

REBUILDING THE LIBERAL PROJECT

In meeting the challenges for liberalism in the 21st century, we must insist that liberalism is liberal in thought, word and deed, argues **Peter J. Boettke**

We must make the building of a free society once more an intellectual adventure, a deed of courage. What we lack is a liberal Utopia . . . truly liberal radicalism. . . . The main lesson which the true liberal must learn from the success of the socialists is that it was their courage to be Utopian which gained them the support of the intellectuals. . . . Unless we can make the philosophical foundations of a free society once more a living intellectual issue, and its implementation a task which challenges the ingenuity and imagination of our liveliest minds, the prospects of freedom are indeed dark. But if we can regain that belief in the power of ideas which was the mark of liberalism at its greatest, the battle is not lost (Hayek 1949).¹

Liberalism is in need of renewal. Too much time and effort has been put into repackaging and marketing a fixed doctrine of eternal truths rather than rethinking and evolving to meet new challenges. True liberalism today faces a serious problem from ideas emerging from a new generation of socialists on the left and from conservative movements on the right, some of which claim to follow liberalism's own time-honoured teaching about the sanctity of private property rights and freedom of association.² Both sides are fuelled by populist rhetoric and disillusionment born of discomfort from having to adapt to an ever-changing globalised world.

The challenges of a globalised world are not new, just as fear of the 'other' is not a new challenge to true liberalism. As Hayek pointed out

repeatedly, the moral intuitions that are a product of our evolutionary past, which are largely in-group morals, often conflict with the moral requirements of the great globalised society.³

We, as true liberal radicals—and in our capacity as scholarly students of civilisation, as teachers of political economy and social philosophy, and as writers and public intellectuals—must aid in the cultivation of more mature moral intuitions if the great benefits of the globalised society are to be sustained.⁴ Left and right populism agitates against such an effort at cultivating the sensibilities of the cosmopolitan liberal, and instead promotes parochial and in-group political thought and action. And both left and right populism is based on poor economic reasoning.

The contemporary arguments deployed identify with traditional criticisms of the market economy based on inefficiency, instability and injustice but, as in the past, cannot correctly identify the sources of those social ills in the existing reality of our times. Just as the great economic voices of the post-WWII era such as Hayek, Friedman and Buchanan had to counter these arguments



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with careful research and effective prose, so too must the current generation of true liberals if there is to be scientific progress, scholarly wisdom and practical sanity in addressing the social ills of our times.

The populist threat to a free and peaceful society

In the US and the UK, the populist threat can be seen on both the left and the right as evident in the rhetoric of Bernie Sanders and Jeremy Corbyn, respectively, and the populist electoral events of 2016 in the victory of Donald Trump in the US Presidential race as well as the Brexit vote in the UK.

Being anti-establishment should never be enough to bring intellectual joy to a true liberal.⁵ The progressive elite establishment in Western democracies has indeed, as Hayek said in his Nobel Prize address, ‘made a mess of things’ with economic policy, and with legislation that has undermined the rule of law.⁶ True liberals must be vociferous critics of the intellectual errors committed by the progressive elite, and the empirical consequences that such errors have brought in their wake.

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True liberal radicalism has always pulled on the nostril hairs of the pretentious and arrogant in positions of power who thought they could choose better for others than they could for themselves. Adam Smith, for example, warned that:

The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would no-where be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.⁷

In this century, Ludwig von Mises was quick to remind his audience that: ‘It is impossible to understand the history of economic thought if one does not pay attention to the fact that economics as such is a challenge to the conceit of those in power.’⁸ And, of course, Hayek diagnosed the consequences of *The Fatal Conceit*.⁹

True liberalism is a subtle and nuanced expert critique of the rule by experts. It uses reason, as Hayek put it, to whittle down the claims of Reason. If liberalism is not successful in this effort to expose the pretence of knowledge, then those experts risk becoming tyrants over their fellows and destroyers of civilisation.¹⁰

The populist critique of the establishment elite is not what constitutes the threat to a free society. It is the specifics of the populist program of inward-looking policies—of economic nationalism—that seek to erect barriers to trade, association, productive specialisation, and peaceful social cooperation among dispersed and diverse individuals scattered near and far.

The true liberal mindset, on the other hand, is one of cultivating and unleashing the creative powers of the free civilisation. It celebrates human diversity in skills, talents, attitudes and beliefs, and seeks to learn constantly from this smorgasbord of human delights in all things large and small, from different recipes to fine arts to fundamental beliefs and attitudes about the most sacred.¹¹

Liberalism is in theory and practice about emancipating individuals from the bonds of oppression. In doing so, it gives individuals the right to say NO.¹² But while saying NO is critical to being able to break relationships of dominion, the positive program for liberalism is in creating greater scope for mutually beneficial relationships and thus opening the possibility for free and willing YESs in all acted-upon social engagements.

