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Early History of the Mont Pèlerin Society**

Stefan Kolev, Nils Goldschmidt  
Jan-Otmar Hesse  
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## Walter Eucken's Role in the Early History of the Mont Pèlerin Society

Stefan Kolev<sup>1</sup>, Nils Goldschmidt<sup>2</sup>, Jan-Otmar Hesse<sup>3</sup>

**Abstract** In the history of economic thought Walter Eucken is mostly known for his impact in establishing the Social Market Economy in post-war Germany. Even though there is a growing interest in his ideas especially from an Austrian and a Constitutional Economics perspective, his influence on the discussions within neoliberalism and, more specifically, his impact in the course of the foundation of the Mont Pèlerin Society (MPS) are not yet widely considered. In this paper we attempt to show that Eucken was very influential in the formation of the MPS and that German ordoliberalism had a significant imprint on the early history of the society. It is primarily Eucken's correspondence with F. A. Hayek and Wilhelm Röpke in this context which we present and analyze, complementing it with some hypotheses about early influences between Eucken and Hayek in terms of methodology and epistemology. Subsequently we show, by regarding the first MPS meetings between 1947 and 1949 (general and organizational), that there was – even at this early stage in the development of the MPS – a widening gap between a Continental European and an Anglo-Saxon understanding of neoliberalism, despite the personal friendships and high collegial respect especially between Eucken, Hayek and Röpke; Ludwig von Mises playing a special role in this setting. We illustrate this development also by discussing personal memories of Leonhard Miksch, a student of Eucken and a participant of the MPS meeting in 1949, recorded in his so far unpublished diary.

**Keywords** Neoliberalism, Mont Pèlerin Society, Ordoliberalism, History of Economic Thought, Political and Economic Order, Role of Economists

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<sup>1</sup> S. Kolev, Department of Economics, University of Applied Sciences Zwickau, Dr.-Friedrichs-Ring 2A, D-08056 Zwickau, Germany | Wilhelm-Röpke-Institut, Erfurt, Germany

<sup>2</sup> N. Goldschmidt, Department of Economics / ZöBiS, University of Siegen, Hölderlinstr. 3, D-57076 Siegen, Germany | Walter Eucken Institut, Freiburg, Germany

<sup>3</sup> J.-O. Hesse, Department of History, Philosophy and Theology, University of Bielefeld, Universitätsstr. 25, D-33615 Bielefeld, Germany

## 1. Introduction

Walter Eucken (1891-1950) was the only economist from Germany among the 39 scholars and journalists assembled in the first meeting of the Mont Pèlerin Society (MPS) in April 1947. Given that Wilhelm Röpke emigrated from Germany in early 1933 and worked in Geneva when the first meeting was arranged, and that Karl Brandt, although originating from the Institute of agricultural economics in Berlin, had already taught at Stanford University for a decade, it was Walter Eucken solely representing German liberal economics at that meeting.<sup>4</sup> But Eucken's presence was much more than just participation. As we will show in the following, his reasoning was part of the conception in the minds of Hayek as well as Röpke in preparation of the first meeting of the MPS. Furthermore, in the years until his sudden death in 1950 Eucken gained influence on the organisation's existence as well as its intellectual development. We therefore are of the opinion that via Eucken's influence, German ordoliberalism coined the early history of the MPS, a neglected perspective so far in the literature. To unfold this argument we will proceed as follows: in a first step (chapter 2) we want to describe the personal relationship between Eucken and some core figures of the MPS before the first meeting. The next section (chapter 3) describes Eucken's special influence on the recruitment of German economists for the MPS until 1950 and thus on the early personal evolution of the society. Chapter 4 is dedicated to Eucken's intellectual influences that are more difficult to detect; we attempt to identify them by first analysing the correspondence between Eucken and Hayek in 1945 and 1946 discussing "The Road to Serfdom" and by subsequently reconstructing some influences in the fields of methodology and epistemology (chapter 4.1). As a second path to identifying Eucken's intellectual influences, we compare the papers Eucken and Hayek presented at the first MPS meeting in 1947, setting them in the context of relevant preceding developments (especially linked to Henry C. Simons) and of notable institutional linkages between Eucken and Hayek in the aftermath of the MPS meeting in 1947 (chapter 4.2). Complementing this, we then discuss recently discovered diary notes by Leonhard Miksch, one of Eucken's most important students, who was invited to the MPS meeting in 1949 (chapter 5). In the concluding chapter 6, we outline the continuities and discontinuities that ensued in the relationships among the discussed economists in the decades following Eucken's death in 1950.

## 2. The relationship between Hayek, Eucken and Röpke until 1947

Eucken must have met the eight years younger Hayek at one of the meetings of the Verein für Socialpolitik in the 1920s, these conventions back then being attended on a regular basis by German and Austrian economists alike. For sure they met, at the latest, at the meeting of the Verein in Zurich in 1928, since both of them presented papers in the session on business cycle theory. (Blümle/Goldschmidt 2006) After moving to the London School of Economics and after acquiring a car in the late 1930s, on his "frequent trips between London and Vienna" Hayek "generally avoided visiting Germany and crossed only the southwest corner" (Hayek 1983/1992, 188), but "regularly made a stopover in Freiburg just to visit Eucken and to keep in touch with him." (Hayek 1983/1992, 190) However, correspondence with Eucken to be found in the Hayek Papers starts not before 1939.<sup>5</sup> As to the early period of their association,

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<sup>4</sup> However, also Alexander Rüstow, who had to emigrate to Turkey in the early 1930s, as well as the Munich historian Franz Schnabel were invited but could not attend due to visa problems. (Plickert 2008, 139)

<sup>5</sup> Eucken to Hayek, 27.6.1939, Hoover Institution Archives, Stanford University (hereafter abbreviated as "HIA"), Friedrich A. v. Hayek Papers (hereafter: "FAH Papers"), Box 18, Fo. 40.

the following recollection of Hayek from the 1980s seems worth quoting in length, even though his undated memory on their acquainting with each other via Röpke is difficult to verify:

“It was through Röpke that I came in contact with Walter Eucken in Freiburg. At that time he was not at all well known, but already had great influence among his closer associates. He was probably the most serious thinker in the realm of social philosophy produced by Germany in the last hundred years.” (Hayek 1983/1992, 189)

After the war Eucken was keen to very soon get in contact with Hayek, with whom – after sharing some thoughts on “our fates in Freiburg” having been “very odd”<sup>6</sup> under the “diabolical power system”<sup>7</sup> – he felt united “as non-socialist economists” who “must cooperate across borders”, as he plead in November 1945<sup>8</sup> while inviting Hayek for a lecture at the University of Freiburg.<sup>9</sup> Already in October 1945 Hayek is sharing with Eucken his recent experiences in Switzerland, his intention to visit Freiburg already on that occasion that for the moment was unfortunately unsuccessful and, curiously, that he had very recently talked in Paris with François Perroux and Jacques Rueff about Eucken, as they could be helpful to the latter as influential Paris-based economists and policy consultants, Freiburg being in the French occupation zone.<sup>10</sup> Hayek had reserved a set of all war-time numbers of *Economica* especially for the University of Freiburg, as can be inferred from Eucken’s expressing his gratitude for this in January 1946.<sup>11</sup> Reciprocally, he asked Eucken to send the new edition of his “The Foundations of Economics” and related Freiburg books to him for the LSE library, since to Hayek’s knowledge by early 1946 his 1941 Zurich-transferred copy via Röpke was the only one copy of Eucken’s book in England.<sup>12</sup> Judging from a letter of Röpke to Hayek of late July 1945, Eucken was among the very first persons to whom Röpke had already disclosed his plans to found an international journal on liberal economics, Röpke already mentioning Eucken’s approval to the project when introducing the plan to Hayek in this letter.<sup>13</sup> Eucken was apparently not fully familiar with Hayek’s idea to found an “Acton-Tocqueville-Society” as he had drafted it in August 1945, but it is quite probable that he received basic information on such institutional plans, again from Röpke, by the end of the year 1945, because he assured his support for founding an “international organization of liberals” as early as in his third post-war letter to Hayek in January 1946.<sup>14</sup> The preparation of

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The huge paper collection of Eucken, including the Eucken-Hayek-correspondence, is not yet accessible so that we were not able to double-check for earlier contacts.

We gratefully acknowledge that permission to quote from the correspondence of F. A. Hayek was granted by the estate of F. A. Hayek.

<sup>6</sup> The manifold circles and modes of resistance in Freiburg against the National Socialists are discussed in Goldschmidt 2005. A published letter of Röpke to Eucken from 11.10.45 also sheds some interesting light on their debate as to the relative importance of the resistance within the churches and within the universities. (Röpke 1976, 82-83)

<sup>7</sup> Eucken to Hayek, 12.8.45, HIA, FAH Papers, Box 18, Fo. 40.

<sup>8</sup> Eucken to Hayek, 10.11.45, HIA, FAH Papers, Box 18, Fo. 40.

<sup>9</sup> The request of whether Hayek may visit Freiburg is already expressed in the very first letter Eucken sends to him after the end of the war, Eucken to Hayek, 12.8.45, HIA, FAH Papers, Box 18, Fo. 40.

<sup>10</sup> Hayek to Eucken, 19.10.1945, HIA, FAH Papers, Box 18, Fo. 40.

<sup>11</sup> Eucken to Hayek, 24.1.1946, HIA, FAH Papers, Box 18, Fo. 40.

<sup>12</sup> Hayek to Eucken, 8.2.1946, HIA, FAH Papers, Box 18, Fo. 40.

<sup>13</sup> Röpke to Hayek, 28.7.1945, HIA, FAH Papers, Box 79, Fo. 1.

the first meeting of the MPS was rather vague by that time, as finances collected by Albert Hunold for Röpke's journal had not yet been rededicated to the new purpose and initial meetings had not yet been scheduled. (Hartwell 1995, 29; Plickert 2008, 131)

The acquaintance of Eucken and Röpke must also date back to the early 1920s. Although the correspondence between them in the Röpke papers starts as late as 1942,<sup>15</sup> it can be claimed with certainty that they have met as early as 1924, when the faculty in Jena preferred Röpke vis-à-vis Eucken in an appointment procedure, the former becoming Germany's youngest professor by obtaining a permanent professorship in October 1924 a few days ahead of his 25<sup>th</sup> birthday. (Hennecke 2005, 47-49) After the National Socialists' seizure of power, Röpke had to immediately leave his professorship at the University of Marburg and settled down in Holland, briefly visiting London in June 1933 for meeting Hayek<sup>16</sup> and, interestingly, also Keynes who, as editor of *The Economic Journal* (EJ), endorsed the publication of Röpke's "Trends in German Business Cycle Policy" in EJ's September 1933 volume. (Hennecke 2005, 93-94) Before Röpke's emigration, which in late 1933 led him to Atatürk's Istanbul, Eucken and Röpke had worked together in various circles, most notably in the Verein für Socialpolitik, the Friedrich-List-Gesellschaft and the community of the so-called Ricardians where they both were seen as the liberal pillars of the group (Janssen 2009, 34-48; Köster 2011). The relationship between 1933 and 1945 was a logistically difficult one, the borders of the Third Reich being increasingly closed, what probably hindered Eucken from participating in the Colloque Walter Lippmann in Paris in August 1938. Still, Röpke – being in neutral Switzerland – was of great help to keep the communication with Eucken alive, the correspondence of Hayek and Eucken being often transmitted via Röpke's Geneva until this became too perilous in early 1943. (Hennecke 2000, 155) It is, as briefly mentioned above, via Röpke that Hayek received already in 1941 Eucken's first opus magnum "The Foundations of Economics" of 1940 which made Hayek "realise for the first time what a towering figure Eucken was and to how great an extent Eucken and his circle embodied the great German liberal tradition, which had unfortunately become defunct." (Hayek 1983/1992, 189)

After the end of the war, very active communication began. In a letter to Hayek from July 28 1945, Röpke told Hayek about letters he had recently received from Eucken, writing:

"Recently I got two more letters from Eucken. He tells me that fortunately those three Professors who had been kidnapped by the Gestapo have been miraculously saved and are now back at Freiburg.<sup>17</sup> Eucken seems to be very much depressed by the

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<sup>14</sup> Eucken to Hayek, 24.1.1946, HIA, FAH Papers, Box 18, Fo. 40.

