of thinking is to understanding something as well as it can be understood.

I would add a third, which Thompson does not mention.

3. Politics is a matter of language, and history suggests that Western or European political language is ambiguous: that is to say, not only are our words difficult to parse or define simply but are fundamentally shaped by contestation about them by rival traditions of thought. The non-historian but Professor of Political Science, W.R. Gallie famously—the only famous thing he did—coined the phrase 'essentially contested concepts'. This, as I am sure Oakeshott would have argued, is an abstraction into a timeless world of a phenomenon which only makes sense in time. And the word 'essence' is entirely out of place. It is not that the concepts *are* contested, but that that they *have been* contested, and not necessarily, but contingently. So, for Oakeshott, the study of the history of political thought is, in effect, the study of an ambiguous vocabulary. It is an unstable subject, of uncertain consequence. Nothing very certain is likely to come of its study, except greater understanding.

The Cambridge School has rather missed the force of the third insight, or turned it into weak nominalism. But Thompson is certainly right in seeing that it is in missing the force of the first two that something has been lost. For, against what Oakeshott would have them suppose, the Cambridge School historians, in general, have appeared to support, or at times have spoken as if they support, the following views:

1. The past is not only the creation or construction of the historian in terms of what the evidence obliges him to believe: it is something to be recovered or restored. It is something *there*. (History is not about coherence, as Oakeshott would have supposed; but is about correspondence.)
2. Political thought is *always* concerned with practice: that is to say, there is no such thing as a philosophical concern with politics. Even the great writers have something on their mind, something they want to achieve, or change.

So the Cambridge School *appears*—I have to be careful here, as when these views are stated clearly they seem to be obviously flawed in such a way that I doubt anyone would explicitly advocate them (though I suspect many would unconsciously or implicitly sanction them)—to support two simplifications. One is that the past is something recoverable: the reason they believe this is to encourage the writing of *better*, that is, more *complicated*, more *contextual*, more *historical* history. The second is that everyone was writing at the same level of intensity. Everyone was a man in a hurry, had some business on their mind, sought an intervention, subscribed to Marx's eleventh thesis on Feuerbach. Now, I think that these two claims are incredible, as incredible as Thompson thinks them. He says, and I agree, that anyone who *thinks* about these views, instead of presupposing them, will have to abandon them.

Just for sake of completion, there is perhaps a third:

3. Political language *has been* ambiguous but is perhaps—if we study history correctly—capable of being brought to some situation where a singularity of meaning can be imposed and we can thus be delivered from our current political predicament.

This, also, I think is absurd—though, of course, there are always better and worse understandings, relative to a particular argument, and perhaps absolutely.

Thompson argues his case with great clarity. It is stated well by way of anticipation on pp. 3-7. He has handled Skinner and Pocock—he deals only with them—carefully. The case, in short, is that Oakeshott was concerned with the ‘logic’ of writing history whereas Skinner and Pocock were concerned with offering ‘methods’—pretentiously called ‘methodologies’—for the writing of history. This is decisive. Thompson correctly notices that Pocock has expressed a debt to Oakeshott, while Skinner has not only mostly ignored Oakeshott, but has been dismissive whenever he has noticed him. About Pocock, it is necessary to be careful, and Thompson mostly succeeds. Reading Pocock is generally more enjoyable than reading Skinner, Dunn or even Oakeshott: he is pompous and anxious, and also magnificent, indeed, magniloquent: he shares with us his erudition rather than his ingenuity, urgency or artfulness. Nothing can compare to the pomposity of his habit of using ‘We’ rather than ‘I’, as if we are all following him in a Bellini or Carpaccio procession. Pocock has always wanted to be accompanied, to have collaborators: and he has been better at scholarly recognition and generosity than almost anyone else. He is always rather anxious about his status within the ‘Cambridge School’—one sees this in his response to Samuel James’s analysis of his role (admittedly, partly because James is simplifying him as if he is already dead)—where Pocock reiterates points he has made many times, about Sabine, about Laslett, about Skinner, about languages and paradigms. (For all this see James 2019 and Pocock 2019). One thing I would add to this, since Thompson has made it an issue, is that Pocock should always be separated from Skinner, not only for Brian Young’s reason (to be found in Young 2006) that Pocock has made an issue of religion<sup>59</sup>—which has even allied him with J.C.D. Clark at times—but for the reason that Pocock has worried more than once (but see for instance 2006, p. 38) about the ‘question’ of ‘whether “political thought”, “political theory” and “political philosophy” can be studied in ways which reduce to a single narrative the history in which they have interacted’. About this question, Oakeshott would say ‘No’. But Pocock is a worrier, and prefers not to answer, but to ask.

Thompson quotes the bitterest and most complete of Skinner’s reflections on Oakeshott on p. 96, though not in full. This quotation is taken from Skinner 2006, p. 244:

Michael Oakeshott was only the most distinguished of several hostile critics who berated me for failing to understand that ‘genuine’ political theory occupies an autonomous philosophical realm. (Nor was he the only critic to make things easier for himself by inserting his preferred conclusion into his premisses.) Since then, however, times have changed; and very much for the better I think. None of the contributors to the present volume seem to find any difficulty with my cardinal assumption that, because in political argument there is nothing but the battle, the idea of being above the battle makes little sense.

About this all one can say is, alas, Skinner exhibits no willingness to trouble himself about a critical position which not only Oakeshott but his followers of the London School—including Bhikhu Parekh and R.N. Berki, David Boucher, Thompson himself, and perhaps also some of the Exeter School, Iain Hampsher-Monk and Robert Lamb—have established. His attempt to not so much refute Oakeshott as simply rebut him by saying that he has been left behind by time is to evade the point rather than to meet it. One wonders what Skinner would say if it became clear to him—as I began to suspect at a conference at Queen Mary a few years ago at which Skinner was present—that his own successors may simply think that he himself has been left behind by time.

There are three chapters on Oakeshott’s theory of history, chapters 2, 3, and 7. I found these hard to read, but only because I find exposition of Oakeshott always hard to read—something I regret whenever I imagine anyone reading what I have written about Oakeshott. Thompson is an admirably civil and judicious writer: wholly disinclined to polemic. I think I would have written these chapters more bluntly: I would also have begun with *Experience and Its Modes*, because I think it is fundamental that for Oakeshott ‘history’ is one ‘mode’ of understanding: that is, a *way* of seeing the world which is separate from other rival ways of seeing it, and, by and large, a coherent way of seeing it—though not, of course, fully coherent. This is such an important postulate that I would not leave it until p. 45 to mention it in passing. There



is also a chapter on Oakeshott's lectures on the history of political thought, in which Thompson ably observes—something I had not seen for myself—that Oakeshott did not believe that there was such a thing as 'the history of political thought' but 'as many different histories as there are historical answers to historical questions that historians of political thinking pose for themselves'. That is worth thinking about. Against Sabine's study of an already established canon, against Skinner's and Pocock's select lineages of language or argument—there is something always very particular about them, deliberately limited, not totalising—Oakeshott saw that one can impose patterns, not only historically, but also in that hinterland between philosophy, history and practice in which most good academic political reflection seems to lie. Skinner always writes as a sort of Vesalius, stripping nerves and vessels out of the body of political thought, Pocock writes as a sort of Lyell or Sedgwick, speculating about particular sediments and rock formations, while Oakeshott writes as an artist or poet—his word—a fluid creator of sense. For him the history of political thought is not a body or the earth but a set of images arranged by the author for the sake of others who seek such an authoritative imaginative arrangement.

In a footnote to the first chapter Thompson mentions Oakeshott's important reviews of Skinner's *Foundations* for the *Historical Journal* in 1980 and his notice of one of Pocock's methodological essays in *Philosophical Quarterly* in 1965. Then he goes on to say that

his much more extensive critical comments were regularly discussed in his faculty and graduate seminar on 'The History of Political Thought; at the London School of Economics and Political Science during the late 1960s and early 1970s... The seminars examined specific works by Pocock and Skinner and many of the earliest critiques of the Cambridge School that were published were written by former participants in those seminars and clearly reflected Oakeshott's ideas. They included critiques by Oakeshott's colleagues, students and former students, such as K.R. Minogue, Bhikhu Parekh, R.N. Berki, David Manning, Harro Höpfl and W.H. Greenleaf (p. 15 n. 3).

No one noticed until Thompson that Oakeshott influenced a fair amount of the serious criticism of the Cambridge School. (Though I have found a similar point about the 'Oakeshottians' in Kelly 2009, p. 164.) Needless to say, there have been other important critics of or commentators on the Cambridge School: Ian Shapiro, Joseph Femia, Peter Steinberger, Cary Nederman, Emile Perreau-Saussine, as well as Lamb and Hampsher-Monk, none of whom could be considered part of a 'London School'. But the names listed above, along with the estimable Boucher, have been continual thorns in the side of the Cambridge School, and, interestingly, on a side which knows about philosophy, politics and history. There is also John Gray, who knew Oakeshott and stirred Oakeshott into the volatile fluid of his political sensibility along with Berlin, Hayek, Santayana and others. As far as I know, Gray has not intervened with the Cambridge School, apart from praising some of Dunn's political books. Minogue certainly irritated Skinner. Skinner rebutted his criticisms, and those of Parekh and Berki, without much consideration, preferring to argue with those who disagreed less with him. But, as far as I know, he has never engaged with Boucher's relentless criticism: Boucher, who noticed (in Boucher 1986) that there was something odd about the Cambridge School habit of writing about historical writings as if they were spoken utterances. There would be an interesting tale to be told here, if anyone could be bothered to carry out the necessary interviews, write a book and find someone to publish it—a sort of epic interactive intellectual history where the history would be doubled, not only the history of the historians but the history the historians were writing about. But returns continue to diminish, and of course there are less interesting subjects to write about.