Economic liberalism was an argument grounded in the mutual gains from association that could be realised with individuals of great social distance from each other, and in fact benefiting from cooperation with strangers as well as friends, and furthermore, expanding the scope by which strangers are turned into friends through mutually beneficial commercial relationships. The liberal argument was based in part in the *doux-commerce* thesis, which is as much

about civility and respect as it is about efficiency and profit.¹³

The liberal acknowledges the right of others to hold parochial attitudes in their restricted sphere and the right to say NO to potential relationships of mutual cooperation, but true liberals also recognise that this can only be possible within a framework of cosmopolitan liberalism. Saying NO in that context entails a cost that must be paid by the individual or group turning inward. They will bear the cost of foregoing the mutual gains from exchange and thus the benefits of productive specialisation and peaceful social cooperation with others.

If, on the other hand, parochial attitudes grasp hold of the framework—which is what is currently at risk with this current populist threat—then those in power end up saying NO for the individual, and the creative powers of the free civilisation will be curtailed and the growth of knowledge and wealth will be equally stunted. Parochialism kills progress by forcing attention in-group, rather than allowing, let alone, enabling individuals in their quest to seek new ways to learn and benefit from others. Turning inward means turning away from pursuing productive specialisation and peaceful social cooperation in the global marketplace.

'The goal of the domestic policy of liberalism', the great economist and social theorist Ludwig von Mises wrote in *Liberalism*

is the same as that of its foreign policy: peace. It aims at peaceful cooperation just as much between nations as within each nation. The starting point of liberal thought is the recognition of the value and importance of human cooperation, and the whole policy and program of liberalism is designed to serve the purpose of maintaining the existing state of mutual cooperation among the members of the human race and of extending it still further. The ultimate ideal envisioned by liberalism is the perfect cooperation of all mankind, taking place peacefully and without friction. Liberal thinking always has the whole of humanity in view and not just parts. It does not stop at limited

groups; it does not end at the border of the village, of the province, of the nation, or of the continent. Its thinking is cosmopolitan and ecumenical: it takes in all men and the whole world. Liberalism is, in this sense, humanism; and the liberal, a citizen of the world, a cosmopolite.¹⁴

True liberal radicalism has *nothing* in common with populist movements except a critique of the progressive elite establishment that has ruled the intellectual and policy world since WWII.

So how can there be any confusion on the relationship between liberalism and populism? True liberal radicalism has *nothing* in common with populist movements except a critique of the progressive elite establishment that has ruled the intellectual and policy world since WWII. This liberal critique of the progressive elite is grounded in sound economics and the grand and honourable tradition of political economy. It is not born in disillusionment and angry frustration.

Liberalism is liberal

There is a multiplicity of reasons why the liberal espouses virtues of openness, of acceptance, of above all else *toleration*. As Mises wrote in *Liberalism*, 'what impels liberalism to demand and accord toleration is not consideration for the content of the doctrine to be tolerated, but the knowledge that only tolerance can create and preserve the condition of social peace without which humanity must relapse into the barbarism and penury of centuries long past'.¹⁵

Of course, Mises also argued that liberalism must be intolerant of intolerance. Those who seek to express their convictions through violence and disturbance of peace must be rebuked. The answer, however, is to be found in the liberal principle of tolerance and the free flow of ideas and beliefs. If the liberal principle of toleration makes it impossible to coerce others into one's cause, it also makes it impossible for other causes to coerce you. Even zealots, Mises reasons, must concede this point.

Serious thinking by true liberal radicals must emphasise the *positive* aspects of human sociability, of cooperation with those of great social distance, and of the civilising aspects of commerce. The *doux-commerce* thesis from Voltaire, Montesquieu and Smith needs modern advocates in addition to scholars like Deirdre McCloskey¹⁶ who will address the questions of globalisation, immigration, refugees, and the possibility for mutually beneficial exchange with those who think differently, worship differently and live differently than you, as well as the nuts and bolts issues that are tied up with worldwide commerce in monetary policy, fiscal policy and international law.

The atomistic model of man—the caricature of neoclassical economics—has nothing to do with liberalism as understood by the classical political economist.

Our modern understanding of the technical economics, structural political economy and deeper moral philosophy of Adam Smith is so flawed that such a basic common concern of the Scottish philosophers—that of creating the institutional conditions for a civil and compassionate society—is lost in the rendering. Hume's focus on private property, the transfer of property by consent, and the keeping of promises through contract are not rules that only benefit one segment of society at the expense of others, but instead form the general foundation for civil society and peaceful social cooperation.