<sup>15</sup> A common problem of the paper collection of both Hayek and Röpke is the moving of these scholars from Vienna-London-Chicago-Freiburg (Hayek) and from Marburg-Istanbul-Geneva (Röpke). The discontinuities in the letters series in the archives and the astoundingly late beginnings of the sequences of letters we have today is most certainly to be attributed to these multiple moves of the families around various countries, which were very difficult in these decades both in terms of logistics and in terms of financial expenses (especially with Hayek's move London-Chicago and Röpke's move Istanbul-Geneva, the former also having his serious family problems to be settled in these very years 1949-1950).

<sup>16</sup> Hayek's own positions in the discourse following the 1933 National Socialists' seizure of power are documented in Caldwell 2007, 3-6.

<sup>17</sup> In an earlier letter to Hayek, Röpke wrote him already of having received a first letter of Eucken with an account on the Gestapo's kidnapping of Constantin von Dietze, Adolf Lampe and Gerhard Ritter, Röpke to Hayek, 22.6.1945, HIA, FAH Papers, Box 79, Fo. 1. Similar account on Dietze, Lampe and Ritter is contained in a (later published) letter of Röpke to Gottfried Haberler of this same 22.6.1945 (Röpke 1976, 81-82).

unbelievable economic chaos in his district. It seems that his main activity now consists in arranging for the most primitive barter trade of tobacco or other things against wheat from Bavaria. But fortunately it seems that he does not despair; that he himself has come through safe during all these years, is truly a miracle.”<sup>18</sup>

Röpke visited Germany for the first time since 1933 in the fall of 1946, his first stop being visiting Eucken’s Freiburg. (Röpke 1976, S. 90-91; Röpke 1950/1959, 374-379; Röpke 1960, 3-19) Eucken was invited to visit Switzerland but formalities were still insurmountable, the visit – apart from the MPS meeting in 1947 – only materialized as late as 1948. The correspondence between the two in the Röpke papers<sup>19</sup> shows very clearly the joint project of resurrecting a favorable climate for liberal economics in the Western zones of Germany. The sudden death of Eucken in March 1950, when giving a cycle of lectures at the LSE upon Hayek’s invitation (the latter already en route to Chicago, as can be traced from the very last exchange of letters from early 1950), terminated an extremely vivid exchange in the triangle Eucken-Hayek-Röpke. It is noteworthy what Hayek wrote in a letter to Ludwig Erhard in June 1950, namely that Eucken’s death was “an irreplaceable loss” and that he hoped the current presence of “my friend” Röpke in Germany<sup>20</sup> might “compensate this at least partially.”<sup>21</sup> Erhard had already written to Hayek in May 1950 that Eucken’s death “has torn such a grave breach in our intellectual ranks.”<sup>22</sup> In this vein, Röpke wrote in April 1950 to Hayek that “Eucken’s death is truly the worst that could have happened to us. I think as you do: we have to close the ranks now even tighter.”<sup>23</sup>

### **3. Eucken’s influence on the personal evolution of the MPS**

The first meeting of the MPS had in fact large impact on the further development of German liberalism. When Eucken was equipped with a new suit by Fritz Machlup’s wife, he mentioned in the letter to thank for the suit that the first meeting “in general brought some men into closer human contact” and he discovered especially “a large factual convergence with her husband.”<sup>24</sup> Hayek remembered decades later that vis-à-vis his “American friends” in 1947 he took a risk and “dared” to invite a German scholar to the founding meeting of such an international society, afterwards realizing that he “had the good luck to find the very person who was the star of the conference”. In Hayek’s eyes, this attempt was a first step (“contributing a little, if I may use this term” (Hayek 1983/1992, 192)) to rehabilitating

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<sup>18</sup> Röpke to Hayek, 28.7.1945, HIA, FAH Papers, Box 79, Fo. 1.

<sup>19</sup> The Wilhelm-Röpke-Institut, Erfurt (N. Goldschmidt and S. Kolev are members of its board) has been successful over the last years to raise funds and to fully digitalize the archival collection of Röpke, the original of which is preserved at the University of Cologne. Currently the finding aid to the digital copy is being compiled.

<sup>20</sup> Röpke was appointed a visiting professorship at the University of Frankfurt during the summer semester 1950 and compiled there an economic policy expertise upon Chancellor Adenauer’s request, assessing the 1948 reforms of Ludwig Erhard and the very early attempts for politico-economic integration in Europe (“Schuman-Plan”), as well as proposing further monetary and trade liberalization measures for the new Federal Republic and commenting on the recently coined and rather controversial term “Social Market Economy”. (Hennecke 2005, 182-186)

<sup>21</sup> Hayek to Erhard, 30.6.1950, HIA, FAH Papers, Box 73, Fo. 25.

<sup>22</sup> Erhard to Hayek, 22.5.1950, HIA, FAH Papers, Box 73, Fo. 25.

<sup>23</sup> Röpke to Hayek, 17.4.1950, HIA, FAH Papers, Box 46, Fo. 43.

<sup>24</sup> Eucken to Mrs. Machlup, 24.4.1947, HIA, Fritz Machlup Papers, Box 36, Fo. 16.

German scholars on an international scene so soon after the end of the war. It was not just Hayek's notion that Eucken had been impressive as personality and as scholar.<sup>25</sup> The imprint which Eucken left particularly on Hayek's American friends was of a truly long duration. In his 1962 classic "Capitalism and Freedom", Milton Friedman refers to Henry Simons and Walter Eucken ("a noted German liberal") as to two of the three authoritative theoreticians when it comes to the treatment of natural monopolies by competition policy. (Friedman 1962/2002, 28) As an anecdote with an even longer persistence, both Friedman and George Stigler remember in their memoirs the scene of how Eucken was sitting in April 1947 at breakfast at the conference Hotel du Parc and the younger Americans were observing "his pleasure at eating the first orange he had seen in seven or eight years." (Friedman/Friedman 1998/1999, 160; similar: Stigler 1985, as quoted in White 2012, 202) In his 1998 recollections of this 1947 conference which, incidentally, was his first travel abroad at all, Milton Friedman's impression of Eucken is worth quoting at length. After the orange anecdote, he wrote:

"More important, he made vivid what it was like to live in a totalitarian country, as well as in a country devastated by war and by the rigidities imposed by the occupying authorities. His courage in resisting the Nazis became legendary. He was a teacher of Ludwig Erhard,<sup>26</sup> and helped inspire Erhard's currency reform in 1948, which initiated what came to be called the German economic miracle. More generally, his theory laid the groundwork for West Germany's 'social market economy'." (Friedman/Friedman 1998/1999, 160)

When Hayek became the first president of the MPS at the first meeting, Eucken was elected as one of three vice presidents.<sup>27</sup> Therefore, Hayek used to consult Eucken on the question who should be invited for becoming member of the society and a vivid correspondence was set in motion on the attitudes and the personal abilities of German candidates considered. Eucken recommended that a rather careful policy be applied in this respect and was afraid that otherwise the aim of the society would be "watered" ("eine Verwässerung eintreten würde").<sup>28</sup>

In the summer of 1947, he suggested inviting only law professor Franz Böhm, his old faculty colleague Constantin von Dietze, entrepreneur Walter Bauer, and his own two pupils, Karl Friedrich Maier<sup>29</sup> and Bernhard Pfister<sup>30</sup>, while "Ihlau" (this probably referred to the

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<sup>25</sup> When writing to Rüstow (who, as mentioned above in fn. 4, could not come to Switzerland for logistical reasons) immediately after the meeting in late April 1947, Röpke described what "a deep and happy impression" Eucken had made on the participants, "recounting in his so honest and clear manner about the German experiences." (Röpke 1976, 96-97)

<sup>26</sup> Friedman probably used the term "teacher" in a wider sense. Erhard, who is only 6 years Eucken's junior, was never a formal student of Eucken. Their manifold relationship is recounted in great detail in Nicholls 1994.

<sup>27</sup> "Memorandum of Association", 9.4.1947, HIA, MPS Box 81, Fo. 1; with J. Jewkes and W. Rappard being the other two vice presidents and A. Hunold and A. Director becoming secretaries. According to official the registration of the MPS as a corporation in the state of Illinois on 6.11.1947, the registered office of the corporation was to be the University of Chicago Law School. In this document, F. Knight and J. Rueff are also nominated as vice presidents, in addition to Eucken, Jewkes and Rappard as stated in the Memorandum of 9.4.1947. (Hartwell 1995, 45)

<sup>28</sup> Eucken to Hayek, 18.7.1947, HIA, FAH Papers, Box 18, Fo. 40.

<sup>29</sup> Karl Friedrich Maier (1905-1993) was, after the chair appointments of Lutz at Zurich and Hensel at Marburg, the only close student of Eucken who permanently remained in Freiburg and was seminal for establishing the Walter Eucken Institut as an institution which sustainably remained dedicated to the spirit and the tradition of the Freiburg School of Economics and Law. (Veit 2008, 173-174)

politician of the Free Democrat Party Hans Ilau (1901-1974)), apparently under consideration by Hayek and Röpke, would be tied too much to party interests – so Eucken’s comment.<sup>31</sup> A year later, he explicitly advised against inviting Alfred Müller-Armack, then professor of economics in Münster, who had already coined the term “Social Market Economy” in 1946, which immediately afterwards had become the important verbal vehicle in the transformation of West Germany to a liberal market society exactly by that time. (Glossner 2010; Nicholls 1994, 120-121; Goldschmidt/Wohlgemuth 2008a) Müller-Armack later became an influential advisor to the German minister of the economy Ludwig Erhard but in April 1948 Eucken doubted “if he as personality can gain an impact among foreign scholars as we aim” and suggested to invite him later, since in principle he agreed with Hayek that Müller-Armack “belongs to our circle”.<sup>32</sup> In the same letter Eucken also voted against the invitation of Per Jacobson, the president of the Bank for International Settlements in Basel, because he had heard that Jacobson recently would “follow a path in economic politics that is completely opposed to our own”. Due to their brave resistance against “the planners” in the German council of economic advisors, he instead would suggest to include Heinrich Rittershausen and Leonhard Miksch.<sup>33</sup> Miksch’s address was eventually forwarded by Eucken with a short note to Hayek in October 1948 together with the one of a second student, Karl Paul Hensel, who later became professor at the University of Marburg, while considering the only 30 years old Hans Otto Lenel still too young and inexperienced.<sup>34</sup> A longer list with personal suggestions followed by the end of the same month and were apparently already linked to the preparation of the forthcoming MPS meeting, since the candidates were proposed as chairs of particular workgroups: Hensel because of his work on industrial relations, Böhm – who apparently failed to send his confirmation of membership to the MPS back to Hayek by that time – should take the chair of the workgroup on codetermination. As member for a third workgroup Eucken suggested Karl Friedrich Maier because of his expertise as an entrepreneur in Germany and Bernhard Pfister for the fourth workgroup. The letter ended with the offer to “write to Ortega on behalf of the Mt.Pèlerin-Society” since he would know him personally and would have been engaged in correspondence with him.<sup>35</sup> The second general MPS meeting in July 1949 took off with nine Germans among the 55 participants.<sup>36</sup> In the final debate the members agreed to ask Ludwig Erhard, from September 1949 onwards German minister of the economy, to become member.<sup>37</sup> Even this issue was discussed between Eucken

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<sup>30</sup> Bernhard Pfister (1900-1987) was one of the younger scholars in Eucken’s Freiburg group in the 1930s and had a curious fate during WWII, being detained as German citizen in an internment camp in the Kalahari desert, today’s South Africa. 1944 he, after an exchange of detainees, returned to Freiburg. At the time of the Seelisberg meeting, he was still full professor of economics at the University of Hamburg, soon afterwards moving to Munich to become full professor there, also an early board member of the 1949 founded ifo Institut. In 1951, a year after Eucken’s death, he was reluctant to return to Freiburg when being offered a chair there. (Lampert 2008, 371-372)

<sup>31</sup> Eucken to Hayek, 26.8.1947, HIA, FAH Papers, Box 18, Fo. 40.

<sup>32</sup> Eucken to Hayek, 5.4.1948, HIA, FAH Papers, Box 18, Fo. 40.

<sup>33</sup> His former student and assistant in Freiburg, Leonhard Miksch, as well as Heinrich Rittershausen, later full professor of economics at the University of Cologne; Eucken to Hayek, 5.4.1948, HIA, FAH Papers, Box 18, Fo. 40.