The best chapter in the book is chapter 5 in which Thompson details Pocock's slight misunderstandings of Oakeshott and Skinner's refusal to engage with Oakeshott. This is mild but devastating. Even Pocock comes across as a slack reader of Oakeshott, and is revealed as such, while Skinner comes across as someone who did not even try to read him. Thompson quotes from an interview Skinner gave in 2002:

Michael Oakeshott's philosophical work was of no influence at all. He was widely acknowledged as an illuminating commentator of Hobbes, although I must confess that I found him virtually unreadable on the subject. But if you want to know how he appeared to students of my generation in the 1960s, you would find a very good guide in Brian Barry's book, *Political Argument*. [I don't mean to imply that I could ever have formulated my views on Oakeshott as trenchantly as Brian did in that book, but when I read it I recall agreeing completely.] Oakeshott seemed a figure of the past, and we rejected his anti-rationalism and his political conservatism outright. [I should add that I always found Oakeshott interesting to talk to, and very generous and encouraging too.] But nothing prepared my generation for his apotheosis under Thatcherism, nor the high esteem in which his philosophy continues to be widely held. (Koikkalainen and Syrjamäki, 2002, p. 45, quoted here on pp. 90-1, though Thompson does not quote the sentences in square brackets.)

There are several things to be said about this. The first is to note the reference to a 'generation'. It is as if Skinner has his own version of Noel Annan's *Our Age*: though not exactly the same one (for the reason that Annan said (in 1991 p. 529) that after the Second World War everyone in Cambridge was discussing *Oakeshott*). Another thing to say is that I also asked Skinner about Oakeshott on 15 January 2002 and received a similar answer. Here are the notes I made shortly after the interview (which I have not published before):

Oakeshott was famous, had a legacy, but (Skinner knew about his career) to 'people of my generation' was 'negligible', 'precious' (about Hobbes) and the 'Hegelian material' of *Experience and Its Modes* led to a 'neo-common law' Conservatism. A certain amount of suppressed nastiness in this and, as if to explain, Skinner said that it was the era of the welfare state and it was impossible to say what Oakeshott was saying. A good riposte, he suggested (almost for the sake of my health) was Barry in *Political Argument*. Oakeshott was 'philosophically confused and politically disgraceful'. There was no evidence he understood Oakeshott or wanted to.

I remember consulting Barry's *Political Argument* shortly after the interview, and I should not have been surprised to find that it was a characteristically shallow account of Oakeshott, indicating no particular interest. It seems that Thompson followed the same trail since he, too, has taken a look at Barry's worthless book. (Barry's claim to fame being that he thinks he willed Rawls into existence and then, to celebrate, sailed somewhere on a boat to write a book about reading Rawls's book.) Thompson is polite about this, but it is a sign of gross irresponsibility on Skinner's part—Skinner, who has read a vast number of codices in the Rare Books Room in the Cambridge University Library—to depend on a smudge in *Political Argument* and High Table smear in the time of Thatcher, when Oakeshott could be done down by association. I have read many slight or slipshod theorists more seriously than Skinner ever took Oakeshott. That is to say, I would condemn them in my own right, and not by referring to what someone else says about them. In refusing to read Oakeshott because he was on 'the wrong side' politically we encounter rather starkly a reluctance—and I quote, though it does not matter from exactly where—in Skinner to be liberated 'from any disposition to suppose that [his] concept must somehow be the real or the only one'.

The sixth chapter on *Leviathan* is very effective in indicating that while the Cambridge School, at least in Skinner, has tended to reduce Hobbes to someone who engaged in ideological politics, Oakeshott did not so much argue against this as say that while one could study Hobbes this way it was not the only way. While Skinner has wanted to reduce *Leviathan* to an intervention in an argument, Oakeshott, while not disputing that this could be done, preferred to make sense of it as political philosophy (p. 106). The point is that Skinner claimed only *one* way was possible, while Oakeshott claimed there were *two*. Oakeshott certainly took Skinner to have argued this way, both in his review of *Foundations*, but also in a seminar paper he wrote in 1979 or 1980 (which is to be found in Oakeshott 2004b, p. 417). I have already quoted Skinner on the one occasion in which he explicitly replied to Oakeshott: 'The idea of being above the battle makes little sense'

for the reason that ‘in political argument there is nothing but the battle’. Oakeshott would have considered that utterance the end of all philosophy.

It seems to me that the particular Skinner legacy, after we separate out all the particular historical demonstrations, is the following:

A confusion about whether the historian of political thought should exclusively concern himself with the historical study of the past out of which some texts emerged *or* whether he should concern himself with the relevance of that historical study of the past (supposedly conducted in exactly the same way, that is, in the first instance, exclusively concerned only with the past) to the present.

A confusion about whether the historian of political thought has to assume that political thinkers in the past always had some immediate and local practical concern which is the only context in which they can be understood *or* whether he is free to suppose that although this might be of some importance historically that there are in fact other historical ways of making sense of their writings but also other non-historical ways.

I do not think that Skinner has done enough to overcome these confusions. His work has perpetuated them. And this is why I think his writings *about* the history of political thought have proved of much stimulation and suggestiveness. It is as true in academic politics and history as it is in poetry or novels that a certain polemical appearance of clarity along with an actual lack of clarity with a certain changeability of position can do much more to perpetuate a reputation than something much more simple or coherent. Consider *The Waste Land*. I mention literature, because there are ‘difficult’ novels or poems which are studied, one imagines, not because they are good, but simply because they are difficult. I am curious to see how the historians of political thought of the future will respond to the ambiguities of the Cambridge School position.

As I have already said, Skinner is not Dunn, and neither of them is Pocock. And then there are others: Tuck and Hont, pre-eminently, and Geuss, the author of brilliant essays, and even the to my mind over-rated Bernard Williams—who may end up with more of a reputation than anyone else in the short term simply because he speaks directly to the analytical normative types who do not know much history and so can only take their history in the form of a pill. And then there are others only loosely associated or interested: Whatmore, Winch, Burrow, Collini etc, and others who have written separately: Cowling, for instance. There are many inheritors: of whom the names that spring to mind are Runciman, Armitage, Brett, Bourke, Brooke, Sagar, as well Duncan Kelly, Isaac Nahkimovsky, Duncan Bell, though there are of course many others—Runciman being the only one who is close to being the sort of public figure that Oakeshott was: in fact, probably more of one, since Oakeshott did not write for the *London Review of Books* or care enough about actual politics to broadcast about it. It seems to me that, especially among the youngest generation of Sagar and Sophie Smith and others, there is a renewed desire for actual relevance. But whether it is grounded in a doctrine, such as Skinner and Dunn and Pocock developed, abandoned, mused on, is unclear: and the exact nature of the debt owed to the Cambridge School is unclear. But as long as historians of political thought appear *both* want to write strictly Butterfieldian history of an anti-Whig sort *and* want to put their anti-Whig findings to some argumentative use, it is likely that something like an ambiguous Cambridge School doctrine will remain far more appealing than the precision, the negativity and the indifference of Oakeshott.

We can still find repetition and supposed clarification of Cambridge precepts in the contemporary literature. At least two papers published in 2019 have sought to offer reassertions and revisions of the original Skinnerian protocol. History matters for philosophers, say William Bosworth and Keith Dowding in *The Review of Politics*, because anachronisms are ‘bugs [which] can cause political arguments to crash’. But philosophy matters for historians, says Adrian Blau, in *History and Theory*, in a piece published to mark the fiftieth anniversary of Skinner’s famous article, because historians have to engage in analysis in order to understand the historical meaning of a text. Even if the first seems absurd, and the second trivial, we can see that somehow both refer to a crux which is not easily abandoned. As long as normative political philoso-

phers can say (as Kelly did in 2006)—and quite reasonably on their own terms—‘We can ignore history’, there will be the equal and opposite reasonable answer, ‘We cannot ignore history’.

This brings me to the question of why the ‘Cambridge School’ has acquired such a strong reputation. The answer may simply be that the School has conveyed to non-historians that history is something they should not forget. By ‘non-historians’ I mean political scientists and political philosophers and political theorists—depending on whatever we suppose political theorists to be (and there is something to be said for G.E.G. Catlin’s old idea that if scientists deal with *is* and philosophers deal with *ought* then theorists should be the ones who deal with both).<sup>60</sup> The Cambridge School is not often seen in its fullest context; and its fullest academic context is the professionalisation and what I have seen called the scientification of political science, especially in America, in the twentieth century. By the 1950s political science was completely separated from history, while political theory—the remainder of political study when political science was abstracted from it—was nothing more than a junkyard of fragments from the history of political thought. Many political philosophers disliked this: some, like Strauss, polemicised against it, while Oakeshott ploughed his own furrow. The revival of political theory, or philosophy, in the 1960s and 1970s was eventually revealed—presumably to Brian Barry’s great relief—to be nothing to do with Riker’s and Downs’s ‘political theory’ of ‘public choice’ but everything to do with Rawls’s ‘political theory’ of revived normativity, contract theory, and principles of justice. The success of Rawls was related to the fact that he, and many others, had succeeded in separating their own endeavour as surely from history—and the history of political thought—as the political scientists had done. The scientists colonised the *is* of politics, the theorists or philosophers colonised the *ought* of politics, and, not for the first time, the *was* of politics—the *was* of older views of the *ought* and *is* of politics—was set to one side. This is the context in which the protest of the Cambridge School was registered. History could not be ignored, and especially not by the so-called theorists and philosophers. Others had said this vaguely in the 1920s, and others had said it more emphatically as part of their heroic or epic recreations of tradition in the 1950s—I am thinking of Voegelin, Strauss, Arendt, Oakeshott etc—but no one said it directly, as if what one had to do was simply get on and write some proper history first. The phrase ‘Cambridge School’ may be, if this is correct, simply a shorthand for the suggestion that we should not ignore history. Scientists should not ignore theory, and theorists should not ignore history. And why? The clearest answer was actually given by Bertrand de Jouvenel in the opening pages of his *Pure Theory of Politics* (1963): because politics has not changed since the beginning and is unlikely to change until the end. But, as the Cambridge historians always insist, our ideas about it have changed. Both are true. So politics is a static subject and a dynamic one, at one and the same time.