Smith's analysis of the wealth of nations is not ultimately measured in trinkets and gluttonous acts of consumption, but by a rising standard of living that is shared by more and more of the general population. It is an empirical matter as to which set of institutions best achieves that task. But the concern with raising the living standards of the least advantaged in society is never far from view in any careful reading of liberal political economy from Adam Smith to Vernon Smith. The atomistic model of man—the caricature of neoclassical economics—has nothing to do with liberalism as understood by the classical political economist or

the modern descendants of the mainline of political and economic thought.

Classical liberal political economists treat the individual not as atomistic, but as embedded within social settings—in families, in communities, in history. Yes there is both the self-interest postulate and the invisible-hand theorem, but these are not understood as the conventional critic wants to present them. The mainline of economic thought from Smith to Hayek has a rational choice analytical structure to the questions of the logic of choice, but it is rational choice for mortals, not robots. And there are invisible hand processes discussed throughout the various works, but they depend on an institutional context to provide the filter processes which dictate the equilibrating tendencies exhibited. In short, the mainline of political economy from Smith to Hayek is one that does rational choice as if the choosers are human, and institutional analysis as if history mattered. No atomistic, ego-centric, prudence only analysis is to be found in this work properly read.¹⁷

Furthermore, this mainline of political economy approach, while rejecting the moral claims to resource egalitarianism, is firmly grounded in analytical egalitarianism. Anyone who challenges the analytical egalitarian perspective is subject to scorn by Smith—for example, his proposition that the only difference between the philosopher and the street porter is in the eyes of the philosopher, or his warning cited earlier about the statesman who attempts to out-guess the market would not only assume a level of responsibility he is incapable of judiciously exercising, but also would be nowhere as dangerous as in the hands of a man who thought himself up to the task.

Hume and Smith presented a structural argument in political economy intended to discover a set of institutions where bad men could do least harm if they were to assume positions of power. As Hume put it, when we design institutions of governance we must presume that all men are knaves. And in a move that anticipated the modern political economy of both Hayek and Buchanan, Smith basically argued that our knavish behaviour manifests itself in either arrogance or opportunism.

The emphasis so far has been on the restraints that classical liberals hoped to establish on the abuse

of power by political elites. However, it is just as important to stress the emancipatory aspect of the doctrine as well.

As Hayek writes in his essay ‘Individualism: True and False’,¹⁸ Smith and other classical liberal political economists were concerned ‘not so much with what man might occasionally achieve when he was at his best but that he should have as little opportunity as possible to do harm when he was at his worst.’ Hayek continues:

It would scarcely be too much to claim that the main merit of the individualism which he and his contemporaries advocated is that it is a system under which bad men can do least harm. It is a social system which does not depend for its functioning on our finding good men for running it, or on all men becoming better than they now are, but which makes use of men in all their given variety and complexity, sometimes good and sometimes bad, sometimes intelligent and more often stupid.

And he concludes, ‘Their aim was a system under which it should be possible to grant freedom to all, instead of restricting it, as their French contemporaries wished, to “the good and the wise”.

The liberal vision throughout its history has sought to find a set of institutions that would produce a society of free and responsible individuals, who have the opportunity to participate and prosper in a market economy based on profit and loss, and who live in, and are activity engaged in, caring communities.¹⁹

This ultimately is an empirical question. Empirical questions cannot be answered philosophically, but only through careful and thorough scholarship. Compassionate concern for the least advantaged must always be disciplined by analysis of how the institutional environment within which we live together structures the incentives people face in making decisions, and mobilises the dispersed information throughout the social system that must be utilised in making decisions and learning from social interaction.

Liberalism constitutes an invitation to inquiry into the rules of governance that enable us, as fallible

but capable human beings, to live better together; to realise the gains from social cooperation under the division of labour. True liberal radicalism exalts liberal virtues, and those liberal virtues undergird the institutions of liberal political economy.

Populist critique of the Establishment

The rise of populist critique of the status quo in our time has multiple reasons—some in deep-rooted cultural frustration and disillusionment with the American dream, others in frustration with policy choices that have made the perception of their lives less prosperous and less secure. To address a problem requires the admission of a problem. Pointing out that these perceptions might not be the reality—while important facts to get right—is perhaps not the most productive response. If problems exist, we should look for the institutional reasons. Institutional problems demand institutional solutions, and liberal political economy has institutional solutions to offer.

The problem with the establishment elite in the democratic West is that the answer to social ills has been more government programs run by a trained policy elite largely immune from democratic feedback.

The problem with the establishment elite in the democratic West is that the answer to social ills for over a century has been more government programs, and specially more government programs run by a trained policy elite who were largely immune from democratic feedback from the very populations these programs were designed to assist.

Vincent Ostrom in *The Intellectual Crisis of American Public Administration* (1973)²⁰ detailed the transformation from democratic administration to bureaucratic administration during the Progressive Era. With this basic philosophical shift also came an institutional shift as not only did the Progressive Era see the rise of the regulatory state, but also the rise of the administrative state, and in particular independent regulatory agencies with trained experts at the helm.