<sup>34</sup> Eucken to Hayek, 8.10.1948, HIA, FAH Papers, Box 18, Fo. 40.

<sup>35</sup> Eucken to Hayek, 31.10.1948, HIA, FAH Papers, Box 18, Fo. 40.

<sup>36</sup> Böhm, Eucken, Hensel, Ilau, Maier, Miksch, Müller-Armack, Pfister and Veit, then president of the Central bank of Hesse, and later to become professor of finance and banking at the university of Frankfurt. Furthermore, with L. Albert Hahn, Friedrich A. Lutz and Wilhelm Röpke, three prominent German émigrés were present, “List of participants”, HIA, MPS Box 81, Fo. 10.

<sup>37</sup> “List of suggested members”, HIA, MPS Box 81, Fo. 9.

and Hayek beforehand.<sup>38</sup> And finally Hayek and Eucken shared thoughts on the integration of Alexander Rüstow into the MPS, who must be counted to the influential liberal economists of the 1920s in Germany, ranking on one level with Röpke and Eucken. Hayek, however, wondered if recent publications by Rüstow, then being professor of economics in Istanbul, hinted that he might have drifted further away from a liberal attitude.<sup>39</sup> In this respect Hayek might also still have had good memories of the harsh clashes between Rüstow and Ludwig von Mises on various issues at the Colloque Walter Lippmann, well documented in the minutes of the “Compte-rendu” on the sessions. (Burgin 2012, 71-76; Denord 2009, 46-51; Hennecke 2000, 137-139; Hennecke 2005, 118-119; Hülsmann 2007, 734-739; Plickert 2008, 93-103; Walpen 2004, 55-61; Wegmann 2002, 141-145)

As can be seen from the intense correspondence, Eucken served as the crucial reference for all questions on the integration of German economists and entrepreneurs into the MPS in its early stage of development. His influence on the personal structure resulted from his knowledge of the scene of German economists when he suggested the names to be contacted but also from his position among the international liberal economists, when his opinion on the inclusion of persons was requested. In this respect he, even more importantly than his official position as a vice president, acted almost as a special board member for electoral issues rather than an “ordinary” member from a country still occupied by the Allies. In one of his last letters to Hayek, Eucken explicitly “declared his agreement” to Hayek’s suggestion of four new members.<sup>40</sup>

But Eucken not only served as advisor and gate-keeper for the personal evolution of the MPS. When Hayek was about to join the University of Chicago and traveled a lot between the two countries, Eucken became increasingly concerned with the preparation of the second meeting. However, Hayek at first articulated reservations when Eucken suggested that Germans should chair the workgroups at the second meeting of the MPS scheduled for summer 1949 in Seelisberg, Switzerland. He doubted whether the German colleagues were able to prepare proposals for the discussion in English or French. Since he had difficulties to reach the German scholars, he asked Eucken to organize the workgroup on social security instead and Eucken took over.<sup>41</sup> Two of the six introductory talks of the meeting were given by Germans. Karl Friedrich Maier talked on “The Demand for Social Security” and Leonhard Miksch on “The Unemployed and the Unemployable”. For a moment in the preparation of the conference, Karl Brandt’s idea was put forward in the correspondence between Hayek and Eucken that the whole meeting could take place in Germany, what finally did not materialize because Hunold had already prepared for Seelisberg.<sup>42</sup>

It is important to note that between the two first general meetings in 1947 and 1949, a first meeting of the directors of the society took place on September 19 1948 in Basel. As described in the “official” history of the MPS, already this organizational meeting showed “tensions about the character and size of the Society and about the appropriate strategy for

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<sup>38</sup> Eucken to Hayek, 3.2.1949, HIA, FAH Papers, Box 18, Fo. 40.

<sup>39</sup> Hayek to Eucken, 8.3.1950, HIA, FAH Papers, Box 18, Fo. 40.

<sup>40</sup> Eucken to Hayek, 7.1.1950, HIA, FAH Papers, Box 18, Fo. 40.

<sup>41</sup> Hayek to Eucken, 19.1.1949, HIA, FAH Papers, Box 18, Fo. 40.

<sup>42</sup> Hayek to Eucken, 14.2.1949, HIA, FAH Papers, Box 18, Fo. 40.

reviving and sustaining liberalism.” (Hartwell 1995, 82) The main bone of contention here was an issue which, a decade later, would bring the MPS almost to a collapse in the so-called Hunold Affair: the question if the society is to act as a political body answering the urgent issues of day-to-day politics, or should remain a strictly scientific club. Eucken opposed Karl Brandt’s and Jacques Rueff’s (as well as Hunold’s) activist notion and agreed with Hayek that the scientific character of the society should be its core and, especially, wished its energies in the battle of ideas to be directed against “groupements qui s’appellent ‘libéraux-sociaux’ et qui font des graves concessions au socialisme.” (The Society council minutes, Basle, 19 September 1948, as quoted in Hartwell 1995, 83) Eucken’s focus in combating such “liberal-social groups” is, according to his statements here, to “convince the working classes that classical liberalism guaranteed liberty and greater economic security than socialism.” (Hartwell 1995, 83) His plea here was that the MPS should not enter the domain of politics, but should deal with issues of principle, so that everybody can judge without prejudices the results classical liberals arrive at. As Hartwell wrote, this position of Eucken (incidentally, it presciently reminds of Hayek’s 1949 “The Intellectuals and Socialism”) prevailed in Basel 1948, so that the MPS remained a primarily academic debating club, an institution not seeking political influence itself, not issuing manifestos or devising political agendas (Hartwell 1995, 84); intervening in the political discourse was left the private affair of the individual members. This consensus held pretty much until the Hunold Affair of the late 1950s and early 1960s. In terms of continuity analysis of the notions on the MPS’s strategic aims, it has to be said that Röpke could not attend the organizational meeting in Basel 1948, so it is difficult to say if his later position in the Hunold Affair (being rather opposed to the Eucken-Hayek stance of Basel 1948) was already developed in the late 1940s. Additional archival analysis shows that Friedrich A. Lutz<sup>43</sup>, who also attended the Basel 1948 meeting and was at that time professor at Princeton, but traveled a lot through Europe partly on behalf of the Rockefeller Foundation (Hesse 2010, 151-152), strongly supported the Eucken-Hayek stance of unconditionally preserving the society’s scientific character. (Plickert 2008, 160)

During the preparation of the second general MPS meeting, Hayek exchanged letters with Eucken to choose German speakers as well as asking Eucken to arrange that the German members of the society should not present in German. American attendance would be rare and the international character of the society should not be risked by the dominance of Germans.<sup>44</sup> Hunold also tried to convince Eucken to contribute to the forthcoming MPS conference and to present in English.<sup>45</sup> Again in early 1950 (a month before Eucken died), Hunold reminded Eucken on a careful selection of the German delegation to the next MPS conference in order to achieve maximum impact on the American economists.<sup>46</sup>

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<sup>43</sup> Friedrich A. Lutz was one of Eucken’s “oldest” students, their association dating back to Eucken’s brief 1925-1927 period as professor at the University of Tübingen when Lutz finished his PhD studies under Eucken’s supervision. In 1932 he completed his habilitation on business cycle theory under Eucken at Freiburg, remained for a few years as Privatdozent at the University of Freiburg, left Germany on a Rockefeller Fellowship to England and the USA and in 1937 married Hayek’s 1935 LSE PhD graduate Vera Smith. From 1947 to 1953 he was full professor at Princeton. In the period between 1948 and 1952, i.e. shortly before and after Eucken’s death, he had several visiting professorship periods at Freiburg. Moving back to Europe in 1953 as full professor at the University of Zurich, he was one of the founders of the Walter Eucken Institut in 1954 and remained for many years on its Board of Directors. (Hagemann 2008, 273-274) From 1964 to 1967, succeeding Hayek (1947-1961), Röpke (1961-1962) and Jewkes (1962-1964), Lutz served as the fourth President of the MPS.

<sup>44</sup> Hayek to Eucken, 30.4.1949, HIA, FAH Papers, Box 18, Fo. 40.

<sup>45</sup> Hunold to Eucken, 8.8.1949 HIA, MPS Box 29, Fo. 10.

<sup>46</sup> Hunold to Eucken, 7.2.1950 HIA, MPS Box 30, Fo. 9.

As early as 1950, Eucken drafted a punching line between an “American” member of the MPS and the German group. Karl Bode, a native German, who had fled to the US where he studied economics at Harvard and became advisor to the US Military Government in Germany after the war, was involved in a recommendation to the Military Government to return to a stronger regulation of markets in West Germany that stood in contrast with the liberal foundations of German economic policy. While the two other authors of the report had been “socialists” (in Eucken’s words), Bode was a member of the MPS. The council of economic advisors to the German minister of the economy “where the German members of our society [MPS] gain a rather strong influence and dominate the reports” supported and founded Erhard’s economic policy, so that in the German public the members of the liberal society appear in strong opposition – a highly unfortunate state of affairs according to Eucken. He therefore wished to arrange a meeting among the German MPS members together with Röpke and Bode in order to settle down this conflict.<sup>47</sup> Since Eucken died a few days later in London, the meeting never took place. But the conflict showed that in Eucken’s perspective as well as in the context of German economic policy, the MPS already had transformed: it developed from a network bringing German economists in contact with international liberals and strengthening the transnational cooperation between the “non-socialist economists” to an institutional and political resource to strengthen liberal political position within German economic politics. And Eucken was at the core of that transformation at least as far as Germany was concerned.

In one of his last letters to Hayek from January 1950, Eucken succinctly summarized the successes and failures of the preceding years with regard to the discourse in Germany, but also wrote about what he strategically planned to do in the time to come. It contains an important insight as to his understanding of the priorities for an economist by 1950 and, as a conclusion to this chapter, is worth quoting at length:

“Overall, an advancement of the ideas of the competitive order is clearly to be felt – also in the economic policy. However, one should not rely too much on transitory successes. The crucial, deeper transformation of thinking has not yet taken place. That is why also in the years I want to push back meetings etc. in order to obtain time for this work which drills deeper and is probably more important than the other one.”<sup>48</sup>

#### **4. Different approaches to liberalism: Eucken versus Hayek?**

Eucken’s influence on the Mont Pèlerin Society was certainly not limited to the membership selection and the preparation of its meetings. His institutional role very much seemed to reflect his intellectual impact in the context of the 1947 general meeting and the 1948 organizational meeting and prepared the ground for his role in the society’s evolution. However, the liberalism Eucken contributed to the Mont Pèlerin Society’s early history can be seen as a particular and separated strand of thought that has to be distinguished from the “American” and “British” liberal traditions, conventionally perceived as the society’s primary intellectual origins. Since the very fine differences within the emerging neoliberalism are difficult to detect and, even more so, Eucken’s intellectual influence on the MPS (of which he only attended two general (1947 and 1949) and one organizational (1948) meetings before dying in March 1950) is not easy to estimate, we choose to proceed in two steps: First, we

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<sup>47</sup> Eucken to Hayek, 2.3.1950, HIA, FAH Papers, Box 18, Fo. 40.

<sup>48</sup> Eucken to Hayek, 7.1.1950, HIA, FAH Papers, Box 18, Fo. 40.

draw a more clear-cut picture of the differences between Eucken's and Hayek's perspective on liberalism using a long letter from March 1946 in which Eucken commented in detail on "The Road to Serfdom",<sup>49</sup> followed by a section devoted to influences in the fields of methodology and epistemology (section 4.1). In the subsequent section, we compare the core notions in the papers which Eucken and Hayek presented 1947 in the session "'Free Enterprise' and Competitive Order" (section 4.2), setting them into the context of important events and statements that precede and follow the April 1947 conference. Subsequently, we take a special perspective on the ordoliberal paradigm's impact on the early history of the MPS by elaborating in more detail on the contributions by Eucken's student Leonhard Miksch to the 1949 meeting, who also left a still unpublished diary report of the meeting (chapter 5).