It is static, so we still have reason to read Plato and Aristotle, Machiavelli and Hobbes, but it is dynamic, so we still have reason to read them historically. Oakeshott in one manner and Skinner and the rest in another manner, or set of manners, have attempted to do something to reflect the dual static and dynamic nature of the subject. Oakeshott did rather better at reflecting on both, I think. But the word ‘Oakeshott’ has no polemical force in this context: he is infamous for other reasons, and most of the men and women he influenced have not written historically. But there is no question that the words ‘Cambridge School’ have polemical force in this context. Oddly, it may have its greatest influence in the context—excuse my relentless Pocockian use of this word—in which history is not the *first* thing on anyone’s mind. The Cambridge School, on its bluntest and most famous side, is a stumbling-block to any simple attempt to make sense of politics in an immediate or timeless or abstract manner. It says ‘No’ to *this*, and then it writes an oddly baroque and antiquarian and yet suggestive form of history, and says ‘Yes’ to *that*. Its ‘No’ is simple and clear. It is ballasted by a thousand elaborate properly historical works on aspects of the history of political thought. But, for that very reason, its ‘Yes’ is diffuse and obscure. And this is likely to remain the case. Oakeshott would not have wanted to settle for that.

Richard Bourke, now Professor of the History of Political Thought at Cambridge and presumably expected to keep some sort of flame alive, has written (in 2016, p. 477) that ‘the Cambridge School has long struggled to reach a consensus on the relationship between history and philosophy’. I am not sure if anyone has sought a ‘consensus’ (as opposed to imposing one) but certainly history-and-philosophy has always

been the crux, the crisis, the centre of concern, and one which has been distinctively leavened by the third element of politics: because, as Ernest Barker rightly remarked (in 1953, p. 11), ‘as Oxford has wedded political theory to philosophy, so Cambridge has wedded it to history’. Elsewhere, and about a different subject, Bourke has remarked (in 2017, p. 75), ‘Surely we can do better than Oakeshott’. In response to this it is necessary to say that in order to do better than Oakeshott we have, at least, to understand Oakeshott. Not many have yet understood Oakeshott. And if history is, as Oakeshott thought it was (in 1999, p. 70), ‘an uncovenanted circumstantial confluence of vicissitudes’—this line has to be savoured slowly, like whisky (and it *does* describe the best pure histories like Cowling’s *Impact of Hitler* or Stone’s *Atlantic and Its Enemies*, histories of deeds rather than histories of words, and, incidentally, both written by whisky historians)—and if, as Oakeshott explicitly recognised, histories of words are harder to write than histories of deeds, then of course *there is going to be no simple or obvious or even coherently or conveniently complex way of relating history and philosophy* according to any method—or methodology.

The Cambridge School has at times tried to legislate for the writing of history, though in trying to legislate against the philosophers it has made it difficult to develop a philosophy of its own. Here are some suggestions for the Cambridge School as it enters its second half century, though not offered in the spirit of legislation. Legislation of any sort for the writing of the history of political thought is out of place, since the history of political thought is, as an object, a hypothetical object, and, as an engagement, an unfocused engagement which can only be focused through the determination of the writer to illustrate some point with reference to history or to draw attention to some argumentative novelty—a novelty which of course may be an antiquity. History is not a legislative science but a deliberative one. Historians, no less than philosophers, are engaged in abstractions of various sorts: and they should not be embarrassed about saying so; even if their abstractions are less abstract than those of the philosophers. Researches will never replace thought: at its worst, history is just excerpts with commentary. Since ‘politics’ in its modern sense is a consequence of separations effected by the Greeks, Romans, Scholastics, Humanists, Political Scientists etc throughout the entire history of the West, we have to recognise that ‘politics’ as defined now is a useful abstraction which, if it is to be understood historically or even philosophically, cannot *only* be considered in its separated form but must have its original conjunctions restored to it, including its conjunctions with religion, law, ethics and, indeed, history. There is nothing to be gained by emphasising ‘text’, or ‘context’, or ‘intention’ too much. No doubt there are texts: and there is something behind them; but what it is most important to recognise is that there is something before them, namely the consciousness and purposes and ‘contexts’ of the contemporary historian or philosopher, whose attention, individually or collectively as acting out of some tradition, has been drawn to something old, new, borrowed or blue in those texts. It is important to recognise the limitation of making too much of the historical status of words—to recognise that history is almost always at its best when it is a history of deeds—and yet also to recognise that any radical critique which asks that words be treated as epiphenomenal to not only deeds but structures is to raise the bar too high for analysis to be more than the free imposition of supposition on an intractable subject matter. Almost all critique, like almost all methodology, is gestural. The history of political thought may, in the end, be not much more than an elite engagement, in which certain students—bored of the dust of endless histories of deeds and weary of the self-importance of living philosophers—turn, as Machiavelli and Montaigne did, to the great dead, to achieve some sort of fellowship with the closest that we have to gods, our literary ancestors. This is put to use, at times, since certainly a fair amount of life is about the battle: and we should be wary of those who try to make the history of political thought into an instrument (though we should be consoled that, as an instrument, it could never be anything but blunt). But, in addition, there is something above the battle. Politics, as everyone knows, is the only subject in which the foundational texts may still be read with benefit. This is because politics is unchanging, as an activity, but has continually changed, in how we have framed it in our ideas about it. It is therefore both dynamic and static. This makes it a difficult subject, yet also a simple and accessible one. No callow or crude view can ever be wholly dismissed. Finally, the historian should not be disdainful of the philosophy of history, for, at its best, the history of political thought is a philosophy of political history.



## NOTES

1. I allude to Leavis's notorious claim, 'We were—and we knew we were—Cambridge—the essential Cambridge—in spite of Cambridge'. David Craig, critic and poet, in *London Review of Books* 12 (8 November 1990) said he asked Leavis about this claim, and Leavis said, 'That was a calculated hyperbole'.
2. It has been suggested that Pocock's competence about religion is late in his career and relates to the eighteenth century. Pocock's earlier ignoring of religion and consequent misreading of the seventeenth century is the subject of Davis 2008. On Skinner's neglect of religion see Collins 2009. Pocock admittedly did draw attention to Hobbes's third and fourth books of *Leviathan* in 1970. But while Pocock and Skinner generally have tended to ignore religion, until recently in Pocock's case, John Dunn's first book *The Political Thought of John Locke* (1969), remarkably, was about nothing other than the dependence of Locke on religious rather than political assumptions. Contra Young, it is Dunn rather than Pocock who deserves credit for stirring religion back into the history of political thought of the Cambridge School.
3. See Catlin 1956, p. 818. Note that this is emphatically not how Oakeshott saw political theory, though he saw it in more than one way. For him, in 1961, 'political theory' was 'the questionable enterprise of recommending a political position in the idiom of general ideas', and thus lower than 'political philosophy'. This line, quoted by Thompson on p. 96, is, interestingly, taken from Oakeshott's review of Laslett's edition of Locke's *Two Treatises*. Later on, in 1973, and perhaps Thompson should have noticed this, political theory was 'theory' arrested by a determination to focus on the fact of 'politics' and its postulates, and so not different from political philosophy. See Oakeshott 2004a.

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## REVIEW

Yesterday, Today,  
and Tomorrow: Reading  
*The Oxford Handbook  
of Max Weber*Edith Hanke,  
Lawrence A. Scaff, and  
Sam Whimster, eds.

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The *Oxford Handbook of Max Weber* is a collection of 32 essays which are divided into six major areas on Weber's thinking. The titles of these Parts can be rendered in shorthand as 1) capitalism, 2) society, 3) politics, 4) religion, 5) culture, and 6) knowledge. While these categories are a reflection of much of Weber's work, they are by no means exhaustive. In addition, this Handbook is not the typical overview of Weber's thought; instead, the Editors, Edith Hanke, Lawrence A. Scaff, and Sam Whimster, have specifically instructed their contributors to show that Max Weber can "still say something important" and to argue that his thinking is "current and alive to us in the present" (p. 5). This means that a number of contributors have sought to trace Weber's influence on contemporary issues: Robert J. Antonio takes up the issue of modern capitalism and its defense by Margaret Thatcher and the more recent criticism by Thomas Piketty, and Lufti Sunar employs Weber's writings for the basis of a discussion concerning civil society in contemporary Turkey. Stefam Leder reframes Weber's outlook in terms of Islam's impact on society and Johann P. Arnason examines Weber's concept of Western rationalism in light of S. N. Eisenstadt's notion of "multiple modernities" (as does Kenichi Mishima). Barbara Thériault uses a thought experiment about tattoos in an eastern German city and Rosario Forlenza and Bryan S. Turner compare Weber's notions regarding Protestantism with the late modernization of Catholicism. Each of these chapters is interesting and informative and they provide considerable food for thought. Furthermore, they convincingly demonstrate that Weber prompts us to "build on his work" and that he "still inspires us today" (pp. 152, 487). In this sense, the Editors have achieved their stated goal to demonstrate Weber's continuing influence and his modern relevance.

There is, however, a difficulty with an emphasis on Weber's influence and relevance and that involves the question of what Weber actually wrote. Many of the contributors have alluded to numerous aspects of this problem. Stefan Breuer mentioned the variations in texts and suggested that we might focus on the final version (p. 238). John Scott justifiably complained that much of Weber's work was incomplete and fragmentary (p. 133). Addressing the specific issue of Weber's sociology of music, Brandon Konoval asked what did that mean for Weber (p. 465). And, Ralph Schroeder noted that Weber often failed to provide a systematic theory so scholars are forced into reconstructions (p. 151). Thus, the issue of determining Weber's relevance today seems to be less pressing than to determine what he actually meant. Fortunately, many of the contributions address both

issues. In what follows, I will concentrate mostly on one or two chapters in each Part and offer a couple of remarks on the others.