More recently, David Levy and Sandra Peart argue that this demand for, and more importantly

claim to, expert rule resulted in an argument for the *Escape from Democracy* (2017).²¹ The consequences, as Hayek identified in his Nobel address and discussed earlier in this essay, were significant for the self-understanding of political economy, and the practical affairs of public policy and economic performance.

Unfortunately, the critique of the liberal order that the progressives peddled to justify the shift from democratic administration to bureaucratic administration was treated by intellectuals as separate and as such to be acceptable even if the proposed solution of expert rule was disappointing. The capitalist system was responsible for instability through industrial fluctuations, inefficiency through monopoly and other market failures, and injustice through income inequality and unfair advantages due to the accumulation of wealth.

This growth of government leads to the erosion of a contract-based society and to the rise of a connection-based society, entailing the entanglement of government, business and society.

So today we find ourselves in a strange position where the populists are critiquing expert rule, but believe what the experts told them were the problems that plagued society and resulted in their disillusionment with the promise of progress.

The populist rhetoric argues that industrial workers are displaced by machines and lower cost foreign labour whether through firms relocating overseas or immigrants competing with them in the domestic labour market. And not only do these immigrants cut into their standard of living; a subset of them, we are told, are criminals and terrorists who threaten their very safety and the safety of those they love.

The populist rhetoric argues that the middle class and working class population have been made to suffer through the irrational speculation of the investment bankers, which destroyed the livelihood, homes and communities of ordinary citizens. The world as we know it, they are told from various corners, is one of a privileged few, where monopoly power dictates the prices they have to

pay and monopsony power limits the wages they can reasonably expect from the market.

In populist economic nationalism—of both left and right—only government intervention can serve as the necessary corrective. We must restrict the free flow of capital and labour, we must counter monopoly power, and forcibly raise wages. Yet the populist criticises the establishment elite in public policy while advocating an increased role of the government and its agencies to counter the social ills of instability, inefficiency and inequality.

There is a fundamental contradiction in the populist critique of the establishment, both left and right, which is that government is failing them, but it is failing as it grows larger in scale and scope of activities. Yet precisely because it is failing, it must grow in scale and scope to address the failure.

Governments everywhere in the democratic West have grown bloated, and have deviated significantly from any constitutional principles of restraint. The progressive elite's critique of capitalism was grounded in a fear of the unhampered predatory capability of powerful private actors, but to curb private predation they enlisted a powerful centralised public authority. In doing so, they enabled the possibility of wide-scale public predation. But while it may be acknowledged at different times that the social ills that plague society manifest in public debt and inflation, they are tied less to over-regulation, over-criminalisation, over-militarisation and so on, which are other manifestations of an ever-expanding scale and scope of governmental authority in the lives of citizens throughout the democratic world.

The truth is that the social ills that are faced throughout the world can be traced to this growth of government, which leads to the erosion of a contract-based society and to the rise of a connection-based society, entailing the entanglement of government, business and society.

We have policies that don't promote competition, but instead protect privileged individuals and groups from the pressures of competition. We have financial institutions that have been able to privatised their profits while socialising their losses. We have governments (and their service agents) at the local to the federal level that face extremely soft budget constraints in fiscal decisions precisely because the monetary system imposes weak to non-

existent constraints. Government over-reaches and over-steps everywhere and in everything so that pockets of liberalism provide growing freedom on some margins while ‘the road to serfdom’ is literally being manifested on other margins—such as mass incarceration in the US and the biases evident in the criminal justice system. Again, government fails because it grows, and it grows because it fails.

The reconstruction of the liberal project must begin with a recognition of these problems. Under the influence of the progressive elite, democratic countries have asked too much of government and in the process crowded out civil society and constrained the market society.

An answer is to be found in mechanisms to once more restrain the predatory capabilities of the public sector and unleash the creative entrepreneurship of the private sector. In the debate, this can be accomplished to some degree by convincing those in the progressive elite as well as those on the populist left and right that to engage in rigorous comparative institutional analysis we must recognise that we are dealing not only with erring entrepreneurs but also with bumbling bureaucrats. The main institutional differences are that erring entrepreneurs pay a price for their failures, and they either adjust in response or some other entrepreneur will enter to make the right decision.

There is no direct analogue with respect to the bumbling bureaucrat. Public sector activity seemingly just repeats the same errors over and over again, yet with expectation of different results. Not much learning going on in that, at least not much learning if the ultimate goal of ameliorating or eradicating the social ill targeted is to be achieved. This is most evident in military affairs, but also in other ‘war’ metaphors deployed from the ‘War on Poverty’ to the ‘War on Drugs’ to the ‘War on Terror’. It truly is the case that ‘War is the Health of the State’, but these ‘Wars’ are definitely not a reflection of true liberal radicalism.²² Militarism, even in metaphor, is at odds with liberalism.