#### 4.1 Eucken's comments on Hayek's "Road to Serfdom"

Already in November 1945 Eucken received Hayek's "new book of which I have already heard so much" and promised Hayek to send him comments "very soon". In this letter, he wrote that "a brief browsing has shown me how close we stand to each other. These are the crucial problems and the only way which is passable ('Das sind die Probleme, auf die es ankommt, und der einzige Weg, der gangbar ist')." <sup>50</sup> The copy Eucken had received was the 1945 German translation of the book, published in Zurich with a preface of Röpke and translated by his wife Eva (a book with a curious fate in Germany, as Hayek later recalls, Hayek 1983/92, 190-191), since in January 1946 Eucken wrote to Hayek that he had just finished working through the German translation.<sup>51</sup> Hayek immediately replied that Eucken's comments on his book would be "of the greatest interest" to him, sharing his plans for compiling a new edition "in the near future" which, even though not new as to the text core, would have a "long new preface" to answer to Hayek's critics, and "above all will have all footnotes extended by enriched source materials and put as an illustrative appendix at the end of the book."<sup>52</sup> Hayek "would be very grateful" for all source materials "you can recommend to me for this purpose".<sup>53</sup>

Upon this invitation, Eucken put forward his ideas and comments in a long letter written on March 12 1946.<sup>54</sup> Even though largely in agreement with Hayek's diagnosis and the risk for politics in England to turn to a totalitarian regime, Eucken mentioned several points in which he would not fully share Hayek's perspective. As far as the difference between Eucken's ordoliberalism and Hayek's own liberalism is concerned, Eucken's letter might be summed up to three major points.

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<sup>49</sup> This section refers to our extended examination of the letter: Goldschmidt/Hesse 2013: Eucken, Hayek and *The Road to Serfdom*, in: Leeson, R. (ed.) Hayek: A Collaborative Biography. Part I Influences from Mises to Bartley, Basingstoke: Palgrave Macmillan, 123-146.

<sup>50</sup> Eucken to Hayek, 10.11.1945, HIA, FAH Papers, Box 18, Fo. 40, underlinings in the original.

<sup>51</sup> Eucken to Hayek, 24.01.1946, HIA, FAH Papers, Box 18, Fo. 40.

<sup>52</sup> We are not aware of such an edition to have ever materialized, but of course this project presciently very much reminds of Hayek's apparatus of endnotes in "The Constitution of Liberty", to be transformed into footnotes as late as in the 2011 University of Chicago Press Definitive Edition by Ronald Hamowy under the General Editorship of the Collected Works by Bruce Caldwell.

<sup>53</sup> Hayek to Eucken, 8.2.1946, HIA, FAH Papers, Box 18, Fo. 40.

<sup>54</sup> Eucken to Hayek, 12.3.1946, HIA, FAH Papers, Box 18, Fo. 40; a translation of this letter originally written in German can be found as appendix in Goldschmidt/Hesse 2013.

First, in Eucken's perspective competition and a liberal market economy will not rest upon individual freedom on the first hand, but on a general order of the society (Goldschmidt 2013). This idea can already be found in one of his earlier works: "But in truth, it is a serious matter that the person who is the most efficient at circumventing the legal order is always the one who fares best." (Eucken 1926, 15) Individual freedom, according to Eucken, in itself does not guarantee competition. Even though Eucken's terminology changed later on in his academic life, the objective of his research remained the same and is succinctly summarized in his "Principles of Economic Policy": "We need to get used to the idea that solemn questions about the intellectual and spiritual existence of Man have to be combined with rather sober and mechanical issues of economic design." (Eucken 1952/2004, 184) While he was not suggesting that an economic order can be directly derived from the "natural order", he was searching for an economic order that would be compatible with the natural order. In this spirit, he details how a competitive order "brings to the fore those strong tendencies which, in the industrial economy as well, push towards complete competition. Economic policy, by making these tendencies effective as elements of order, does what corresponds to the nature of things and of Man." (Eucken 1952/2004, 373) Compared with an Anglo-Saxon type of liberalism, the notion of freedom in Eucken is secondary to the notion of order. Apart from the fact that it was published as a textbook amidst a completely totalitarian environment, Eucken's particular perspective on freedom will be the main reason why it has no significance in his "The Foundations of Economics"; only in the posthumously published second opus magnum "Principles of Economic Policy" does it take center stage, although the transformation of his reasoning did start as early as during the war and because of his opposition to the Nazi regime. (Goldschmidt 2013, 140-144; Rieter/Schmolz 1993, 96-108) It is also important to note that, whereas authors like Hayek or US-based scholar like Mises live in relatively "normal" countries when it comes to the political and economic situation, the ordoliberalists around Eucken and his associates live and work in a period of immense political and economic urgency, especially after 1945 when an entirely new order is to be conceived and constitutionalized in what is later to become the Federal Republic. (Kolev 2013, 58-59; Wohlgemuth 2013, 131) Thus their economic policy proposals are not only driven by abstract philosophical notions, but also by the very concrete necessities in their devastated country; it is insofar not always easy to determine whether a change in position (as the increasing importance of the concept of freedom in Eucken's writings) is due to a philosophical shift or to the specific politico-economic discourse in which these scholars actively participate. For Eucken by the time of his death, freedom is a key value but appears not to be the only value in its own right, and Eucken's call for a "program of freedom" does not aim at making freedom absolute. (Eucken 1952/2004, 369-371) Rather, Eucken's *ordoliberal* approach explains his understanding of freedom, i.e. the central issue to Eucken is the one about the order that is to be realized, in such a way that this order must guarantee freedom: "The crucial question is: what types of order warrant freedom". (Eucken 1952/2004, 179) Hence, the notion of order is constitutive of the notion of freedom and that might explain why Eucken emphasizes in his letter to Hayek: "Indeed, the right way is a third, new way." To conclude this section, it might be helpful to quote again Eucken's "Principles": "Is freedom compatible with order at all? – Freedom and order are no opposites. They mutually presuppose each other" and, a few lines further below: "Certainly – To the concept of freedom belongs, just as to the concept of order, that freedom has its limits, namely where the order itself is threatened by it [freedom]." (Eucken 1952/2004, 179)

A second topic that illustrates the difference between Eucken's and Hayek's approach to liberalism is the debate of the problem of cartelization of the economy. Competition and concentration of economic power is treated at different points in Eucken's comment on

chapter 4, “especially on the issues of concentration”. Although he agreed with Hayek’s argument that it is not technical necessities that lead to concentration, Eucken criticized Hayek’s specific description of the industrial evolution in the first section of chapter 4. While Hayek emphasized the role of economic policy in the emergence of big business and concentration (Hayek 1944/1945, 73-81), Eucken argued in his letter that big business did not necessarily result from the growth of individual enterprises heading for economies of scale, but also from “formation of consolidated companies (“Konzerne”), trusts and cartels” in a broad and general way. Modern corporate law (especially with respect to stock companies), patent law (including licensing law), the protection of trademarks as with the protection of resale price maintenance, as well as (here in agreement with Hayek’s text) trade policy and, finally, taxation policy (for example the value-added tax) were to be seen in Eucken’s perspective as the crucial drivers of the modern concentration processes. For Eucken this led in many cases to 1) the concentration of power in the hands of few individuals and 2) to effective company size which was well beyond what would be appropriate in terms of the technical requirements for the optimal company size. Also, in line with research of his group in Freiburg about which he hoped to soon send Hayek a work of one of his students, Eucken challenged a footnote in Hayek’s chapter 14 on page 252 that claimed exclusion of competition by patent laws had been rare in the modern economic history (Hayek 1944/1945, 252); Eucken, on the contrary, underscored that current patent law was one of the main culprits for concentration and thus a “definitive reduction” of patent protection (this protection being “in itself is monopolistic”) was to be argued for.

It is on this second point that Hayek’s and Eucken’s positions diverge the most, even though the disagreement is not explicit and is only to be found in some few detailed remarks. In Eucken’s case, issues relating to cartels and monopolies took on a very concrete dimension when, at the beginning of 1946, he was asked by the French occupation authorities for his expert opinion on legislation aimed at preventing the concentration of economic power as part of the Allied demerger and decartelization policy. (Eucken 1999) The principles that he developed in this regard were first published in a summary fashion in the *Ordo Yearbook* of 1949. They were to be the theoretical foundation of the German “Act against Restraints of Competition”, which – due to several years of internal political fighting and conflicts with the Federation of German Industry – was not adopted until 1957. Eucken believed that economic positions of power that interfered with competition should in any case be restricted or forbidden by law. Only in very few cases did he think there were no other means of supply to the population than through a monopoly. In these rare instances of “unavoidable monopolies”, independent regulation bodies should be set up in order to limit the abuse of monopoly power. Though Hayek did not have a well-defined position regarding antitrust law at the end of the 1940s (apart from the sketch contained in his 1947 MPS paper (Hayek 1947/1948, 114-116), after Eucken’s death he successively moved towards the “New Chicago” School’s line of thought as well as to that of Ludwig von Mises (Hayek 1979/81, 83-88). As we will see when discussing Miksch’s diary notes, Mises openly confronted Eucken during the 1949 meeting of the MPS, arguing against any form of legislation regulating market agreements. (Plickert 2008, 198-206; for a comparative discussion on the competition policy notions of Hayek, “Old Chicago” (here primarily Henry Simons) and Eucken, see Köhler/Kolev 2011, 19-21)

A third area of discourse between Eucken’s and Hayek’s reasoning can be found in their attitudes on the relationship about democracy and liberalism. Eucken was in accord with Hayek’s analysis in chapter five “Planning and Democracy”, which claims not only that democracy is incompatible with socialism, but that also democracy does not per se guarantee freedom. In agreement with this chapter’s core, Eucken stated: “Yet liberalism and democracy

are not identical. There also exists, as you yourself show, democracy without freedom”, adding that “I should, however, write again in more detail on this subject and particularly tell you of the German experiences.” Unfortunately, due to his early death and the existential economic problems of the immediate post-war years, Eucken was not successful in explain in detail his understanding of democracy, being instead preoccupied with the issue of the economic order. Already in his 1932 article “Evolution of State Structures and the Crisis of Capitalism” (Eucken 1932) he adopted a perspective on the relationship between the state and rent-seeking interest groups within society which reminds of later Public Choice theory, since he warned of a capture of the state by private interest groups in case the state is one which discriminately can distribute privileges. In this article he, parallel to a 1932 lecture of his friend Alexander Rüstow, proposed a “strong state”, which would be a state that, due to its character of not distributing privileges, is above the private interests within society and thus cannot be captured by these. The wording “strong state” has created a sizable literature which accuses the ordoliberalists like Eucken and Rüstow to be using a language which makes them appear being anti-democrats. (Kirchgässner 1988; Haselbach 1991; Ptak 2009) Even though that it is true that Eucken by the time of 1932 was still a conservative who was skeptical of the “real type” democracy of Weimar (Dathe 2009), it is certainly an exaggeration and a distortion of his positions to bring him into the proximity of Nazi ideology, especially bearing in mind his aforementioned role in resisting the Nazis. (Goldschmidt 2013, 140-144; Rieter/Schmolz 1993, 96-108) When comparing his conception of democracy – as it can be inferred from the chapters on the state order in his “Principles” – with that of Hayek, one can trace a similarity and a notable difference. The similarity between the two is that both of them are skeptical of democracy being automatically a freedom-enhancing institution. The difference which exists relates to our first point in this comparative chapter, i.e. the primacy of order with Eucken versus the primacy of individual freedom with Hayek. In this context, for Eucken democracy is an institution which is to be judged according to the criterion whether it assists or endangers the establishment of an “ideal order of nature”, a concept difficult to explain in brevity because of its metaphysical core which, among others, requires detailed knowledge of his father’s Rudolf Eucken specific philosophical approach (“Lebensphilosophie”) as well as detailed knowledge of the strong epistemological imprint which Husserl’s phenomenology had on Walter Eucken’s peculiar approach to economics. (Goldschmidt 2013; Klump/Wörsdörfer 2011) In line with the primacy of order vs. primacy of individual freedom-distinction, Hayek’s criterion for judging democracy is if it has the potential to restrict or, in the worst case, to destroy individual freedom. Since both agree on the potential respective threats, both of them plea for an embedding of democracy in order to minimize the threat: Eucken and Hayek formulate principles how the state should be constituted (“Staatsordnung”; Hayek – having lived all his life in non-totalitarian countries with freedom of expression and having outlived Eucken by decades – in more detail, the final proposal to be his demarchy model); both of them are also insistent on the necessity of embedding the democratic state in a rule-of-law framework (“Rechtsordnung”). These concepts justify the proposal to call both of their concepts from a today’s perspective “constitutionally limited democracy”. (Vanberg 2011, 3; see also Vanberg 2008) Still, despite these commonalities, the difference as to the criterion of how democracy is to be judged (order vs. individual freedom) remains.