Part I contains five chapters and most of them are outstanding. Sam Whimster insists that we must regard Weber as an economist because he was preoccupied with economic theory, economic history, and economic policy (pp. 21-22). Moreover, Whimster argues that Weber's understanding of economic theory and history impacted his placement between the dueling schools of economics. While Weber sympathized with the Historical School's emphasis on history and the individual, he agreed with the Austrian School's insistence on method. Nonetheless, Weber rejected the Austrian school's conviction that economics was a nomological science which could provide general laws and he insisted that economics should inform economic policy. Whimster also discusses Weber's influence on the founders of neo-liberalism but suggests that Weber would have objected to the neo-liberalism belief in free markets. Weber had objected to the old "Rentiers" who wanted to live comfortably from their investments; but Whimster convincingly argues that Weber would be appalled at the unimpeded pursuit of profits. For Weber, economics could not be divorced from social economic policy (pp. 27, 37, 42).

Hinnerk Bruhns begins his chapter with Friedrich Naumann's observation that the French had their theme of revolution but the Germans' have theirs of capitalism. Bruhns admits that capitalism is a topic that interested Weber throughout his life and he allows that Weber thought it to be the most important theme of the twentieth century. However, Bruhns argues that we fail to understand that Weber dealt with various forms of capitalism and he was particularly concerned with both the history of capitalism and the differences between agrarian capitalism and modern rational capitalism. Today, there is a battle between those who defend capitalism and those who seek its replacement, and it is timely that Bruhns reminds us that Weber was not a defender of capitalism [nor was he an opponent], but sought to understand its place in the history of economics and its role in modern society.

Geoffrey Ingham's chapter is devoted to Weber's analysis of money and he argues that it has historical worth because it draws upon Georg Friedrich Knapp's classic work and because it influenced Joseph Schumpeter's economic theories (pp. 70-71, 81). Ingham insists that Weber's theory has more than historical importance and that it needs further investigation for a fuller understanding of money and for a better appreciation of how currency could be employed in resolving modern political disputes (pp. 81-82).

Laura R. Ford addresses the issue of how law affected the rise of Western capitalism and she stresses the crucial importance of calculability. Within Germany, law provided the structural framework for the "freedom of contract" (pp. 93, 101). And, internationally, it provided Germany with the legal order necessary to compete on the world stage (p. 98). Ford also addresses the relationship between religion and law: it was the Catholic Church with its clerics and jurists who furthered the process of rationalization but it was not until the West had developed "formally rational law" that it reached "the pinnacle of consistency and predictability" that is the hallmark of modern capitalism (p. 99). Ford does not disagree with the view that Weber regarded law as a "coercive force" in modern society; however, she suggests that Weber regarded some aspects of modern law as a means of achieving some semblance of social equality because the rule of law helps promote the "promise of innate, human rights" (p. 103).

Part II is devoted to society but in a political sense. Sung Ho Kim takes up the notion of "civil society" and notes that it is a "nebulous concept." Kim writes "If the state is written in prose using nouns, defining civil society seems more akin to a work of poetry peppered with adjectives" (pp. 167-168). That the notion of civil society is resistant to clarity does not render it less important and Kim goes to considerable length to show why it is. Weber's notion of civil society is neither a "*communitarian-social*" one nor a "*liberal-judicial*" one. Instead, it is a vision in which partisanship is encouraged. This type of partisanship is not designed simply to be an opposition; rather, it is intended to foster a "system of contention" to debate the nature of democracy (pp. 173, 181).

Like "civil society", "power" is also difficult to define; unlike the former, the latter holds a prominent place in Weber's thinking. John Scott intends to provide a "clear elucidation of Weber's conceptual framework" regarding the concept of power. Scott allows that his contribution may not be a "definitive interpre-

tation” but he insists that he finds a “logically coherent view of power” in Weber’s writings (p. 133). Power is not simply domination but is systematic and can be found in three forms: it is found in the traditional notions of class, and of status, as well as in the modern concept of the political party (pp. 138-139). Accordingly, power is both economic and political. Scott’s final point is a caution not to simply use Weber’s notion of power because that leads to misinterpretations; rather, one should regard his scattered comments about power within his larger intellectual enterprise (pp. 144).

Ralph Schroeder examines the role that rationalization plays in modern politics, modern economy, and modern globalization. Schroeder maintains that we have much to learn from Weber about modernity and that his account of politics is based upon a “wider account of social change” (p. 160). Although Weber may not have been able to envision the recent populist movements, he had a sufficiently developed sense about the influence of charismatic and demagogic leaders on “the people.” Furthermore, Schroeder is not convinced that the process of rationalization leads to the “iron cage.” Rather, he suggests that it leads to something less constricting—more like a “rubber cage” which can be stretched (pp. 153, 162).

John Breuilly acknowledges that he is not a Weber specialist and that he is not concerned with nations per se; however, he contends that Weber has much to offer us about the notion of nationalism. The problem for Weber was that because the German state was a recent formation that it lacked a nationalist spirit. That deficiency placed Germany at a considerable political disadvantage in comparison to the other established nations. Breuilly suggests we try a thought experiment and consider what Weber would have been like had he not been born in 1864 but in 1844. In this scenario, he would have not been schooled in the great achievement of German unification. But Weber grew up watching military parades and other instances glorifying the new German state; as a result, he understood the importance of nationalism. Breuilly notes that Weber had a strong sense of nationalism but he also reminds us that it was accompanied by a sense of realism and a sense of responsibility (pp. 200-201).

Part III is on politics and all five chapters are written by Weber experts. Andreas Anter returns to his familiar theme about the modern state but here his focus is on the state’s claim to possessing the monopoly on the use of legitimate force. However, Anter notes that many states seem to lack the means of defense and they are compelled to resort to private contractors; thus, causing confusion about the legitimacy of the use of force (pp. 230-231). Stefan Breuer takes up his familiar discussion about Weber’s notion of the three formal types of domination. He not only provides a concise definition of traditional, legal, and charismatic domination but indicates the ways in which Weber’s detractors have failed to offer a better conception of legitimate domination (pp. 239-240, 247). Kari Palonen returns to his notion of Weber as a political animal and notes how this “lifelong *Homo politicus*” regarded politics as being involved with the notion of chance (p. 259). Germany was not just a regular nation but was a great power; hence, vanity needed to be replaced with realism. Palonen offers the example of Weber’s warning about unrestricted U-boot warfare and indicates that America’s entry into the war was just what Weber had cautioned against. In addition, Palonen invites us to consider what Weber, the nationalist, would say about the chances of peace in respect to two of the major supra-nationalist institutions: the United Nations and the European Union (pp. 268-272).

Hans Henrik Bruun again takes up the relationship between politics and ethics and he argues that Weber had contrasted the ethics of conviction with the ethics of responsibility in theory, but in practice Weber believed that there needed to be a combination of the two. They were contradictories in their “purest form” but in the real world the person who acts according to the ethics of responsibility is ultimately forced back to the ethics of conviction. This is because it is finally a matter of “ultimate values” and an issue of Luther’s “Here I stand” (pp. 297-298). The issue of ethics in politics is not merely of historical concern; Bruun provides two contemporary examples of the problem of consequences. The first was the actual situation in Denmark and the problem caused by the Muhammad cartoons while the second is the clash between convictions and consequences in the fictional television series “House of Cards.” The true politician recognizes that politics is a dirty business but he recognizes that ultimately, he has a “responsibility to his own conscience” (p. 304).



Claudius Härpfer reminds us that Weber ridiculed the notion of the “will of the people” and he warned that mass democracy was too often motivated by “emotional elements” (pp. 278-279, 285). Nonetheless, Härpfer also reminds us that Weber insisted that each individual has the obligation to be educated and to act realistically; that is, “to meet the ‘demands of the day’” (p. 286).

Part IV is on religion and is composed of eight papers. Peter Ghosh focuses on Weber’s ethics and legitimately complains that they are often misunderstood. That is because scholars often overlook the relationship between ethics and religion in Weber’s works. It is to Ghosh’s credit that he notes the influence that the Protestant theologian and philosopher Ernst Troeltsch had on him. Troeltsch was a colleague of Weber’s at Heidelberg and was a close friend for almost two decades. There is little correspondence between the two because they resided in the same city and in the same house for a number of years. It is unfortunate that Ghosh does not explain Troeltsch’s later and somewhat negative attitude about Weber just as Ghosh distinguishes between “*Gemeinschaft*” and “*Gesellschaft*” without noting that Weber regarded this as Ferdinand Tönnies most valuable contribution to the study of society. Nonetheless, Ghosh is correct to maintain that Weber offered us a “brilliantly original analysis of modern ethics” and that it has considerable relevance for today (p. 327). Scott Lash considers the religious ethics of the clan in China and how it survived and he wonders about the growing influence of modern China. Rosario Forlenza and Bryan Turner note that Weber did not write much about Catholicism but their chapter is rich in discussing Catholicism in nineteenth century Germany. Eduardo Weisz concentrates on the ancient Israelite prophets and argues that they should be regarded as the forerunners to the modern charismatic leaders. It is to Weisz’ credit that he reminds us that one of the things which Weber valued in Amos, Isaiah, and others was their moral and political stands (p. 432). In perhaps the most interesting chapter of Part IV, Hira Singh discusses Weber’s analysis of caste in India. Weber’s concern was with the “distribution of power in society” and the Indian caste system is a great example of how status can be disrupted (p. 394). The example is the tension between the priest and the prince and the question is who has the greater status? Singh cautions against attempting to view this relationship through a European lens because India did not have anything similar to the Western master and slave or serf and lord. Nonetheless, Singh concludes that Weber’s analysis on the Indian caste system is worthy of further study (p. 408).