Cosmopolitanism as an answer

My answers to our current challenges are simple. Let’s begin at the beginning—which for the liberal is basic human equality. We are one another’s equals. There should be no confusion on this point. And if

you are advocate of liberalism and you find yourself ‘standing’ (metaphorically or literally) alongside anyone asserting the superiority of one group over another you should know you are in the wrong crowd and you need to move in opposition quickly to leave no doubt in their or others’ minds.

Liberalism is liberal. It is an emancipation philosophy, and a joyous celebration of the creative energy of diverse people near and far. The liberal order is about a framework of rules that cultivates that creativity and encourages the mutually beneficial interaction with others of great social distance—overcoming such issues as language, ethnicity, race, religion and geography.

We are fallible but capable human choosers, and we exist and interact with each other in a very imperfect world. No one of us, let alone any group of us, has access to the truth from the Almighty Above, yet we are entrusted to find rules that will enable us to live better together than we ever would in isolation. We bump into each other and we bargain with one another to try to ease the pain of bumping or to avoid bumping in the future.²³ But we must recognise that despite our basic human equality, we argue and we don’t naturally agree with one another about how we are to live our lives.

Liberalism is liberal. It is an emancipation philosophy, and a joyous celebration of the creative energy of diverse people near and far.

So in our bumping and bargaining with one another, it is critical to keep in mind that we will soon face severe limits on what we can agree on.²⁴ In particular, we have little hope of coming to an agreement among dispersed and diverse individuals and groups over a scale of values, of ultimate ends that we *should* pursue. As Hayek put it in *The Road to Serfdom*: ‘The essential point for us is that no such complete ethical code exists. The attempt to direct all economic activity according to a single plan would raise innumerable questions to which the answer could be provided only by a moral rule, but to which existing morals have no answer and where there exists no agreed view on what ought to be done.’²⁵

So if we rule out as impossible an all-inclusive scale of values on which we can agree, rather than seeking agreement on the ends to be pursued, our discussion will be limited to a discussion of the *means* by which a diversity of ends can be pursued within society. We can, in essence, agree to disagree on ultimate ends, but agree about the way we can acceptably engage with one another in disagreement. We are, after all, one another's equals, and each of us must be accorded dignity and respect as capable architects of our own lives. The liberal virtues of respect, honesty, openness and toleration all entail a commitment to a way of relating to one another, not necessarily a commitment to agreement with one another about sacred beliefs or lifestyle choices, or what commodities we desire, or what occupation we want to pursue.

True liberal radicalism is about the *framework* within which we interact. The most critical aspect of a viable framework for liberal society is that it can balance contestation at all levels of governance with the necessity of organising collective action so as to address troubling issues that cannot be adequately addressed through individual action.²⁶

True liberal radicalism is about the framework within which we interact.

Let me unpack that sentence. The first task in thinking through a viable framework is to determine what problems demand collective action, and what problems can be addressed by alternative forms of decision making. One of the great insights of Buchanan's theory of public finance was that *any theory* of public finance—whether classical liberal, progressive elite, or socialist planner—had to posit a basic political philosophy for no other reason than public finance is premised on some answer to the question of the appropriate scale and, more importantly, scope of governmental action.

Questions of the scale of government are not invariant with respect to questions of scope. As Keynes once remarked, you cannot make a fat man skinny by tightening his belt. Scope is about the range of responsibilities of government, scale is about the size of the governmental unit. The

growth of government discussed earlier is primarily targeted at scope, but that in turn is reflected in scale. This expansion of scale and scope has pushed politics in the democratic West beyond the limits of agreement, and that explains both the dysfunctions and the disillusionment.

Questions of scope are philosophical as well as practical. But though philosophical, there is an institutional component due to the very fact that even wishful thinking must be operationalised in practice, and that requires institutions and organisations. The delineated scope of authority for the different units of government should match the externality the collective action is intended to address. To put this in the most commonsense way, we don't need the federal government to decide how to collect our garbage, and we probably shouldn't expect the local mayor to design a defence system against a nuclear attack.

Assuming we have solved these two structural problems of government—general rules to which we agree on how we relate to one another in our interactions as neighbours, and the delineated scope of responsibility and authority between local, state and federal governments—we still have the problem of learning how to match citizen demand, expressions of voter preferences, and governmental policies and services. We have to postulate some *mechanism* for learning within the liberal order of politics that corresponds to the process that was identified within the marketplace. How do we get a sort of *learning liberalism* within this general structure?