In addition to the comparative analysis of Eucken’s and Hayek’s political economies above, another nexus can be identified which, to our knowledge, has never been explored in detail: the relationship between Hayek and Eucken in terms of their methodological and epistemological perspectives. We would like to provide a first glance at what seems to be a very promising line of further research when linking these two authors.

In an April 1942 letter to Röpke, Hayek – despite some own objections to Eucken’s epistemology as starting from “‘objective’ facts” instead from “by the concepts held by the individuals” in Eucken’s discussion of “Begriffsrealismus” – supported Eucken vis-à-vis the critiques expressed earlier by Rüstow and Röpke (the latter had published a long review of Eucken’s “Foundations” in the *Neue Zürcher Zeitung* in February 1942, being critical of Eucken’s narrow stance on the scope of economic science and of Eucken’s methodology).<sup>55</sup> In the same letter Hayek wrote: “E. has made me rethink a good deal of what I had intended to say” in his “series of historical studies which, if I am lucky, I hope to publish this summer or autumn in *ECONOMICA*.”<sup>56</sup> It appears legitimate to us to infer from this statement that reading Eucken’s “Foundations” might have contributed to what was later published in 1952 as “The Counter-Revolution of Science” (Hayek 1952/1979), since seminal papers of this collection had indeed appeared in *Economica* around the time of Hayek’s letter to Röpke, starting with the *Economica* article series “The Counter-Revolution of Science” in the timespan February-August 1941 and followed by the *Economica* article series “Scientism and the Study of Society” in the timespan August 1942-February 1944. An analysis of the citations of these six original *Economica* papers indeed produces some interesting results. Already in the third paper of the “Counter-Revolution” cycle from August 1941, in the chapter on the Saint-Simonian influence Hayek cited Eucken’s 1921 article on Saint-Simon, which is Eucken’s inaugural lecture as Privatdozent at the University of Berlin, published in Schmöller’s *Jahrbuch* (Hayek 1941, 290, fn. 4). Only few months after the aforementioned April 1942 letter to Röpke, in the first paper of the “Scientism” cycle from August 1942 Hayek quoted Eucken precisely on the issue of “Begriffsrealismus” featuring in his letter, referring to “the excellent discussions of the effects of *Begriffsrealismus* on economics in W. Eucken, *Die Grundlagen der Nationalökonomie*, Jena, 1940, pp. 29 *et seq.*” (Hayek 1942, 285, fn. 1, italics in the original) Finally, in the second paper of the “Scientism” cycle from February 1943, he again refers to Eucken’s “Foundations”, this time referring to Eucken’s approach on the respective domains of validity of theory and history (Hayek 1943, 62, fn. 1). Eucken’s attempt to reconcile theory and history in what he called “the great antinomy” characterizing economics up to that point (being, as is well known, discussed in the *Methodenstreit* between Schmöller’s younger Historical School and Menger’s incipient Austrian School) is *the* central leitmotif of the “Foundations” as seen already in the numerous reviews published immediately after the book’s publication (most notably Heinrich von Stackelberg’s 36 pages-long appraisal in *Weltwirtschaftliches Archiv* (Stackelberg 1940, 245-281); as well as Friedrich A. Lutz’s reviews in the *American Economic Review* (Lutz 1940, 587-588) and in *Economica* (Lutz 1944, 210-214)). As to the last review, Hayek – being editor of *Economica* during his LSE years – had a certain own stake, as becomes clear from a letter in which – after having sent the war-time numbers of the journal to Freiburg – he directed Eucken’s attention to Lutz’s review “we in *ECONOMICA*” published in November 1944.<sup>57</sup> In his very first letter to Hayek after the war, Eucken – in an almost illegible handwritten vertical side-remark – expresses his “special gratitude” for Hayek’s having passed his “work on St.-Simonism and Comte” via Röpke to him, the package obviously just

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<sup>55</sup> Röpke’s two-parts review of Eucken’s “Foundations” in the *Neue Zürcher Zeitung* (in the numbers of 22.2.1942 and 24.2.1942) was later reprinted as Röpke 1942/1959, 334-344. For a discussion of the threats Röpke’s NZZ review might have posed to Eucken and his colleagues in Freiburg (Röpke’s own books were strictly banned in Germany from July 1942 onwards, the first prohibition announcement in *Völkischer Beobachter* of 31.7.1942 signed by H. Himmler in accordance J. Goebbels, Hennecke 2005, 138-139), and Röpke’s intention to show to the world by so prominently reviewing Eucken’s book that “a different Germany” still exists, see Hunold’s editorial note in Röpke 1942/1959, 332.

<sup>56</sup> Hayek to Röpke, 9.4.1942, HIA, FAH Papers, Box 79, Fo. 1. (Hayek’s capitals in the title of the journal)

<sup>57</sup> Hayek to Eucken, 8.2.1946, HIA, FAH Papers, Box 18, Fo. 40. (Hayek’s capitals in the title of the journal)

having arrived before Eucken sent out the letter. After noticing and analyzing these mutual flows, we would like to tentatively express the hypothesis that Hayek's never completed "Abuse of Reason Project" (Caldwell 2004, 232-260) may have been, in terms of methodology and epistemology, co-provoked or at least co-inspired in its early phases by Euckenite impulses.

## **4.2 Eucken's and Hayek's presentations on competitive order at the MPS 1947 meeting**

Apart from the direct discourse in the triangle Eucken-Hayek-Röpke and the mutual influences within this group also characterized of personal sympathy or even friendship, other less obvious channels of communication exist in the history of early neoliberalism. As is widely known and is meanwhile consensual opinion in the otherwise very diverse secondary literature on neoliberalism, neoliberalism's beginnings are to be found above all in four cities: London, Vienna, Chicago and Freiburg. A peculiarity of Hayek's vita is that he is probably the only representative of neoliberalism who has spent several academic years at the universities of these four genesis places of early neoliberalism. Up to this point in the paper, we have concentrated on the London-Freiburg relationship, for which Röpke's Geneva indeed played a special (not only logistical) role. It would be of course too much to explore in this paper the relationship of Hayek with the University of Chicago before his arrival as professor there in 1950. (Caldwell 2013; Caldwell 2007, 15-23; Hennecke 2000, 191-194; Plickert 2008, 80-86; Van Horn/Mirowski 2009, 140-158; Van Horn 2009, 204-216; Wegmann 2002, 180-190) But it is important to note that, according to some strands in the literature, the "Old Chicago" School of Frank Knight and Henry Simons is to be distinguished from the "New Chicago" School of, most prominently, Milton Friedman and George Stigler, when compared both with respect to their political economies and their methodological approaches to social sciences.

In previous analyses, it has often been claimed that "Hayek of the 1930s and 1940s", with some qualifications even until the publication of "The Constitution of Liberty", is rather distinct from the late Hayek of "Law, Legislation and Liberty" and especially of "The Fatal Conceit" with respect to the role and genesis of the "rules of the game" for the market economy. (Buchanan 2011; Kolev 2013, 31-39, 203-208; Kolev 2010; Sally 2000, 101; Vanberg 2003, 10; Willgerodt 2004/2011) According to this line of reasoning, the widely known objection of Hayek that the rule framework of the market economy cannot be consciously shaped because of the "pretense of knowledge"/"constructivistic rationalism" argument is a rather late phenomenon in his work. (Buchanan 2011; Vanberg 1981, 12-18; Watrin 2000, 327-329) In Hayek's work in the 1930s and 1940s, manifold explicit quotations can be identified on the issue that the framework of the economic order and the rules which constitute it can well be designed and shaped consciously with the help of economic and legal scholarship dedicated to identifying suitable rules. (Hayek 1935/1948, 134-136; Hayek 1939/1997, 193-200; Hayek 1944/2007, 71-72; Hayek 1944/2007, 88-90; Hayek 1947/1948, 110-112) Most prominently in this period, his plea for "planning for competition" instead of "the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of laissez faire" is expressed in chapter 1 (Hayek 1944/2007, 71-72) and chapter 3 (Hayek 1944/2007, 88-90) of "The Road to Serfdom".

What might be the intellectual origins and inspirations for such a perspective that evokes direct associations to the specific approach of Freiburgian ordoliberalism? It might of course

be that it was directly through Freiburg that he received impulses, for example when visiting Eucken in Freiburg. Having shown above that their intellectual exchange only began in full-fledged manner during and especially after the war, this might not be the primary source. The “missing link” between Hayek and the Freiburg School is possibly the “Old Chicago” School, and here particularly Henry Simons. (Köhler/Kolev 2011, 14-24; Van Horn 2009, 209-213)

Simons, however, could not attend the 1947 founding meeting of the MPS because he suddenly died in June 1946. This was a great disappointment for Hayek in the phase when he was conceiving the strategy for the MPS in general and its first meeting in particular.<sup>58</sup> When explaining his deep regret about Simons’s death to Eucken in this same letter, Hayek made the noteworthy comment that “it will by the way be of interest to you” that Hayek’s aim of his Chicago trip had been “to arrange in Chicago a larger study about the question as to what changes are necessary in the ‘legal framework’ [English quote in the German text] in order to make the competitive economy effective“. Hayek’s conjecture that this message will be of interest to Eucken was probably referring to Eucken’s letter on “The Road to Serfdom” discussed in section 4.1, where one of Eucken’s advices to Hayek is to stress in future even stronger than already been done first in the last paragraphs of chapter 3 on planning for competition (Hayek 1944/2007, 88-90), and second in the sections of chapter 1 where he is discussing laissez faire as a historical rule of thumb (Hayek 1944/2007, 71-72) that economic policy should be aimed at the establishment of the competitive order instead of laissez faire.

Hayek’s further regret on Simons’s death is also intriguing both for the Hayek-Chicago-Freiburg nexus and for Hayek’s later development:

“The idea [of arranging the study] was a positive complement to my book, with special application to the United States which right now should deal with problems you mention in your letter. For me the difficulty in this respect is that such a positive complement can only be conceived with regard to a specific country, whose economic organization should be in detail familiar to the author – and I personally do not now know any country well enough to attempt this myself.”<sup>59</sup>

At the end of this letter, Hayek made a qualification that he would be better prepared to respond to Eucken’s critical arguments after he had read Eucken’s “more recent publications.”

Thus Simons’s central idea on the necessity of a “positive program” for neoliberalism, which, as has been shown (Köhler/Kolev 2011, Van Horn 2009), is rather close to Eucken’s notion of the framework of the competitive order, is seen in late 1946 by Hayek as the necessary positive complement to his critique of socialism and interventionism the Socialist Calculation Debates articles from 1935 onwards. (Kolev 2010, 10-13) This necessity for a positive program was already acknowledged in the booklet “Freedom and the Economic System” (Hayek 1938/1997, 181-188; Hayek 1939/1997, 189-211), its two versions of 1938 and 1939 meanwhile recognized as important programmatic predecessors of “The Road to Serfdom” (Caldwell 1997, 37-47; Hennecke 2000, 139-141) Eventually, Hayek’s “definite plans for that positive complement to *The Road to Serfdom* which people have so long [been] asking me to do” materialized when in the 1950s he started writing his opus magnum “The Constitution of Liberty”.<sup>60</sup>

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<sup>58</sup> Hayek to Eucken, 3.11.1946, HIA, FAH Papers, Box 18, Fo. 40.

<sup>59</sup> Hayek to Eucken, 3.11.1946, HIA, FAH Papers, Box 18, Fo. 40.

<sup>60</sup> Hayek to Machlup, November 1953, as quoted in Ebenstein 2003, 141-142 and Hamowy 2011, 6.

In the process of organizing the first MPS meeting, he – in line with the above interpretation – conceived a session under the name “Free Enterprise’ and Competitive Order”, free enterprise to be seen as a proxy for a laissez faire type role of government to the economy and, interestingly, set in inverted commas. Mises already in 1946 compiled a memorandum under the title “Observations on Professor Hayek’s Plan” which was aimed precisely at defending the notion of laissez faire and at urgently warning of interventions by government to reestablish competition and to prevent monopoly prices, government in Mises’ eyes being not the solver of the monopoly problem but rather its generator in historically fostering monopolies. (Mises 1946/2009) Mises’ reaction, harsh both in substance and rhetoric, might have reminded Hayek of the Rüstow-Mises clashes at the Colloque Lippmann mentioned above, and is indeed an indicator of what is to become a leitmotif in the forthcoming discussions at the MPS when it comes to interventionism in general and competition policy in particular.

