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‘The Marginal Revolutionaries’ Review: Team Liberty

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At the dawn of the 20th century, Vienna was the nerve center of a vast Austro-Hungarian empire that controlled most of central Europe. The city was a haven of baroque splendor and liberal consciousness, a multicultural citadel of wine, women and song. Ironically, it was also the incubator of revolutionary movements that would make the century the bloodiest in human history and bring profound political, social and economic change to vast stretches of the West.

It was in Vienna’s coffee houses that Russian Bolsheviks Nikolai Bukharin, Leon Trotsky, Vladimir Lenin and Joseph Stalin plotted the Marxist revolution that would exact a massive death toll in their homeland. Another coffee house habitué, Adolf Hitler, would inflict on millions of Europeans a lethal Germanic variant, National Socialism.

Fortuitously, yet another coffee-house discussion was hatching ideas totally at odds with socialism. Their originators were laying the intellectual foundation for policies tolerant of economic freedom and market capitalism. These ideas would become the core of the so-called Austrian School of political economics. For a time, an expanding Soviet Empire spread Marxism throughout the world, but by the end of the 20th century the ideas of the Austrian School would dominate global economic policies.

With “The Marginal Revolutionaries,” Janek Wasserman, a history professor at the University of Alabama and the author of a book on Vienna between the wars, has written a masterly history of this war of ideas. He cites the economist Carl Menger as the founder of the Austrian School, in the late 19th century. Menger challenged the then-orthodox “labor theory of value” that Karl Marx had turned into the war cry “workers of the world unite.” In its place Menger introduced the concept of “marginal utility,” which in oversimplified terms means that the only accurate way to measure the true value of goods, and thus achieve an efficient allocation of resources, is through an arrangement that allows the buyer to signal what he is willing to pay to satisfy his needs or desires—in short, what the market will bear. Setting prices by state edicts begs for trouble. Menger’s ideas, over time, were elaborated into a broad theory of the economy and society, so that the Austrian School came to signify a defense of individual liberty and an indictment of statism and central planning.

The early Austrians, such as Menger, Friedrich von Wieser and Eugen von Böhm-Bawerk, held prominent posts at the University of Vienna or in the Austro-Hungarian government. But World War I was an “unmitigated disaster” for their circle, the author writes. The empire collapsed. Horrible wartime losses traumatized the Austrian population. The Bolsheviks had gone home,

but their ideology remained. The once liberal city became a “red and black” Vienna of contending Marxists and National Socialists.

Younger disciples of Menger migrated to America and attracted a following to combat the statist tendencies of the New Deal and John Maynard Keynes. Many “Austrians” had made their reputations by the end of the 1920s, Mr. Wasserman writes. “They developed innovative understandings of business cycles and monetary theory, which gained a wide hearing in the post-World War I and Great Depression periods.” Ludwig von Mises inveighed against governmental attempts to mitigate business cycles, arguing that interventionism is destructionism and that markets, in downturns, if left alone, would make the necessary adjustments. On the monetary front, Friedrich Hayek argued, as Mr. Wasserman puts it, that “changing the quantity of money was a blunt instrument that would only exacerbate existing economic imbalances.”

The Austrians worked to give their ideas a wide circulation. They “cultivated relationships with financial and political elites in chambers of commerce, national banks, and conservative political parties,” Mr. Wasserman tells us. And they “found transnational support at the League of Nations and the Rockefeller Foundation.” After World War II, adherents to Austrian philosophy shaped policy through such institutions as the Mont Pelerin Society and the Rand Corp. and though the General Agreement on Tariffs and Trade, a treaty that lowered barriers to trade and fostered an international order that turned away from beggar-thy-neighbor mercantilism and protectionism.

The Austrian theorists played major roles in think tanks like the American Enterprise Institute, the Cato Institute, the Heritage Foundation and the Hoover Institution. Some achieved individual success. Joseph Schumpeter, a charismatic Austro-Hungarian-born thinker who taught economics at Harvard, famously wrote that economies advance through the “creative destruction” of obsolescent enterprises. The free-market television lectures of Chicago’s Milton Friedman—best known academically for his advocacy of steady-state money creation and floating exchange rates—were a hit with the public. Austrian-born Gottfried Haberler at Harvard pushed economic globalization to great effect. Von Mises, one of the early Austrians, taught at NYU, wrote extensively, mentored young economists and, through his free-market concepts, became a patron saint to modern libertarians.

Perhaps the greatest Austrian was Hayek, who provided a motto: “Nobody can be a great economist who is only an economist.” Accordingly, he wrote one of the most influential books of political philosophy of the post-World War II era, “The Road to Serfdom.” The University of Chicago Press published it in 1944. Writes Mr. Wasserman: “Within a year of its appearance, Hayek was a celebrity and *Road* a sensation.” Reader’s Digest printed a condensed version, exposing it to millions of readers.

The book arrived at a crucial stage of World War II, when Nazi Germany was an enemy and the Soviet Union was an ally. Mr. Wasserman writes that “Hayek offered a narrative for the rise of Nazism that identified socialism as its producer and liberalism as the bulwark against totalitarianism.” It was a defense of “liberal, capitalist society,” private property and laissez-faire economics.

Hayek’s outlook—given eloquent expression in “The Constitution of Liberty” and “The Fatal Conceit,” among many other books—has proved to be of lasting importance. At the core of his philosophy was a defense of “spontaneous order,” the idea that individuals acting independently

will arrive at arrangements that are more beneficial to society, and to themselves, than any central authority, acting with incomplete knowledge, can ever achieve.

By the end of the century, the Austrian School had prevailed. The Russian socialist empire disintegrated in 1991, to be replaced by a form of “wild east” capitalism. Deng Xiaoping folded up Maoist socialism in 1979 in favor of Western capitalist investment. Ironically, a prominent socialist writer, Robert Heilbroner, wrote the epitaph: “The contest between socialism and capitalism is over; capitalism has won.”

But he may have been premature. Socialism’s egalitarian claims remain seductive. They have re-emerged in the Green New Deal, which proposes government takeovers of key sectors of the economy in the name of “environmentalism.” It is getting at least lip service from most of the contenders for the Democratic Party’s presidential nomination, despite its absurdities. Indeed, a quasi-socialist creed seems to govern many of the ideas now germinating in the Democratic Party—radical wealth distribution, ever larger entitlements, government-run health care, income guarantees. Mr. Wasserman has picked an excellent time to rediscover the teachings of the “marginal revolutionaries” of the Austrian School and the safer world their advocacy of economic freedom has given us.