In the marketplace, learning is guided by prices and disciplined by profit and loss accounting, but it is fuelled by the rivalrous competitive process where one can be sure that if A doesn't adjust their behaviour to learn from previous missed opportunity to realise the gains from trade or to realise the gains from innovation, then B will gladly step in to take their place. Can we get such contestation in the political process? It's not just a matter of contested elections, but contestation throughout the governmental process of service production and distribution. We cannot answer these questions without addressing the supply and demand of public goods, and thus the political process within democratic society.

The frustrations with the establishment elite are as deep-seated for the true liberal radical as they are for the populist on the left or right. The status quo is neither desirable nor sustainable. The diagnosis of the reasons why the establishment elite has failed differ between the liberal and the populist, but the critique of expert rule is an area of overlap.

The liberal project has a history that stretches back centuries, and the true radical liberal has always been frustrated. Constitutional constraints bend when they are meant to pinch, especially in times of war. Delineated authority and responsibility is violated all the time, and not always due to the unwarranted interference of the federal into the affairs of the local, but in response to the state elected official strategically interacting with duly elected officials from other states to form a political cartel to benefit local interest groups at the expense of the general population.

Hayek asked his audience in 1949 to allow themselves to be Utopian, and I think that is correct. We need to envision a liberal system that respects the general rules of engagement, but structures an intense and constant competition between governmental units. Bruno Frey (2001)²⁷ presented a vision of government without territorial monopoly. His idea of overlapping competing jurisdictions may be one such idea of how to cultivate a learning liberalism. Work by Edward Stringham (2015)²⁸ provides another vision, and Peter Leeson (2014)²⁹ yet another.

What is common among all of these writers is that they offer arguments and evidence related to the operation of institutions and in particular the processes by which self-governance performs not only better than you think, but in many instances better than any reasonable approximation for how traditional government would perform in the circumstances described.

Hayek throughout his career proposed a series of institutional suggestions to bind monetary authority from engaging in the manipulation of money and credit, only to be met with frustration as his suggested method proved ineffective against the governmental habit. Perhaps then in the supply and demand of governmental goods and services, the governmental habit as well is a source of instability, inefficiency and injustice, and thus frustration. If

so, the reconstruction of the liberal project in the 21st century may need to turn to utopian visions as laid out by the writers mentioned above.

A humane liberalism, as well as a robust and resilient liberalism, may find its ability to be operationalised in an institutional structure of overlapping competing jurisdictions, and in a public discourse that respects the limits of agreement on ultimate values but insists on a general framework that exhibits neither discrimination nor dominion.

Liberalism is liberal. But to realise liberalism it has to be institutionalised. That means a general structure of government has to be at the forefront of the conversation.

Conclusion

Liberalism is liberal. But to realise liberalism it has to be institutionalised. That means a general structure of government has to be at the forefront of the conversation. And that conversation is aided by the consequentialist reasoning of the discipline of political economy. What we have learned from this discipline is that there are great gains from pursuing productive specialisation and peaceful cooperation among dispersed and diverse individuals. The greater the social distance the more benefits we can realise in exchange, but also the more difficult to realise that exchange given transportation costs, communication costs and cross-cultural costs.

In short, transaction costs were high, so the great expansion of wealth in the modern world was due to institutional changes that lowered transaction costs and made possible the development of exchange relations with distant others (distant due to social factors or geographic reasons). Liberalism was one of the main vehicles that made that lowering of the costs of exchange a reality. Its doctrines celebrated trade, gave individuals decision rights over resources, freed individuals from the bonds of serfdom, and separated science from religious dogma. It was a slow and onerous process, and liberalism certainly wasn't consistently applied. But the spread of these ideas resulted in the unleashing of the creative powers of people across the globe.

Despite the obvious frustrations with the establishment elite, it is a simple fact that 2016 was the first year in recorded human history when less than 10% of the world's population were living in extreme poverty. This was realised in spite of the establishment elite's policies, and instead was due to the power of economic liberalism even when restricted and constrained. Smithian trade and Schumpeterian innovation simply offset and pushed ahead of the obstructions of government stupidity.³⁰ As Joel Mokyr likes to point out,³¹ there are tail winds and head winds, and as long as the tail winds are stronger than the head winds, progress is inevitable. Liberalism provides those tail winds.

Populism is illiberal. It is discriminatory, and it seeks not to limit power but to put different people in power.

The challenge for liberalism in the 21st century is the same as in the past—there will be conservative forces that provide the head winds. These conservative forces come in the form of the entrenched interests of the status quo establishment elite, and the populist movements on the left and the right who, while criticising the establishment, demand simply more of the same policies just in greater proportion—more government intervention, more regulation of industry, more restrictions on the movement of people, more restrictions on the flow of capital, and so on.

There can be no alliance between the liberal and the populist precisely because populism is illiberal. It is discriminatory, and it seeks not to limit power but to put different people in power. The natural ally of populism is planning and militarism.