The intriguing point appears to be in what manner Hayek positioned himself in 1947 in terms of laissez faire, Eucken and Simons being the one side by claiming that one needs a framework of rules which they call the competitive order within which the agents have economic freedom, and Mises being the other side by claiming that rules are always an intervention and thus are not compatible with laissez faire and economic freedom. In today’s language, Hayek had the options of “laissez faire within rules” (Freiburg/Old Chicago) and “unrestrained laissez faire” (Mises).

The session “Free Enterprise’ and Competitive Order”, spanning over the entire afternoon and evening of the April 1<sup>st</sup>,<sup>61</sup> is the very first session of the conference, which is hardly a coincidence: In his Opening Address in the morning of April 1<sup>st</sup>, Hayek first discussed the general purpose of the conference and afterwards shared his motivation as to the individual parts of the schedule. The latter part he began with the following statement:

“Of the subjects which I have suggested for systematic examination by the conference, and of which most members seem to have approved, the first is the relation of what is called ‘free enterprise’ and a really competitive order. It seems to me to be much the biggest and in some ways the most important problem and I hope that a considerable part of our discussion will be devoted to its exploration.” (Hayek 1947/1992, 242)

After giving an intriguing detailed explanation about aiming at an agreement within the participants as to “a complete programme of a liberal economic policy”, he proposed that the already existing relevant “work which has been conducted independently in parallel directions in many parts of the world should be brought together.” (Hayek 1947/1992, 242)

When analyzing the papers which Eucken and Hayek presented in the session,<sup>62</sup> it becomes evident that the two papers are aimed at a long-term program and not so much at the immediate problems after the war. Eucken and Hayek talk about their vision that it is the long-term impact of ideas which interests them when formulating the theory of the competitive order. Here two quotations:

“The factual development moves against us, whereas in the realm of ideas one can make out a new flexibility in our sense.” (Eucken 1947, 2)

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<sup>61</sup> “Agenda”, HIA, FAH Papers, Box 80, Fo. 31.

<sup>62</sup> The section which follows largely draws on the findings in Köhler/Kolev 2011, 25-26. For space reasons we miss out the quotations of Director’s presentation which are to be found in the aforementioned source.

as well as:

“It is from this long-run point of view that we must look at our task. It is the beliefs which must spread, if a free society is to be preserved, or restored, not what is practical at the moment, which must be our concern.” (Hayek 1947/1948, 108)

The long-term program of the competitive order is at the center of the papers. What is the competitive order about, according to the three papers? The first unanimous aim of the papers is to show that the implementation of a competitive order is by no means equal to a *laissez faire* type of policy. Instead, it is about a positive type of policy with the goal of establishing “rules of the game”. Eucken concludes his paper with the passage that government should be concerned about the economic order (i.e. the rules of the game) and not about the economic process (i.e. the moves of the game), the latter to be left free to the individuals (Eucken 1947, 4). Hayek warns from meaningless and ambiguous terms like “free enterprise”, “freedom of contract” or “private property” and underscores that it is the legal framework of the competitive order which is to be aimed at by economic policy and not the previously mentioned terms which by themselves lack a precise content (Hayek 1947/1948, 111-113).

In Freiburg (and in “Old Chicago”) the framework of the competitive order was closely related to the issue of power, an issue of whose importance Eucken already reminded Hayek in his comments on “The Road to Serfdom”, since in his eyes *laissez faire* – at that period of time in the 20<sup>th</sup> century with a great extent of industry concentration – would easily lead to few individuals gaining too much power.<sup>63</sup> Even though not central to Hayek, he did not miss to discuss the issue of governmental power as connected to the private power of organized groups (Hayek 1947/1948, 116-117). But to Eucken, the power problem was truly fundamental. He spoke of monopoly power on the side of the enterprises (Eucken 1947, 2-3) and in the same instance sharply criticized the monopoly power on the side of the trade unions (Eucken 1947, 1). He saw the only possible solution of the power problem in the competitive order, due to competition’s seminal property of disempowering the economic relations. After discussing proposals related to different fields of economic policy, the papers agree that these fields of economic policies should not be regarded in an isolated fashion but are related to each other, which Eucken calls “encompassing economic policy” [Gesamtwirtschaftspolitik] (Eucken 1947, 3). Thus, one can say that the establishment of the competitive order is to be seen as a consistent general program or philosophy, whose lack in the past had been, in Hayek’s words, one of the main reasons for the decline of liberalism and the usurpation of the state by special interests. (Hayek 1947/1948, 107)

The two papers and their content are not identical, there are differences in the nuances, especially when it comes to the relevance for the power problem. But they do share a common spirit: the conjoint for a positive liberal program of Eucken, Hayek and “Old Chicago” at this moment of time, all of them opposing *laissez faire* and aiming at identifying the best rules to shape the framework of the competitive order. Interestingly, one of the very early papers of Milton Friedman, “A Monetary and Fiscal Framework for Economic Stability”, first presented in September 1947 at the Econometric Society’s Washington meeting and published 1948 in the AER, was quite in line not only with “Old Chicago”, but also with the general spirit of the April 1<sup>st</sup> MPS session. This is not only true as to the wording of the title, but also because in the very first lines, he talked about the framework primarily considering “long-term objectives”, continuing with a claim that, apart from political freedom and economic efficiency, also “substantial equality of economic power” was a basic long-term objective

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<sup>63</sup> Eucken to Hayek, 12.3.1946, HIA, FAH Papers, Box 18, Fo. 40.

shared by most economists; and that he believed – although here agreement among economists was in his eyes less widespread – that when it comes to specifying the general institutional arrangements, “relying, as far as possible, on a market mechanism within a ‘competitive order’ to organize the utilization of economic resources”<sup>64</sup> is the best way for all three objectives to be realized. (Friedman 1948, 246)

In the period around the April 1947 meeting, the contact network grew even tighter. Eucken reported to Hayek in July 1947 that he had “heard a lot about the strong impression” Hayek’s presentation in Frankfurt had left there when Eucken visited the city a week later. In the aforementioned letter of Hayek to Eucken of November 1946, Hayek requested Eucken if he would contribute a “brief article” to *Economica*, be it on a theoretical question, on a question of economic policy or on the economic problems caused by Germany’s occupation. This offer materialized in a two-parts article with the total length of over 40 pages under the title “On the Theory of the Centrally Administered Economy: An Analysis of the German Experiment” in the *Economica* numbers of May and August 1948. (Eucken 1948) Already in this procedure Hayek identified Terence W. Hutchison (1912-2007) to be the suitable translator of Eucken’s German original manuscripts and simultaneously engaged him to also translate Eucken’s “Foundations of Economics” into English (introducing Hutchison to Eucken as “the author of a book on the method of economics you may know”),<sup>65</sup> the first edition appearing in 1950 at William Hodge & Co. in London. (Eucken 1940/1950) In February 1947 Eucken presented to Hayek his plans to launch a yearbook under the preliminary title “Die Ordnung von Wirtschaft und Gesellschaft”, inviting Hayek to contribute a paper already to the first volume and welcoming any cooperation on the project.<sup>66</sup>

Two last details may clearly indicate the personal and intellectual proximity which in these very years appears to reach its climax. The first is a quotation from a lecture Hayek gave in late August of 1947 in at the 3<sup>rd</sup> meeting of the (1945 founded and later to become highly prominent) European Forum Alpbach in the Tyrolean Alps, where he, after discussing the deficiency of the centrally planned economy, in the end of the talk turned to the liberal alternatives to it, and stated:

“Especially in this area [creating the conditions for an effective competition], already before the war a number of important studies were published in Germany, primarily owed to the impulses of Professor Walter Eucken in Freiburg i.B. and of Professor Franz Böhm, now in Frankfurt [...]. The problem of the “Economic Order” [„Ordnung der Wirtschaft“, in inverted commas in the original] in the sense in which these scholars have addressed it and have sketched its solution is one of the most important tasks which the human mind can pose itself today and the solution of which is of immense importance [eine der wichtigsten Aufgaben, die sich der menschliche Geist heute stellen kann und von deren Lösung unendlich viel abhängt].“ (Hayek 1947/2004, 170)

The second detail is even briefer, but again testifies the great esteem which Hayek tributes to his German colleague. In two letters to Hunold of March 1949, Hayek expressed his idea that because of his difficult private situation, he was thinking of stepping back as president of the MPS. The goal of his plan was to start circulating the presidency, explicitly motivating this

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<sup>64</sup> Competitive order is set in inverted commas in the original.

<sup>65</sup> Hayek to Eucken, 19.2.1948, HIA, FAH Papers, Box 18, Fo. 40.

<sup>66</sup> Eucken to Hayek, 5.2.1947, HIA, FAH Papers, Box 18, Fo. 40.

with the perspective of soon seeing also Eucken in this position. (Hayek to Hunold, 25.3.1949 and 1.4.1949, as quoted in Hennecke 2000, 220)

To conclude this section: Reflecting the correspondence as well as the personal meetings between Hayek and Eucken show that both cooperated intensively with regard to a common liberal project. In doing so they were congenial partners, learning from each other. It might be not overestimated that in some respect – especially when it comes to the question of a framework of rules – Hayek was stronger influenced by the older Eucken and his impressing personality than it holds true the other way round. However, even at this time one could identify some differences between both thinkers especially in regard to their methodology, their heuristics and political intentions, which lead to a widening gap between two different camps of liberalism.

## **5. The widening gap: Leonhard Miksch's contribution to the MPS 1949 meeting**

The different foci which could be recognized between a Continental European and an Anglo-Saxon perspective on the liberal project and which we attempted to describe above, can be further illustrated by a paper prepared by Leonhard Miksch in addition to his already mentioned lecture on “The Unemployed and the Unemployable” on the occasion of the second MPS general meeting 1949 in Seelisberg. Leonhard Miksch (1901-1950) had not only been a student of Eucken since 1925 and a friend of him for several years; he was also an important figure in reintroducing market principles into the West German economy. In 1948 Miksch worked at the Administration of the Economy (Verwaltung für Wirtschaft, a predecessor of today's Federal German Ministry of the Economy) under Ludwig Erhard who would in September 1949 become minister of the economy in the Federal Republic and who is recognized as the “father” of the so called “German economic miracle”. At the Administration, Miksch campaigned for price liberalization, coupled with a simultaneous currency reform. Erhard – violating instructions of the Allied Forces – initiated this, based on the so-called “Guiding Principles Law” (Leitsatzgesetz), which was authored primarily by Miksch. In retrospect, this measure can be considered a main factor for the success of the market economy in post-war Germany (Goldschmidt/Berndt 2005).<sup>67</sup> Later on, Miksch became first full professor at the Mannheim School of Economics and then a colleague of Eucken at the University of Freiburg. He died in the same year as Eucken, 1950, only few months later.

In his text “Attempt of a Liberal Program”<sup>68</sup> as well as in his statements at the meeting, which can be found in his so far unpublished diary (some passages of the diary referring to the Seelisberg conference are reprinted in the appendix),<sup>69</sup> the widening gap between the two different camps becomes obvious. In his essay Miksch argued in line with the ordoliberal tradition as Eucken had established it. Even though there were several students of Eucken at

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<sup>67</sup> However, it is not easy to characterize Miksch as a person and as a scientist. No doubt he was a main campaigner for freeing markets in post-war Germany, but he was much more oriented towards a regulatory an interventionist state than Eucken was. Furthermore, different to Eucken, Miksch was not a clear opponent against the National Socialist regime in Germany; on the contrary, especially as a young man, he was attracted by National Socialist ideas.

<sup>68</sup> Unpublished manuscript; copy at the Walter Eucken Institut, Freiburg. A German translation of the original English manuscript is available in Goldschmidt/Wohlgemuth 2008b, 163-170.

<sup>69</sup> Unpublished manuscript; copy at the Walter Eucken Institut, Freiburg.