Part V is on culture and perhaps the most intriguing chapter is Brandon Konoval’s on Weber’s sociology of music. Not only does Konoval emphasize Weber’s immense learning but also Weber’s immense personal interest in music. He notes Weber’s relationship with the pianist Mina Tobler and the history of music, but he also stresses that Weber wrote his sociology of music during a time of major changes in music—Debussy and Stravinsky to name just two (p. 470). Konoval also relates Weber’s writing on music with philosophy (Nietzsche) and with economics (Bücher), thus revealing that Weber’s concern with music is found in more places than his sociology of music, and is of interest to a much larger audience than to only musicology specialists.

Joshua Derman’s chapter on culture in the Occident competes with that by Konoval for the title of most intriguing; Derman offers a wide-ranging discussion of the crucial importance that “culture” (“*Kultur*”) plays in Weber’s thought. Derman emphasizes the role that rationalization played in the rise of Western capitalism and how that helped determine European culture in the late nineteenth and early twentieth centuries. Derman allows that some of Weber’s facts have been shown to be wrong but Derman takes issue with the charge that Weber was completely Eurocentric (p. 525).

Thomas Kemple also addresses the process of rationalization and its impact on German “*Kultur*”. Kemple argues that Weber did not believe that the process of rationalization was moving relentlessly in one direction and points out that Weber was also interested in how irrational approaches tended to affect discussions. Kemple also disputes the claim that Weber was Eurocentric and adds that Weber adopted a type of “heuristic Eurocentrism” for “methodological purposes” (p. 446). There is much to be said for most of Kemple’s claims; an exception is his claim that Weber conceived of “*Kultur*” as “civilization” (p. 447). Like Konoval and Derman, Kemple prompts the reader to consider Weber’s writings from a slightly different point of view; and the results are enlightening.

The final Part has four papers. Sérgio Da Mata emphasizes Weber's preoccupation with reality and notes that his "science of reality" ("Wirklichkeitswissenschaft") grew out of the historical school but that it shares some affinity with Nietzsche's courage to face reality (p. 608). Jos C. N. Raadschelders takes issue with the claim that Weber's notion of the "iron cage" is so rigid; rather than constricting people, bureaucracy provides the societal structure in which people can function successfully (pp. 563-564). Gangolf Hübinger focuses on the notion of intellectuals but he argues that many of them are not ivory tower idealists but are "committed observers". He points specifically to Raymond Aron and Ralf Dahrendorf as two such "committed observers" and he notes how both were heavily influenced by Weber's insistence on the importance of responsibility in politics. He argues that they accepted Weber's notion of the "duality of imperatives" and that the "committed observer" possessed the will to act along with the will to truth (p. 542). Stephen Turner explains a number of Weber's methodological contributions, among them causation and ideal types. He clarifies what Weber meant by "objective possibility" by suggesting that a historian could consider a number of possible "causes" which could have been responsible for some historical event and then focus on the one that would have been the most probable one to have caused it. Turner then explains that when some explanation reaches a certain degree of probability then it becomes an "adequate cause" and he notes that Weber drew heavily from his Freiburg colleague Johannes von Kries. Turner concludes that Weber's methodological writings continue to be relevant but he cautions that many of his notions have been misinterpreted and misrepresented (pp. 579-581).

The book is not without some flaws. Stephen Turner noted correctly that "Weber's methodological writings are some of the most influential parts of his work" (p. 575). In light of this, it is unfortunate that Turner's chapter is the only one out of the thirty-two to focus on method. Second, the book has a 40-page index so one might think it complete; however, there are a number of entries that are not. To offer just two examples. "Ideal types" has a single listing: pp. "581-82" yet "ideal type" is discussed on pp. 23-24, 32, 436, and probably p. 39 ("ideal-typical spirit"). "Stephen Turner" has a single listing: "435-36" but he is mentioned on pp. 25, 435 and 441 note 40. Given the length of this book, a more complete index would help the reader locate issues and names.

To many readers, the emphasis on Weber's current relevance and his world-wide influence will be a welcome change from the more typical analyses of Weber's own writings. For others, this focus overshadows the critical need to understand what Weber wrote and the contexts and quarrels which prompted him to write. Regardless whether one is inclined towards the appreciation of Weber's influence or towards the understanding of his works, all those who are interested in Weber's thinking will find this book's emphasis on yesterday, today, and tomorrow, stimulating.

## REVIEW

*Monetary Equilibrium and Nominal Income Targeting*

by Nicolás Cachanosky

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Nicolas Cachanosky's *Monetary Equilibrium and Nominal Income Targeting* is a valuable and concise account of the idea of nominal income targeting. The book explores the idea, as a both practical and theoretical monetary policy rule, and its implications for central banking monetary policy and macroeconomic stability. Since the 2008 Great Recession, the idea of nominal income targeting has regained interest among policy makers and monetary economists (Sumner 2012; Paniagua 2016a). A certain group of economists have suggested that the Great Recession, both in duration and severity, was mostly generated and magnified by ill-conceived and contractionary monetary policy during late 2008, which allowed both nominal income and nominal gross domestic product (NGDP) expectations to fall significantly and deviate below trend (Sumner, 2012). As a consequence of those monetary policy failures, some economists—such as Sumner (2012)—have argued for a monetary policy rule that aims at targeting nominal income, which is a form of NGDP (level) targeting. It has become clear since the crisis that price-level stability is neither a sound-enough goal for monetary policy nor conducive to macroeconomic stability. This realization has led macroeconomists to recognize that different proposals for central banks to target NGDP are worth taking seriously and to compare them to better-known alternatives.

Given the above, this book is both relevant and necessary to fill certain important theoretical gaps in the literature on NGDP targeting and alternative monetary regimes and to contribute to the debate over the institutional properties and benefits of nominal income targeting as compared with alternative monetary rules. For that alone, this book is a welcome contribution. Consequently, this book is both timely and valuable, and it is of much interest to monetary and banking scholars and to monetary policy makers and central bankers.

The book can be interpreted as dealing with three broad themes related to NGDP targeting. Cachanosky starts with a theoretical exploration of monetary equilibrium and its analytical relationship with NGDP targeting, and how they relate conceptually to the “productivity norm.”<sup>61</sup> The first part of the book explores how monetary equilibrium is the guiding principle of nominal income targeting. Later the book explores nominal income targeting as a rule and how it compares with other rules. Finally, the book explores scattered themes related to nominal income targeting, such as the 2008 financial crisis, and how we can lay out monetary policy reforms that can help us to transition toward nominal income targeting or a more robust monetary framework.

One thought-provoking aspect is that Cachanosky starts the book by asking, “How does a free market of money and banking (free banking) work and what is the monetary outcome?” (Cachanosky 2019, p. 1). He states that the ideal benchmark for monetary policy is some form of highly competitive free banking system. The reason is that Cachanosky and several other authors (me included) believe that a free banking system would attain something very close to monetary equilibrium or monetary neutrality (Paniagua 2016b) and that attaining such a policy goal should be paramount in any monetary system. This claim could be considered as a potential analytical weakness of the book since if someone does not consider either that monetary equilibrium is the crucial benchmark and goal of monetary policy or that a free banking regime could actually achieve monetary equilibrium, then they might question the entire normative and theoretical vision of the book. Consequently the case for nominal income targeting could be weakened as well.

Chapter 1 explores the institutional and banking properties of an ideal free banking regime and how such a system could, unintendedly, reach something very close to monetary equilibrium or a stable form of nominal income at the aggregated level. The chapter explores the institutional mechanisms that a free banking regime employs in order to achieve monetary equilibrium and how monetary equilibrium relates to stable nominal income or NGDP (per capita). The concepts of monetary equilibrium and of stable nominal income growth are relevant throughout the book as they are employed also as benchmarks and objectives to compare and evaluate monetary policy rules.

This chapter starts by suggesting that an evaluation of any monetary policy rule “requires a benchmark that specifies what a central bank should achieve. Since central banks play a crucial role in the management of money supply, monetary equilibrium should be their main objective” (p. 4).<sup>62</sup> Here Cachanosky somewhat dubiously conflates monetary equilibrium as a theoretical benchmark with free banking as an institutional arrangement since the “theory and history of free banking provides a depiction of what monetary equilibrium looks like.” Thus he concludes that “a free banking system is a benchmark of what we should expect a *given* central bank to do and what its minimum level of efficiency should be” (p. 4). I don’t disagree with these statements; however, I believe that several other macroeconomists and banking theorists would find them too normative and hence difficult to accept. After all, the potential benefits and robustness of free banking are still a much debated and unsettled topic in the banking literature.

Moreover, other scholars have used the concept of monetary equilibrium as an ideal benchmark against which we can compare monetary alternatives (Horwitz 2011; Paniagua 2016b). However, most of them have acknowledged that, on its own, recognizing the relevance and desirability of monetary equilibrium does not commit oneself to any particular monetary institution, such as free banking. Yet this is exactly what Cachanosky seems to suggest in chapter 1. This is perhaps my only concern about Cachanosky’s otherwise fine and relevant book: it might deter other banking scholars—particularly those not fully convinced of the benefits of free banking—from engaging seriously with this book.