It has fallen on the current generation of true radical liberals to stand up against the threats to basic human equality, to stand up against intolerance, to fear, to meddlesomeness. We must embrace Hayek's challenge and explore the philosophical foundations of a free society with a renewed excitement and invitation to inquiry. And we must, above all else, insist that liberalism is liberal in thought, in word and in deed.

Endnotes

- 1 F.A. Hayek, 'The Intellectuals and Socialism', *The University of Chicago Law Review* 16:3 (1949), 433.
- 2 It is important to note that true liberalism differs greatly from the rhetoric of 'litmus test' libertarianism, which is particularly unhelpful for thinking about what rules of social interaction enable us to live better together than we ever could in isolation. For a critique of what I call the error of 'litmus test' libertarianism, see Peter J. Boettke, 'True Liberalism is About Human Compassion' (Foundation for Economic Education, 10 November 2017), <https://fee.org/articles/true-liberalism-is-about-human-compassion/>
- 3 See appendix in F.A. Hayek, *Law, Legislation and Liberty*, vol. 3 (Chicago, IL: University of Chicago Press, 1979).
- 4 See James Buchanan's address to the Mont Pelerin Society on 'The Soul of Classical Liberalism'. These calls are not for a change in human nature, but for a cultivation of an understanding and appreciation of how a change in the rules that govern social intercourse can channel our behaviour into productive and peaceful interactions. J. Buchanan, 'The Soul of Classical Liberalism', *The Independent Review* 5:1 (2000), 111-119.
- 5 The anti-globalisation movement of the 2000s and the Occupy Wall Street protests in the wake of the global financial crisis of 2008 reflect the populist left, while the rise of the paleo-conservatives, paleo-libertarians, economic nationalist segments of the Alt Right movement represent the populist right. I am leaving out of the discussion the odious racial politics that is also intermingled here in the populist discussions of the US and in Europe concerning immigration, refugees and public policy.
- 6 See F.A. Hayek, 'The Pretence of Knowledge', *American Economic Review* 79:6 ([1974] 1989), 362.
- 7 Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: George Routledge and Sons, 1776), 478.
- 8 L.M. Mises, *Human Action* (Auburn, AL: The Ludwig von Mises Institute, [1949] 1998), 67.
- 9 F.A. Hayek, *The Fatal Conceit: The Errors of Socialism*, The Collected Works of F.A. Hayek, edited by W.W. Bartley, III (Chicago, IL: University of Chicago Press, 1988).
- 10 Hayek, 'The Pretence of Knowledge', 7.
- 11 I still find one of the most persuasive statements of the underlying attitudes of a liberal society to be Steve Macedo's *Liberal Virtues* (1990), and of the institutional infrastructure that might follow to be Chandran Kukathas, *The Liberal Archipelago* (2003). The cultivating of mutual respect and dignity accorded to each that a liberal order must entail does, as my colleague Tyler Cowen argued in *Creative Destruction* (2002), turn on the homogeneity of some beliefs at the rules level of analysis while the celebration of heterogeneity at the within rules level. It is a question ultimately of the relevant margins that enable the operationalisability of cosmopolitan liberalism. S. Macedo, *Liberal Virtues: Citizenship, Virtue and Community in Liberal Constitutionalism* (Oxford: Oxford University Press, 1990); C. Kukathas, *The Liberal Archipelago: A Theory of Diversity and Freedom* (Oxford: Oxford University Press,