Seelisberg – Miksch describes the trip to Seelisberg as a “departmental outing of the ‘Freiburg School’” – Miksch’s ideas initially were passed more or less unheard. He wrote: “Today Lutz read the presentation that I drew up yesterday and that I translated into English with the friendly help of Miss Wedgwood. [...] [B]ut even though he spoke with the correct pronunciation, he read out all the main points monotonously and without pausing. I was on tenterhooks. My attempt to outline and further substantiate a liberal program admittedly seems to have had no effect whatsoever on the audience. [...] It seems that I have contributed to widen the gap between the Freiburg Circle and the others, rather than help bridging it. But I have learned a lesson: one either speaks for oneself or else remains silent.” Miksch’s entire text was characterized by the worry of how a liberal social order could be founded and sustainably established, longer passages of the text being additionally dedicated to the monetary order. Regarding the social order, Miksch emphasized that the natural order cannot arise through individual freedom itself but will necessarily demand a legal framework, “since the authority of law is only possible among free men and freedom is only possible within the legal restrictions”. Therefore, in the line with Eucken’s thoughts, law in its entirety would be perceived a precondition and framework for a free social and economic order. Remarkably enough, Miksch also claimed for a connection with “natural law” and the Christian tradition of Western civilization.

Other comments in his diary hint that Miksch detected only few bridging ties between the positions of the Freiburg School and Anglo-Saxon liberalism (see appendix). The vehemence of the competing positions become very visible in a dispute between Miksch and Eucken on the one hand and Mises on the other that he reported in his diary: “The turn taken by the discussion yesterday was quite satisfactory, as it resulted exactly in what I had previously said, namely that the relevant issue was not how to deal with the unemployed but how to prevent the occurrence of unemployment. This, of course, can only be attempted through the course of an economic constitution. ... In return, Mises launched a final and sudden attack against me because I had said that classical liberalism had encouraged selfishness and was thus at odds with morality. This was probably the only line he had read in the presentation that, by then, had been copied and distributed, as he did not see fit to take the rest into account. Instead he hinted at “totalitarian lines of thought”. This all seemed quite ridiculous to me, but it infuriated Eucken. This led to a heated debate, in the course of which Mises exclaimed: “What, Adam Smith! I am Liberalism.” If you ask me, his Liberalism is a rather jaded Manchesterism that, its logical coherence notwithstanding, gives the impression of a crafty and biased ideology.”

## 6. Conclusion

As mentioned in the beginning of the paper, Eucken – barely at the age of 59 – died suddenly before being able to complete his lecture cycle delivered in March 1950 at the London School of Economics under the title “This Unsuccessful Age. Five Lectures on Economic Policy” (Eucken 1950/1951): an influenza<sup>70</sup> forced him to have the fourth lecture read by another person<sup>71</sup> and dying of a heart attack directly on the eve of the fifth lecture (Klinckowstroem

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<sup>70</sup> In a letter of 3.11.1949, Eucken wrote to Hayek that he had “now finally overcome the consequences of this spring’s pneumonia”, which had not yet the case at the 1949 Seelisberg meeting; Eucken to Hayek, 3.11.1949, HIA, FAH Papers, Box 18, Fo. 40.

<sup>71</sup> In this only biography of Eucken, there is a quote by Alan Peacock that he was given the “awesome privilege” to read the fifth lecture to the audience “as a tribute to interest in the series and to the man himself”. (Klinckowstroem 2000, 107-108) Even though that also after consulting the original text (Peacock 2000,

2000, 107-109). Although Eucken came upon his invitation, Hayek was not present at the London lectures, having left few weeks before to Chicago (initially lecturing at Fayetteville, Arkansas). This coincidence can be also seen symbolically, when regarding the relationship of these two giants of 20<sup>th</sup> century liberalism and the further personal and institutional developments between Hayek, ordoliberalism and the MPS. Already Henry Simons's untimely death in 1946 was a true setback for Hayek in his intellectual and institutional endeavors to revive liberalism in a new shape which should suit the necessities and specificities of the 20<sup>th</sup> century (Köhler/Kolev 2011, 24-28; Van Horn/Mirowski 2009, 140-158; Van Horn 2009, 209-213). Eucken's death indeed symbolizes a major shift in Hayek's further personal evolution. In the vast literature on the continuities and discontinuities in Hayek's oeuvre (for some overviews see Hayek 2014; Horn 2013, 219-228; Klausinger 2013, 11-24; Kolev 2013, 31-39, 203-208; Kolev 2010), there is a consensus at least to the point that the "late" Hayek with his evolutionist perspective is not identical or interchangeable to the Hayek of "The Road to Serfdom" (Buchanan 2011). Since, due to very recent archival findings, the decade of the 1950s in Hayek's evolution might probably soon need a new reading (Caldwell 2013), we would like to directly switch to the 1960s and 1970s. As is well known, in these decades (and until his death in 1992) the biographical nexus between Hayek and Freiburg is a particularly strong one (Karabelas 2010, 123-132; Vanberg 2013).

When arriving at Freiburg in 1962, Hayek already in the first lines of his inaugural lecture "Economy, Science and Politics" remembered the immense importance of the Department of Law and Economics at the University of Freiburg for himself and his proximity to it, mentioning his associations to Adolf Lampe, Alfons Schmitt and Leonhard Miksch, the latter (who as Eucken had died in 1950) having been a partner in "joint work on establishing an economic philosophy for a free society". Subsequently, he gave a detailed tribute to "the unforgettable Walter Eucken", initiating it with the statement that his "long lasting friendship" with Eucken was "founded on complete consensus in theoretical as well as in political issues". Hayek continued by saying that in the last four years of Eucken's life their friendship had evolved to a "close cooperation", afterwards remembering Eucken's 1947 MPS participation as "being *the* great personal success of the conference" and "having left the deepest impression on all participants with his moral stature". His self-imposed future role in Freiburg from 1962 should be, so Hayek, to take up and continue the tradition of "Eucken and his circle", which had been characterized by "combining simultaneously highest scientific integrity and resolute statements to the great issues of public life." (Hayek 1962/1969, 1-2) The question of this very combinability is the core of his ensuing lecture, debating Max Weber's postulates on value-neutral methods in social sciences as well, the relationship between theory and history in economics as well as the dire necessity to complement economics with political science, law, ethnology, psychology and, above all, philosophy. These topics are, indeed, also central in Eucken's intellectual legacy.

The claim that Hayek pays tributes to Eucken primarily "on ceremonial occasions" and that there is otherwise a "benign neglect" when it comes to the explicit references to each other in

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541) it does not become clear if he was already the person to read the fourth lecture, it is to be noted that the 1989 edited volume of Alan Peacock (having had a brilliant career in British economics academia) and Hans Willgerodt (successor to Alfred Müller-Armack at the University of Cologne and co-directing the Institute for Economic Policy in the period 1963-1989; Hans Willgerodt being Röpke's nephew, the original of the Röpke papers are preserved at this Institute in Cologne) is one of the few examples of both original scholarship on ordoliberalism in English and of English translations of original German texts. (Peacock/Willgerodt 1989)

their publications (Streit/Wohlgemuth 1997, 1; Wohlgemuth 2013, 149-150, 155-156) seems, after our analysis, to be somewhat too strong. However, it is true in the course of Hayek's evolution the commonalities which are to be observed in the 1930s and 1940s strongly decline. In "The Constitution of Liberty" there is indeed no explicit reference to Eucken's work, but in the – not alphabetically ordered – acknowledgements to the people to whom he feels particularly strong indebtedness and agreement, Eucken figures fourth after Mises, Knight and Cannan – and thus before Röpke, Robbins, Popper and Polanyi. (Hayek 1960/2011, 41) Although upon his appointment at the University of Freiburg he almost immediately started serving as Director of the Walter Eucken Institut and remained its Honorary President until his very death (also, he was member of the editorial board of the *Ordo* Yearbook from 1948 to 1991), the affinities towards the ordoliberalists become somewhat more reserved. In the same recollections from the beginning of our paper where he esteems Eucken in the highest possible way, there is a mentioning of the group around Eucken which sounds rather different:

“Conceivably an indigenous liberal development might have emerged in Germany. It did manifest itself on a small scale in the guise of the *Ordo* yearbook and the *Ordo* circle, though this was, shall we say, a restrained liberalism. But the *Ordo* circle never matured into a major movement. It lacked the inspired leader that Eucken would have been.” (Hayek 1983/1992, 189-190, italics in the original)

It is obviously the personality of Eucken which Hayek perceived as indispensable for this group of German liberals not to become of one of the “restrained” type. Again in his late work, there are two additional references which, the one explicit and the other conjectural, shed interesting light on the “late” Hayek's perspective on the ordoliberalists and his earlier affinities to this group. In the third volume of “Law, Legislation and Liberty”, Hayek clearly pleads for competition policy being entirely of the negative type, i.e. that government should only be in charge of removing barriers and restraints to trade. Quite to the contrary of his statement at the MPS 1947 meeting, where he explicitly declared competition policy a crucial part of the positive program (Hayek 1947/1948, 112-116), by the late 1970s he is very sceptical of the role of government in competition policy, as becomes evident from the following quotation, containing again reservations to the later generations of neoliberals (possibly aiming again at the “restrained liberalism” of the later “Ordo circle” but also, in effect, opposing here Eucken's own notions on competition policy):

“That it is not monopoly but only the prevention of competition [...] which is morally wrong should be specially remembered by those “neoliberals” who believe that they must show their impartiality by thundering against all enterprise monopoly [...] forgetting that much enterprise monopoly is the result of better performance.” (Hayek 1979/1981, 83)

The second reference is to be found in the 1976 preface to a new edition of “The Road to Serfdom”. Apart from embedding this book in his later writings, Hayek made a noteworthy reflection as to his self-perception at the time of the book was originally written and published in 1944. Although his overall assessment of the book and its impact was positive, he makes one qualification which indeed sounds like an apology to his new audience in the 1970s:

“...a fault which is perhaps pardonable when it is remembered that when I wrote, Russia was our war-time ally – and that I had not wholly freed myself from all the current interventionist superstitions, and in consequence still made various concessions which I now think unwarranted.” (Hayek 1944/2007, 55)

After our analysis of his particularly strong affinities to the ordoliberal (and “Old Chicago”) approach precisely in the 1940s, the hypothesis that the “current interventionist superstitions” of the 1940s are directly linked to the Eucken/Simons type of reasoning appears justified. One might suggest that this Hayekian reflection means somewhat automatically a re-approximation of Hayek to his mentor Mises in the end of Hayek’s career. In the paper, we on purpose did not in detail touch upon the special role of Mises in the triangle Hayek-Röpke-Eucken. Apart from the well-known story of Mises storming out of an MPS session with the “bunch of socialist” exclamation, his relationship to the ordoliberals does not appear to be as simple as presented e.g. in Hülsmann 2007 or Hülsmann 2012. This would require a separate analysis, especially with regard to some very recent archival findings.

To conclude the paper, let us attempt to present our argument “in a nutshell”. What we hope to have shown is that the relationship of Eucken and Hayek in the period 1945-1950 is a very personal one, which has immediate consequences for the MPS and its recruitment procedure of German members, but also has consequences as to influences in the debate between Eucken and Hayek. When comparing their political economies, both when using their correspondence and their presentations at the MPS meetings we identify a very nuanced and differentiated picture. Both of them look for the commonalities in their approaches and indeed one has the feeling of a “conjoint project”. When analyzed in detail, their perception of the role of government do differ, especially due to their different assessment as to how relevant the economic power argument is, and due to their different rankings as to the primacy of order versus the primacy of individual freedom. Overall we wish to have shown that their debate oscillates, and that especially in public they stress the indeed existing proximity in their approaches, whereas in private correspondence they can be rather critical to each other. They are raised in different traditions; not only in terms of economics, but also on the broader field of philosophy (Zweynert 2013, 110-116) and this certainly leaves an imprint on the specificities of their approaches. Hayek in this phase is indeed a proponent of a “laissez faire within rules” ideal when it comes to his social philosophy. Later on, in the Hunold Affair of the MPS many ordoliberals leave the society, which, apart from his own methodological evolution, might have contributed to his “restrained liberalism” objection as to the later generations of the ordoliberals. Also, the MPS itself changes radically in this very period, not only because a large ordoliberal fraction leaves, but because the intellectual leadership within the remaining membership slowly shifts away from Hayek and towards Milton Friedman, as shown in detail in Burgin 2012.