Nevertheless, chapter 1 does a great job in overviewing relevant topics and debates about the robustness, historical episodes, and institutional properties of free banking. Specifically, Cachanosky here succinctly reviews how free banking, through the process of adverse clearing, can actually attain monetary equilibrium; and he reviews how it also leverages contractual and legal tools, such as option clauses and unlimited liability, in order to avoid systemic bank runs. He also convincingly challenges some misconceptions about the stability of free banking, such as its inability to deal properly with systemic bank runs, how the Diamond-Dybvig model suggests inherent instability in competitive banking, and the capacity of free banking to generate an uncontrollable, concerted overexpansion in the supply of money and banknotes. By deploying both the theory of competitive banking and ample historical evidence, Cachanosky diligently shows all those misconceptions to be unsubstantiated.

Chapter 2 explores in more depth the “conditions and characteristics of monetary equilibrium in a more formal setting” (Cachanosky 2019, p. 23). These arguments are relevant for the entire book since the case in favor of nominal income targeting ultimately rests on the idea of monetary equilibrium and the fact that it could be potentially attained through a form of NGDP targeting. Here Cachanosky presents an analytical framework of nominal income targeting, specifically in the context of two related rules: Hayek’s stable-MV

rule and Sumner's (2012) NGDP targeting. The chapter also explores the idea of monetary equilibrium under the framework of the quantity theory of money (the left side of the equation of exchange). Cachanosky builds his framework of monetary equilibrium by noting that the demand for money is the share of nominal income that "is consumed as *liquidity services* rather than spent in acquiring goods and services" (p. 24, emphasis added). Cachanosky formally explains how monetary equilibrium is attained and what it means in the equation of exchange. Importantly, he acknowledges that monetary equilibrium implies two conditions, a static one and a dynamic one. The static one requires that the quantity of money supplied equal the quantity of money demanded ( $Md = Ms$ ). The dynamic condition instead requires that changes in the velocity of circulation ( $V$ ) be offset with a proportional and inverse change in the money supply ( $M$ ), so that  $MV$  remains constant. This is similar to keeping  $PY$  (or NGDP) constant. It is this principle, Cachanosky argues, that analytically guides the different nominal-income-targeting rules.

Subsequently, chapter 2 explores two different versions of nominal-income-targeting rules, NGDP-level targeting and what he calls "Hayek's rule." In analyzing these rules, Cachanosky importantly acknowledges that any monetary policy rule actually requires "(1) a *target variable* and (2) what *value* the target variable should have" (p. 26). Indeed, these two components are crucial to decisions made by policy makers implementing monetary rules. Here Cachanosky also points out that when "different variables present a similar behavior, choosing the right target value is more important than choosing the right target variable . . . Both, Hayek's rule and NGDP targeting use NGDP as their target variable, but they differ on what the target value should be" (p. 26). Specifically, he explains that Hayek's rule aims at keeping  $MV$  constant (in per capita terms). Thus, it implies that " $M$  should neither increase nor fall unless  $V$  is moving in the opposite direction" (ibid.). Under this rule, then, the NGDP target is held constant and is fixed at a zero-growth rate, which implies fixed aggregate demand. Meanwhile, NGDP-level targeting implies "first, targeting the level or path of NGDP and, second, keeping a constant growth rate of NGDP" (p. 28). Under this second rule, then, aggregate demand grows at a constant rate. Cachanosky points out that the specific value of the NGDP growth rate in this rule varies from author to author. The usually suggested number (see Sumner 2012) is around 5 percent yearly NGDP growth. Yet Cachanosky importantly suggests also that this 5 percent constant growth rate is highly questionable and might not be consistent with monetary equilibrium (see also chapter 4).

However, Cachanosky does not delve deeper into these crucial operational and practical questions about NGDP targeting. Indeed, he doesn't explore further the numeric relationship between the plausible behavior of NGDP that is consistent with monetary equilibrium and macroeconomic stability—if such a number in fact exists. Cachanosky does suggest that a constant 5 percent yearly NGDP growth rate might actually be excessive, leading to "a too loose monetary policy rather than being the right NGDP target . . . The observed 5% growth rate of NGDP on the years prior to the 2008 financial crisis is not itself a proof that such a number is a good (or bad) target" (ibid.). Alas, he explores neither which numeric growth rate might be "right" nor how we can find out which growth rate will be consistent with monetary equilibrium. Plausibly, the "right" equilibrating (or neutral) number for NGDP growth will be something in between the zero growth rate in Hayek's rule and a 3–4 percent constant growth rate. Nevertheless, it could be the case that a higher-than-zero fixed rate might prove inconsistent with micro-level monetary equilibrium whenever we experience changes in population growth and heterogeneous changes in the endowment of the factors of production (or whenever the price level moves inversely but not in the same proportion to—or as rapidly as—changes in productivity) (Horwitz 2011; Paniagua 2016a).

Perhaps a *predictably flexible* NGDP growth rate—one that seeks foremost to maintain monetary equilibrium at the micro level while also adapting to the way the price level and changes in productivity behave through time—might be a more consistent and neutral goal for monetary policy than trying to keep a macro variable stable in its growth (Paniagua 2016a). That something is predictable and stable does not necessarily mean it is desirable and neutral. Hence, rather than keeping NGDP growth, or any other nominal macroeconomic variable, stable, "the so-called 'productivity norm' argues that the predictability of relative prices being indicators of relative scarcity is a more important form of predictability" (Horwitz 2011, p. 337). Consequent-



ly, stabilizing NGDP growth and keeping it fixed through time might prove inconsistent with targeting monetary equilibrium at the micro level.

Finally, chapter 2 explores how nominal income targeting deals with nominal and real productivity shocks and compares it with a price-level-stability policy such as inflation targeting. In a nutshell, the former is able to automatically distinguish between nominal shocks and real shocks and thus maintain monetary equilibrium. In contrast, the latter (a stable price level) is almost never consistent with monetary equilibrium. This is because, since monetary equilibrium implies that  $MV$  is constant, “the price level should be allowed to change inversely with changes in real output. Stabilizing the price level is not the same as targeting monetary equilibrium” (Cachanosky 2019, p. 30).

Chapter 3 uses the idea of monetary equilibrium and explores monetary rules that are better known among policy makers and central bankers around the world. It later compares such rules to nominal income targeting. According to Cachanosky, “For policy makers to reconsider what monetary rules or guiding principle they should follow then a clear advantage of a nominal income target rule over other more prevalent alternatives should be clear” (p. 40). In particular, the chapter overviews first the rules-versus-discretion debate and second the shortcomings of inflation targeting, Friedman’s  $k$ -percent rule, McCallum’s feedback rule, and Taylor’s rule. Cachanosky shows how all of these rules are unsuccessful at maintaining monetary equilibrium and NGDP stability, and he compares each of them with nominal income targeting “to explore to what extent nominal income targeting outperforms these other rules” (*ibid.*). Cachanosky ultimately argues that NGDP targeting is a better rule compared with these other rules since it deals better with productivity shocks and is better at maintaining monetary equilibrium.

The minor drawback of this chapter is its negligible treatment of potential incentive problems and other public choice considerations—such as political pressure, accountability issues, and enforceability problems—that could affect each monetary rule and how they compare with nominal income targeting. Indeed, the discussion on why monetary rules are not applied or enforced under central banking is confined to less than half a page (p. 51). The book neglects the valuable literature on different monetary regimes concerning political-economic and public choice considerations. Different monetary rules could, in theory, be able to target some form of nominal income and move closer to monetary equilibrium, but this does not mean that they can do so in practice, once one takes into account such considerations and the bureaucratic framework under which those rules will operate. These broader institutional and political concerns could revise and challenge our appraisal of different rules.

Chapter 4 deals with an important point hinted at earlier (p. 28) concerning the numeric target or the value of NGDP growth that a central bank should target. Cachanosky writes that “it is also possible that a nominal income rule is executed with the wrong [numeric] target and, therefore it will produce monetary disequilibrium” (p. 56). Here he departs from the market monetarists, such as Sumner (2012), since he questions the plausibility that a constant NGDP growth rate of 5 percent is neutral to the economy or consistent with monetary equilibrium. The chapter discusses the effects and symptoms of monetary disequilibrium under the plausible scenario “that a nominal income rule is executed with the wrong [numeric] target and, therefore, it will also produce monetary disequilibrium” (p. 57).

This is one of the most interesting and original chapters of the book since it explores the possibility that some forms of stable NGDP growth might hide monetary distortions and thus be inconsistent with monetary equilibrium. Cachanosky appropriately reminds us that “the good behavior” of macroeconomic indicators, such as price-level stability, “does not imply that there is no monetary disequilibrium or economic imbalances are being built up” (*ibid.*). Specifically, this chapter explores the possibility that “the 5% [stable] growth rate of the United States’ NGDP in the years prior to the 2008 crisis was the result of loose monetary policy . . . should the Federal Reserve had followed a 5% NGDP Targeting rule after the year 2001, it is likely that target would not achieve monetary equilibrium” (*ibid.*).

In line with the above, this chapter analyzes different macroeconomic indicators that seem to suggest that monetary policy in 2001 and (early) 2008 was too expansionary, leading to a persistent monetary disequilibrium and to a deep misallocation of resources and capital into housing that was unfortunately

not captured by conventional price indices. That misled policy makers about the true underlying stability and sustainability of the macroeconomy. Here Cachanosky explores how upward deviations of NGDP from trend are indicators of monetary policy being too expansionary or disequilibrating. He points at two steep upward trend deviations in NGDP, before the dot-com crisis and before the 2008 financial crisis, that could suggest unsustainable booms led by expansionary monetary policy. The chapter later explores how monetary disequilibrium can manifest itself in the gap between final prices and intermediate prices. Cachanosky suggests that “a proxy to see if there is an excess of money supply in the presence of a stable final price level is to observe the behavior of a producer price index (PPI) with respect to a consumer price index (CPI)” (p. 63). Here he shows that from roughly 2002 to 2007, the PPI grew at a significantly higher rate than the CPI, suggesting implicit inflation “due to a loose monetary policy that started early in the 2000s” (p. 64). Finally, Cachanosky explores the possible deviation of the interest rate from its equilibrium (natural) level between 2001 and 2006 according to some estimations of the natural rate that the Federal Reserve should target. All the estimations reviewed suggest that expansionary monetary policy allowed the federal funds rate to go significantly below its (estimated) equilibrium (natural) level approximately between 2001 and 2005; this also suggests persistent monetary disequilibrium for almost half a decade.