- 2003); T. Cowen, *Creative Destruction: How Globalisation is Changing the World's Cultures* (Princeton, NJ: Princeton University Press, 2002).
- 12 D. Schmidtz, *The Elements of Justice* (Cambridge: Cambridge University Press, 2006).
 - 13 The work of my colleague Virgil Storr (2008) has developed this core thesis of liberal political economy in new and fascinating ways, and in the process drawing our methodological and analytical attention to foundational issues in the cultural science. V. H. Storr, 'The Market as a Social Space: On the Meaningful Extraeconomic Conversations that can occur in Markets', *The Review of Austrian Economics* 21:2-3 (2008), 135-50. See also V. H. Storr, *Understanding the Culture of Markets*, Foundations of the Market Economy, edited by M. J. Rizzo and L. H. White, vol. 31 (New York, NY: Routledge, 2012).
 - 14 L. M. Mises, *Liberalism* (Irvington, NY: The Foundation for Economic Education, ([1927] 1985), 76
 - 15 As above, 34.
 - 16 Deirdre McCloskey, *Bourgeois Virtues: Ethics for an Age of Commerce* (Chicago: University of Chicago Press, 2006); *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (Chicago: UCP, 2010) and *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World* (Chicago: UCP, 2016).
 - 17 See P. Boettke, *Living Economics* (Guatemala City, Guatemala: Universidad Francisco Marroquin, 2012); P. Boettke, S. Haefele and V. Storr (eds), *Mainline Economics: Six Nobel Lectures in the Tradition of Adam Smith* (Arlington, VA: The Mercatus Center, 2016); and M. Mitchell and P. Boettke, *Applied Mainline Economics: Bridging the Gap between Theory and Public Policy* (Arlington, VA: The Mercatus Center, 2017).
 - 18 F.A. Hayek, 'Individualism: True and False', reprinted in *The Collected Works of F. A. Hayek, vol. 13* (Chicago, IL: University of Chicago Press, [1940] 2010).
 - 19 The liberal vision is often misunderstood even by extremely intelligent folks such as Samuel Freedman (2001) and Jeffrey Sachs (2012). Deirdre McCloskey has done great work in trying to set the record on liberalism straight, but all of us scholars within this tradition must take it upon ourselves to ensure that liberalism is able to be easily understood by folks such as Freedman and Sachs. S. Freedman, 'Illiberal Libertarians: Why Libertarianism is not a Liberal View', *Philosophy and Public Affairs* 30:2 (2001), 105-51 and J. Sachs, 'Libertarian Illusions', *HuffPost* (15 January 2012). For a critique of what I call the error of 'litmus test' libertarianism, see note 2.
 - 20 V. Ostrom, *The Intellectual Crisis of American Public Administration* (Tuscaloosa, AL: University of Alabama Press, [1973] 1989).
 - 21 D. Levy and S. Peart, *Escape from Democracy* (Cambridge: Cambridge University Press, 2017).
 - 22 Among contemporary liberal political economists Christopher Coyne's work on military affairs is in my opinion the most insightful. C. Coyne, *After War: The Political Economy of Exporting Democracy* (Palo Alto, CA: Stanford University Press, 2008); C. Coyne, *Doing Bad By Doing Good: Why Humanitarian Action Fails* (Palo Alto, CA: Stanford University Press, 2013); C. Coyne and A. Hall, *Tyranny Comes Home: The Domestic Fate of US Militarism* (Palo Alto, CA: Stanford University Press, forthcoming).
 - 23 The bumping into neighbours metaphor is from Schmidtz's brilliant *The Elements of Justice* (see note 12), as is the essential issue of the right to say NO to offered terms of exchange.
 - 24 James Buchanan has shown that the 'general welfare' approach to public policy is a nonsensical one throughout his career, beginning in 1949 with his first critique of the 'fiscal brain'. J. Buchanan, 'The Pure Theory of Government Finance', *Journal of Political Economy* 57:6 (1949), 496-505.
 - 25 F. A. Hayek, *The Road to Serfdom* (Chicago, IL: University of Chicago Press, 1944), 101.
 - 26 The troubling issues are the social ills that plague human interactions, such as poverty, ignorance, squalor. But the troubling issue in designing the framework is the potential for the powerful to exert their influence over the powerless and establish rules that provide them with a permanent advantage. So both 'within any system' and 'about any system' of governance we face trade-offs of eliciting agreement and curbing political externalities. If our liberal system of government is to institutionalise our basic human equality in our ways of relating, then it must be designed so that neither discrimination nor dominion is permitted. Various classic works in the analytical tradition of political economy from a liberal perspective have tackled different aspects of these puzzles starting, of course, with F. A. Hayek, *The Constitution of Liberty* (Chicago, IL: University of Chicago Press, 1960); J. Buchanan and G. Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor: University of Michigan Press, 1962); V. Ostrom, *The Meaning of Democracy and the Vulnerability of Democracies: A Response to Tocqueville's Challenge* (Ann Arbor, MI: University of Michigan Press, 1997); and M. C. Munger, *Choosing in Groups: Analytical Politics Revisited* (Cambridge: Cambridge University Press, 2015).
 - 27 B. S. Frey, 'A Utopia?: A Government without Territorial Monopoly', *Journal of Institutional and Theoretical Economics* 157:1 (2001), 162-75.
 - 28 E. Stringham, *Private Governance: Creating Order in Economic and Social Life* (Oxford: Oxford University Press, 2015).
 - 29 P. Leeson, *Anarchy Unbound: Why Self-governance Works Better than You Think* (Cambridge: Cambridge University Press, 2014).
 - 30 See P. Boettke, 'Pessimistically Optimistic' for a discussion of the interplay between Smithian and Schumpeterian forces for optimism and the stupidity of the governmental habit of obstructing the free flow of labour and capital and stifling entrepreneurial creativity and initiative. P. Boettke, 'Pessimistically Optimistic', *The Independent Review* 20:3 (2016), 343-346.
 - 31 J. Mokyr, *A Culture of Growth: The Origins of the Modern Economy* (Princeton, NJ: Princeton University Press, 2016).