Seen from today’s transatlantic perspective, there is an interesting recent development we would like to underscore as an outlook. As is well known, in the second half of the 20<sup>th</sup> century, political economy had to be re-born in the United States and to emancipate itself from economics on many levels. Let us remind that two of the giants of this revival of American political economy were related both institutionally and, above all, philosophically to the Freiburg School. James Buchanan served for many years as Honorary President of the Walter Eucken Institut, visiting the Institute on a regular basis, his last visit being in 2012. In numerous public appearances over the last years, most notably at the Summer Institutes for the History of Economics of Sandra Peart and David Levy at the University of Richmond, but also when discussing papers on the Chicago School by Ross Emmett, Rob van Horn and Edward Nik-Khan at the Southern Economic Association 2011 conference, Buchanan underscored the proximity of his Constitutional Political Economy approach to the “Old Chicago” and the Freiburg School (University of Richmond 2013).

What might be less widely known is that also Elinor Ostrom paid several visits to the Walter Eucken Institut, since her own research made her take particular interest in the origins of ordoliberal thinking. She last visited the Institute in 2007 for several weeks, a planned visit in 2011 becoming impossible because of her disease. When reviewing Peter Boettke's "Living Economics" for the Frankfurter Allgemeine Zeitung in November 2012, one of the authors of this paper claimed there that Boettke's own approach to economics spanning the essays in the volume does not suit the cliché about Austrians as enemies of the state. Instead, the entire volume appears as penetrated by an ordoliberal plea for the necessities of the rules of the game. These, however, do not have to be automatically provided by the state, as becomes clear in Boettke's appraisal of Elinor and Vincent Ostrom's oeuvre. (Kolev 2012, 12) Only very recently, by a pronouncement of Peter Boettke in social media commenting on a forthcoming workshop on Ostrom's work in Berlin, our attention was drawn to Boettke's statement that in his earlier work on the Ostrosms' he "tends to stress their intellectual ties to public choice, new institutionalism, and ordo liberalism." (Boettke 2013) A subsequent re-reading of the two essays on Elinor and Vincent Ostrom in "Living Economics" revealed to us an indeed interesting detail. Even though, probably by omission, the name of Eucken does not figure in the volume's index, in one of the numerous footnotes in the first essay on the Ostrosms, there is footnote 16 which contains the information that when Vincent Ostrom used "to criticize 'model thinking', Vincent Ostrom draws on the work of both W. Eucken [sic], *The Foundations of Economics* (1940; repr., Chicago: University of Chicago Press, 1951) and H. Albert, "Modell-Denken und historische Wirklichkeit", in: *Ökonomisches Denken und soziale Ordnung*, edited by H. Albert (Tübingen: J.C.B Mohr, 1984), 39-61." (Boettke 2012, p. 148) Being now aware of very recent literature which has taken up Boettke's Ostrosms-ordoliberalism nexus (Araral/Amri 2013, 17; Groenewegen 2010, 113), we may claim that even over 60 years after Walter Eucken's death, his legacy is alive on both sides of the Atlantic and, what is even more important, is an inspiration for new research programs.

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## Appendix – Diary notes of Leonhard Miksch<sup>72</sup>

Seelisberg Switzerland, 4 July 1949 Thanks to Veit's intervention I managed to obtain my passport on Friday, even though the VfW,<sup>73</sup> no doubt due to these peculiar coincidences that always seem to work against me, had utterly failed. Early on Saturday, I went first to Freiburg, admittedly too late in order to go to the ministry, which had been my intention. Sunday, I continued my journey with Eucken and Karl Friedrich Maier, and on our way, via Basel and Lucerne, we were joined by Hensel, Böhm, Veit, Müller-Armak,<sup>74</sup> Ilau and Pfister. "The departmental outing of the "Freiburg School"", I said. It was the first time I set foot in Switzerland and the first time I had left Germany in many years. It seems time has stopped here, as though Germany were only a bad dream. The difference is no longer as great as it was before the monetary reform, it must have been unfathomable then; nevertheless, it remains stark. What clean streets! It is then that one is struck by the realization that the dust of the rubble still covers German towns and cities, that everywhere it sticks to our shoes, that it floats in the air like a peculiar atmosphere. And Lucerne. This peaceful, rich life, under the sparkling sun, this insouciance; memories from bygone days were awoken, memories from the time before 1914.

(...)

The conference began today in the distinguished and cosy lobby of the hotel, which is decorated with good reproductions of the old masters. We sit comfortably and behold the mountainous landscape through the large windows. But I don't quite follow. I don't understand enough of the debate that is held exclusively in English. Nevertheless, I have come to realize that the line of classical liberalism is much more strictly adhered to abroad, such that our approach is not understood at all.

(...)

Up to now, we Germans have been deliberately discreet. The disposition of the Dutch and the French is not amicable. And yet about a fifth of those present come from Germany, even though Hajek,<sup>75</sup> out of caution, had registered Rüstow (who has not come) as being Turkish. Many more, of course, understand German, as most Americans are emigrants, Mises, Haberler, Schütz.

(...)

The elderly Mises asked me yesterday what I had done, and when I answered that I had worked for the Frankfurter Zeitung until the end, he repeated this last remark "until the end" with obvious disapproval.

(...)

5 July 1949 Hahn said yesterday that we were inbreeding in Germany - he actually used a much cruder image - and that we should focus exclusively on reading for a few years, American literature, and stop writing.

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<sup>72</sup> Unpublished manuscript; copy at the Walter Eucken Institut, Freiburg. Translation of the appendix by Sigrid Saou, Manchester.

<sup>73</sup> "Verwaltung für Wirtschaft" ("Administration of the Economy") was institution headed by Ludwig Erhard since March 1948 which was seminal for implementing Erhard's liberalization reforms of June 1948.

<sup>74</sup> Spelled with a "k" in the original.

<sup>75</sup> Spelled with a "j" in the original.

This morning everything continued as before, but a little revolution occurred this afternoon, led by Popper, London. He seems to be closer to us, he has even read my article about monetary order with great interest. Hans Kohn, former correspondent for the Frankfurter Zeitung in the Near East and now historian in Massachusetts, supported us even more strongly. This is how Böhm received his queue for a contribution to the discussion, in which he explained that a competitive order could only be realized if the workers supported it.

I am curious to see how this develops. For the time being, I am not sure. Hajek<sup>76</sup> remains very discreet and smiles his friendly Viennese smile, both diplomatic and ambiguous, Haberler has little spirit, Hahn is incredibly smart, he is probably the smartest in the room, but purely analytical and at bottom a cynical too, Rueff has an impressive personality, but I don't understand him as he mostly speaks French, Roepke has only just arrived. For Hahn, the issue is quite simple: "Can a depression be avoided through wage increases?" Of course not. "Can one get trade unions to realize that?" Such questioning has admittedly little to do with our concerns.

7 July 1949 Yesterday a very nice excursion to Rütliwiese and Tellsplatte in the best of moods. On the way down I walked with Moetteli, we agreed that I would report monthly to the Neue Züricher Zeitung on the economic policy situation. Hryntschak asked me for some contributions for the Wiener Freie Presse. On the steamboat, I conversed with Mrs. Eucken, who has also joined us now.

(...)

8 July 1949 Today Lutz read the presentation that I drew up yesterday and that I translated into English with the friendly help of Miss Wedgwood. It was the second draft, the first had been sent out, but it had later seemed to me to be too abstract. I did not actually have much to say about the topic "The unemployed and the unemployable", especially as this was still unfamiliar ground to me. I felt as though I had to write a school essay about a subject such as "Our classroom" or "A Sunday excursion". As often, I let things drift and put it off until the last minute. Then Lutz started worrying, entirely justifiably, that I wouldn't stress the English words in the right way, but even though he spoke with the correct pronunciation, he read out all the main points monotonously and without pausing. I was on tenterhooks. My attempt to outline and further substantiate a liberal programme admittedly seems to have had no effect whatsoever on the audience, if one excepts the amusement caused by Rappard, today's chairman, who, following the presentation, told the story with the concept of the elephant, which was certainly funny but neither just nor fair. The debate immediately returned to concrete issues. I had once again tried to ground the liberal approach in Christian natural justice and show that because of the fallacies of classical liberalism and of the fact that, for historical reasons, social reform had had to pass through two war economies, the necessary polarity between the individual and the community had wrongly come to be viewed as the incompatible antithesis of freedom and administrative coercion, rather than correctly assuming the form of freedom and constitutional order. Rappard, this typical venerable old man with his mane of shiny white hair, did not grasp any of this, nor did the others. It seems that I have contributed to widen the gap between the Freiburg Circle and the others, rather than help bridging it. But I have learned a lesson: one either speaks for oneself or else remains silent.

Yesterday evening we were still talking about the political situation in Germany. Evenings are reserved for topics that are not on the agenda but the discussion of which is wished for. Eucken aptly described the emptiness and indecisiveness currently befalling the masses in Germany, a trait that manifests itself as openness of mind among students, which can lead one

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<sup>76</sup> Spelled with a "j" in the original.

to conclude that it would not be too difficult to motivate the broader social classes to take on new endeavours. Müller spoke of the increasing disposition of universities towards concrete and practical effectiveness. Answering a question by Davenport, I said that a Rapallo policy was out of the question for Germany, and answering de Jouvenel, I said that the federalist-centralist issue did not spawn much interest in Germany and that it was very much overrated in France. Here, I insisted on the fact that I did not believe in a revival of German *machtspolitik*. Böhm disagreed and reminded us of certain expressions currently used by the people, hopes for a new war, nationalist phrases, complaints against the occupying forces. Unfortunately, the discussion ended at 11, otherwise, I would have added that in my opinion the examples given by Böhm were simply an expression of the emptiness, the void, that Eucken had mentioned, not that of a real political opinion. But perhaps I am too optimistic. After all, no one knows.

9 July 1949 The turn taken by the discussion yesterday was quite satisfactory, as it resulted exactly in what I had previously said, namely that the relevant issue was not how to deal with the unemployed but how to prevent the occurrence of unemployment. This, of course, can only be attempted through the course of an economic constitution. Thus I remarked that it seemed that my elephant was not so far away from the reality. In return, Mises launched a final and sudden attack against me because I had said that classical liberalism had encouraged selfishness and was thus at odds with morality. This was probably the only line he had read in the presentation that, by then, had been copied and distributed, as he did not see fit to take the rest into account. Instead he hinted at "totalitarian lines of thought". This all seemed quite ridiculous to me, but it infuriated Eucken. This led to a heated debate, in the course of which Mises exclaimed: "What, Adam Smith! I am Liberalism". If you ask me, his Liberalism is a rather jaded Manchesterism that, its logical coherence notwithstanding, gives the impression of a crafty and biased ideology. There is no other monopoly than that of the trade unions, no other problem than excessive wages. With such views, I could also earn a lot of money in Germany. After dinner, he had calmed down and told me amicably that we needn't quarrel. I told him that I agreed and that I was fully aware of the respect I owed a man by far my elder, but that I must nevertheless draw attention to the fact that he had attacked me and not I him. As a matter of fact, views such as those from Mises can only be harmful and sap all action.

Dinner with philosopher Schütz, who is very pessimistic. Most emigrants are. America is not up to the task, it could and might turn its back on European politics, the Marshall funds are being wasted, everyone knows that. "We have", I responded, "been warning against this international planned economy for a long time". Schütz and Mrs. Eucken spoke of the possibility of having a collection of articles written under the Third Reich and reflecting opposition published in America. Mrs. Eucken asked me whether Dorothy Thompson might be a potential editor. I think that the opposition today is hardly discernible. Outsiders cannot understand what a word often means.

Rueff left yesterday. The French were particularly reserved towards us. With the exception of de Jouvenel, perhaps.

(...)

Mannheim, 11 July 1949 The Euckens, Maier, de Graaf, Renoy and I departed from Sellisberg<sup>77</sup> at midday on Sunday. The weather was nice again, the sun beat down mercilessly on our boat.

(...)

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<sup>77</sup> Spelled "Sellisberg" in the original.

Just as I, Eucken had the impression that we could not learn as much from abroad as Hahn thought. The reasoning in morphological order elements developed by the Freiburg School is missing elsewhere. This morphological system is greatly superior. It was a good thing we did not speak better English, otherwise we would have reasoned them into the ground, of that I am convinced would not have been wise for tactical reasons.

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