Chapter 5 discusses the fundamental difference between, first, a nominal-income-targeting rule that emerges as a process of market forces and competitive interactions of free banks and, second, the same NGDP rule implemented instead as a top-down policy enacted by a central bank. Cachanosky correctly points out that “achieving the right level and behavior of NGDP is not the only important issue a central bank has to deal with. It is not just the level of NGDP that matters, but also its composition” (p. 75). The superficially equivalent values of NGDP could have very different real economic compositions, different micro-level realities, and diverse levels of sustainability (Paniagua 2016a). Thus, as Cachanosky recognizes, the *process* of nominal income targeting and *how* the value of NGDP growth is actually attained are also extremely relevant issues to consider. Consequently, “central banks need to also consider their [institutional and structural] limits in achieving *microeconomic* equilibrium *from* macroeconomic equilibrium” (ibid., emphasis added).

Later this chapter explores how NGDP stability could be attained either through free banking or under central banking and how the processes differ. Free banking attains a form of nominal income targeting but does so as an unintended product of attaining first and foremost monetary equilibrium at the micro (or local) level, which eventually translates into a form of nominal income stability or macro equilibrium. Thus, the macro stability and the macro equilibrium attained are not explicit goals of monetary policy under free banking. They are rather the aggregated and unintentional outcomes that emerge from and are consistent with monetary equilibrium at the micro level, rather than the other way around. In this sense, free banking does not directly or consciously aim at stabilizing nominal income or at targeting a specific numeric value of NGDP growth. It merely aims at properly adjusting the money supply to offset changes in money demand at the local level. Hence, “under free banking no one needs to produce a certain level of NGDP” (Cachanosky 2019, p. 80). In contrast, Cachanosky argues, central banks—as monocentric systems of banking power—substantially alter (eliminate) the institutional and interactive-competitive context of free banking that enables the production of monetary and local knowledge necessary to attain monetary equilibrium. In other words, “in the absence of a complete market of money, the required market information for monetary equilibrium is also lacking. Therefore, policy makers need to use a proxy of monetary equilibrium as their benchmark” (p. 76). The crucial difference between these two forms of monetary policy is that central banking is epistemologically and informationally weaker since “the signals of an excess of money supply (i.e. adverse clearing) are looser and more erratic under central banking than under free banking” (p. 77; see also Paniagua 2016b).

Moreover, free banking—since it is a decentralized and competitive system—possesses several “money injection points in the economy” since each competitive bank and its branches is potentially a local entry point through which money is supplied into the system. Consequently the banks are much closer to the underlying banking signals and local changes in the demand for money. This means that “free banking is

more flexible in the sense of allowing changes in money supply to happen closer to the optimal injection point. On the contrary, in the case of central banking there is only one [top-down] injection point” (p. 77). Accordingly, the fundamental epistemic challenge that Cachanosky identifies is that central banks “need to know how far off they are from monetary equilibrium and how to get to equilibrium. But information required for such a task is missing the mere existence of a central bank. Because of this, policy makers face a [monetary] knowledge problem” (p. 78).

Following this discussion, Cachanosky explores further how Hayek’s “knowledge problem” could be extended and applied to monetary policy, and he explores the insurmountable epistemic challenges that central banks face in attempting to attain monetary equilibrium.<sup>63</sup> The core of the argument is that crucial local and personal knowledge about money (e.g., its desired demand and imbalances) is generated and conveyed only through certain institutional and competitive processes or banking signals that are absent (or much weaker) in a monopolistic and monocentric central banking setting. Thus local banking and monetary knowledge cannot exist and be generated without certain interactive and competitive market-based forms of processes among money holders and commercial banks (Paniagua 2016b). Facing such epistemic and institutional absence, central banks have to rely on crude proxies or aggregated informational substitutes such as statistical analysis and model calibration, thus exacerbating policy makers’ epistemic burden and increasing their informational costs. Alas, “even if the substitute was nominal income stability, this choice would still require building the right variable in a timely manner while under free banking it is not even necessary to calculate nominal income in the first place. The central bank needs to be able to forecast the right level and trend of money demand, but under free banking this is achieved without the need of such specific and challenging forecast” (Cachanosky 2019, p. 80). This leads Cachanosky to conclude that “monetary policy is not just a *technical* problem, it is also a *knowledge* or *alertness* issue” (p. 80).

Chapter 5 concludes by exploring the idea of Cantillon effects in monetary policy and the price-and-spending-related effects that occur whenever newly issued money enters the economy through different entry points. Cachanosky argues that there is a fundamental difference between central banking and free banking with respect to Cantillon effects. The main difference resides in the fact that central banking possesses only one source of change in the money supply, and therefore Cantillon effects are top down and more concentrated and their potential distortive effects on prices and spending are larger. In contrast, free banking has a myriad of decentralized and smaller injection points—mainly, competitive commercial banks that issue convertible banknotes. This, Cachanosky argues, “makes the pattern of money flow in the economy more evenly distributed and less costly if relative prices are affected in the wrong way . . . [Moreover] these [decentralized] injection points are also matched [and closer] to the sources of the changes in money demand . . . It is unlikely that under free banking relative prices will be distorted in a significant way” (p. 83). All these arguments suggest that free banking is—relatively speaking—superior to central banking in both attaining monetary equilibrium at the micro level and in avoiding severe distortions to relative prices and spending.

Chapter 6 overviews both the major policy and monetary events that led to the 2008 financial crisis and its banking and policy aftermath. Cachanosky here complements the market-monetarist view of the crisis by arguing that “a nominal income targeting framework does not suffice to explain the crisis completely, but it is a necessary framework to understand the economic effects at a broader scale” (p. 89). He starts by reviewing the political and monetary causes of the housing bubble, or the boom aspect of the crisis. Here he explores the ample empirical and statistical evidence that suggests that monetary policy was highly expansionary from 2001 to 2006. Particularly, after the 2001 dot-com crisis, the Federal Reserve “moved to a loose monetary policy with the intention of avoiding a downturn of the economy . . . Different benchmarks . . . point to an expansionary monetary policy in the years prior to the crisis (p. 90). In other words, the unsustainable housing bubble had its origins first and foremost in a too expansionary monetary policy.

Subsequently, Cachanosky reviews the 2008 bust aspect of the crisis, when the policy mistakes after the crisis unfolded. Here he points out that in mid-2008 the Fed, through contractionary and passive monetary policy, allowed nominal income to fall, producing a severe decline in NGDP and deviation below

trend, which “transform[ed] a relatively modest financial [and housing] crisis into a much larger crisis” (p. 95). Indeed, the NGDP series and its severe downward deviation suggest that monetary policy was exceptionally tight, rather than loose, after mid-2008 and during most of the financial crisis. Hence “the fall in NGDP means that money supply was not loose enough to compensate for the fall in money velocity” (ibid.). In other words, the damaging bust aspect of the crisis had its origins first and foremost in a too contractionary monetary policy.

Moreover, Cachanosky points out that the sluggish recovery suggests that “there was something other driving the crisis than the fall of NGDP from its level . . . the other factors present in the crisis were . . . a cluster misallocation of heterogenous resources (physical capital and labor as well) during the *too low for too long* interest rate policy of the Federal Reserve” (p. 96). Consequently, the duration and severity of the crisis can be more fruitfully explained by a monetary boom-and-bust cycle, or a *two-sided* monetary disequilibrium (bad inflation and malign deflation) led by central banks. After reviewing all the historical, banking, and statistical evidence, Cachanosky concludes that “the two largest economic crises in the United States are explained by a mistake on the part of the Federal Reserve” (p. 95).

The final chapter (chapter 7) discusses some of the potential banking reforms that could be enacted in order to improve the performance of central banks and move them closer to attaining monetary equilibrium or a stable form of nominal income targeting. The objective of these reforms is to increase the information available, and to improve the epistemic resources and incentives that central banks possess, so that central banks can attain monetary and income stability. Cachanosky here argues that central banks need to find accurate epistemic replacements for the missing information and banking signals that free banking normally provides. Thus a new institutional design or reform to the current central banking framework might be a more general and valuable approach to produce certain banking and informational features that would move the system toward achieving the goals of monetary equilibrium and nominal-income stabilization.

Specifically, Cachanosky reviews four of the most discussed reforms in the banking literature that allow more decentralized and active participation by market participants while reducing the epistemic and efficiency burdens on central banking. The discussed reforms are the feasibility of returning to the classical gold standard, Selgin’s proposal of a free banking regime built on a fixed fiat-based system, Hayek’s fiat-currency competition, and Sumner’s (2012) automatic NGDP targeting with an NGDP-futures market.

Cachanosky provides several—and adequate—arguments against Hayek’s currency competition (pp. 114–115), which suggests that it might be an inferior solution when compared to the other three proposals. Alas, in referring to the other three banking reforms, he reminds us that they might be politically unviable and thus difficult to implement. For example, regarding the gold standard, he acknowledges that “a successful return to the gold standard requires major countries to coordinate their [joint] return to the gold standard . . . The biggest challenge to return to the gold standard . . . is political [and international] rather than technical” (p. 111). Similarly, regarding Selgin’s proposal, Cachanosky recognizes that it is “less extreme than a plain return to the gold standard. This proposal, however, can still be considered politically inviable. Still, it should be noted that monetary regimes similar to this do exist in present times” (p. 112). Likewise, Sumner’s proposal for an NGDP-futures market requires that central banks relinquish both their monetary policy authority and their open-market-operation activities to investors and the entire market (p. 116). This implies that the Federal Open Market Committee, which enacts monetary policy, should be disbanded, making it politically unviable as well.

Consequently, the reader could conjecture that Selgin’s and Sumner’s proposals seem to be *less* politically unviable than the other two proposals. Moreover, Selgin’s proposal seems to be also superior to Sumner’s proposal in regard to achieving monetary equilibrium at the micro level since under Sumner’s (2012) NGDP-futures targeting “the central bank decides [ex ante] the [numeric value] *target* . . . The central bank, however, still remains responsible for choosing the right variable and the right target” (p. 116; see also Paniagua 2016a). Unfortunately, Cachanosky’s otherwise-valuable book is mostly silent on these interesting and unexplored matters concerning the comparative institutional analysis and relative robustness of radi-

cal and polycentric banking alternatives. Undoubtedly, more research is needed in these areas of monetary policy before making any definitive statements about the benefits of nominal income targeting, yet Cachanosky's book is without doubt a solid contribution toward broadening the analytical approach to, and the conceptual toolkit of, central banking policy and potential reforms.

## NOTES

1. Cachanosky defines the “productivity norm” as the state of affairs in which “the price level should be allowed to change inversely in the presence of positive productivity gains” (Cachanosky 2019, p. 23).
2. Cachanosky defines monetary equilibrium as “the situation where the quantity of money supply equals the quantity of money demand. The quantity of money supplied is the amount of outside money plus the issued banknotes in circulations” (Cachanosky 2019, p. 6).
3. On this monetary-epistemic argument, see also Paniagua (2016b).

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## REVIEW

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TROY CAMPLIN

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Literary scholarship is a complex network process, meaning it has path dependencies and paradigm shifts, like in any other complex network process. Thomas Kuhn's theory of paradigm shifts is as applicable to literary scholarship as it is to science—or to any other complex network process (in evolutionary biology we simply call it “punctuated equilibrium”)—and the last big paradigm shift in literary scholarship was the New Criticism, which introduced the idea of close reading. Prior to the New Criticism, literary studies were mostly historicist in nature, and author biographies were expected to give insight into the author's works. With close reading, the author “disappeared,” and more attention was paid to the language and the literary structures involved. The emergence of close reading also made it possible to argue that there was truly something unique about literary analysis—and this, in turn, gave rise to the more professionalized literary scholar and to literary theory as we now know it.

Related to New Criticism was Russian Formalism, equally structuralist in nature, and with it came the Marxist analyses necessary to survive as a scholar in the Soviet Union. Further, literary scholars naturally looked to other disciplines for analytical tools—and typically found them in disciplines that would themselves look to literature for their own social or psychological analyses. It was not uncommon for Freud, for example, to use literature as a demonstration of his ideas (think of the origins of the Oedipus complex), and so we should not be surprised that Freudian psychoanalysis became a popular form of literary analysis. If Freud and Jung are both used more often in literary studies than in psychology itself, it's perhaps because contemporary psychologists haven't been using literary examples to the degree their predecessors did. The same could be said to be true of some of the early 20<sup>th</sup> century sociologists and anthropologists, who also happened to be very influenced by Marx, and who in turn influenced literary scholars by their use of examples from literature to explain their ideas.

This lays the foundation for why literary scholars have tended to use Marx in their economic analyses. While Marx's own use of literary examples may be somewhat sparse, Marxists' use of literary examples is quite extensive, particularly during the time when literary theory was emerging as a set of analytical tools for literary scholars to use. Once Marx was established as the way to analyze class structures and economics in literary studies, path dependencies emerged such that Marx became the primary way to do such analyses. Even if one were to try to use some other form of analysis—say, an Austrian economics approach—one would still have to address the Marxist scholarship out

there on the work of literature being analyzed. It may be possible in the field of economics, with its own path dependencies, to ignore Marx, but it's not possible in English departments.

This is no doubt why, despite the explicit argument made in the introduction that this collection of essays was going to present a new economic analysis of literature, we end up with a collection yet again primarily dominated by Marxist analysis. The promise of Keynesian analyses and an influence by Deirdre McCloskey never really quite materialize. Even those essays that do attempt some degree of Keynesian analysis end up fundamentally Marxist in the end. After the introduction, the only essay that discusses McCloskey at length is Mark Garret Longaker's chapter "Rhetorical Economics." As excellent a discussion as that may be, throughout the rest of the collection, her name is only brought up a handful of times.

While the majority of the chapters are the same Marxist analysis we've been getting for most of a century now, the collection does start off fairly strong. The introduction makes some promises that don't quite materialize, but the next chapter by Christopher Newfield, "What is literary knowledge of economy?" is a good discussion of what literary knowledge is, and could be used as a foundation stone for building a bridge to the Austrian school of economics. The chapter that follows that, "The politics of form and poetics of identity in postwar American poetry" by Christopher Chen and Timothy Kreiner gives the reader a history that shows just how utterly out of touch people in literature are with reality itself—especially the L=A=N=G=U=A=G=E poets' belief that their avant-garde poetry could undermine capitalism. The authors further point out that the avant-garde's experiments were in no small part grounded on the belief that we no longer needed to hear people's stories—which certainly served the white, male writers who dominated the avant-garde, but marginalized women, gays, ethnic and racial minorities, and so on, who had not had an explicit or as widespread a voice. Rather than destroying capitalism, the avant-garde has mostly worked to marginalize minorities within the arts—something they no doubt would have blamed on capitalism.

Many of the essays' critical stances regarding capitalism—especially finance capitalism—are well worth considering. Readers may be surprised to find several chapters engaging in critical analysis of fiat money and a recognition that decoupling the American dollar from gold had negative effects on the economy, including the focus of capitalism moving from manufacture to finance. This ungrounding of money is reflected, they argue, in the increasing ungroundedness of contemporary literature. In this vein, though, the weakest essay in the collection—from the perspective of connecting it to economics—is the final essay, which simultaneously gives us an interesting history of the development of the TV serial, while barely, half-heartedly connecting this development to the development of financial capitalism. The economic angle could have been completely left out, and we would have an excellent essay on serialization over time, but then it wouldn't have had any place in this collection.

On the other hand, we have Michael Tratner's essay "Modernism and macroeconomics" that looks at the connections among the modernists and John Maynard Keynes, showing how the ideas that led to the development of the field of macroeconomics permeates the literary works of the modernists. Most notably, though, is the brief mention that Gertrude Stein opposed the "macroeconomic vision" of Keynes, Fascism, and Communism, saying, "Money is what words are. / Words are what money is" (quoted, p. 129). "With that equation, Stein implies that when Roosevelt is destroying money, he is also destroying words, which also create meaning by being exchanged in communities" (ibid.). Tratner also argues that "For Stein, the exchange of money represents a kind of shared debt; the need to buy from each other means those in a community end up feeling indebted to each other. Money creates the very meaning of human interactions, and that meaning is lost when money derives from the abstract center of the government" such as by welfare (ibid.). Stein understood that monetary inflation resulted in money having less and less meaning over time—or, in the language of economists, less value. Here we can see how closely related the ideas of meaning and value truly are.

Among the weaker essays is "Gothic Economies: Capitalism and vampirism" by Lauren Bailey. This chapter is little more than a demonstration that one's anti-capitalist blinders can make you grossly misinterpret the text being analyzed. Bailey gives us a very confused discussion of *The Vampyre* (1819) by John Polidori, one of the first vampire stories in British fiction. For one, she confuses consumers and producers,

and as a consequence ends up blaming capitalism for the unproductive consumerism of the aristocracy. The main character is an aristocrat, so it should be clear that this story is a barely-masked attack on the parasitic aristocrats. This obvious interpretation is ignored in favor of a convoluted anti-capitalist interpretation easily refuted by simply pointing out that capitalists are producers first and foremost. This may be due to the fact that the author, being a scholar of literature, is therefore necessarily part of the same class of elites as are aristocrats—meaning, of course, she cannot comfortably interpret her class as being the parasitic one. Indeed, one gets the feeling that she and many of the other anti-market authors in this collection are anti-market for the same reasons the aristocrats of old were: they see market participation as below them. The new aristocrats in our universities hold the same views as the old aristocrats, and for the same reasons. While Stephen M. Park, in his chapter, “Free trade masculinity and the literature of NAFTA,” actually complains openly about the loss of money and power by the aristocratic elites (in Mexico), we really shouldn’t be surprised Bailey refuses to identify her class as being the vampyre.

For a collection of essays doing economic analyses of literature, *The Routledge Companion to Literature and Economics* is a mixed bag. Which makes it an improvement over most other such collections. We actually do get authors using Keynes, McCloskey, and even Hayek—even if the overwhelming majority of the works still end up being Marxist analyses, with some explicit defenses of such things as the labor theory of value over the subjective theory of value. The mixed bag that this collection is also extends to quality of scholarship—how do you write a chapter about governance in and economics of piracy and not cite Peter Leeson?—and readability. There are works of clarity, and also stereotypical critical theory rhetoric whose disjointed prose, reliance on obscurantist pseudo-terminology and quotes piled on quotes rather typical of much Marxist literary analysis over the past half century. There are essays on the poetics of space, the attention economy, the effect of the kind of energy being used on culture, globalism (there are many essays which argue for nationalism over globalism), and of course endless attacks on “neoliberalism.” If you’re looking for a truly revolutionary work that rejects Marxism and instead uses economists commonly cited by actual economists, this collection isn’t quite it. If this collection, though, can plant a few seeds and build a few bridges, then it will have at least moved the field of literary studies closer toward how the field of economics broadly understands the economy to work. If there is to ever be a paradigm shift in the economic analysis of literature, the seeds of that shift will have to be planted now—and that means taking a flawed work like this seriously, and celebrating the new developments in it that have actually taken place.



# Editorial Information

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