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Education Premiums in Cambodia: Dummy Variables Revisited and Recent Data

John Humphreys¹

[LINK TO ABSTRACT](#)

In their 2010 *Asian Economic Journal* paper, Ashish Lall and Chris Sakellariou made a valuable contribution to the understanding of education in Cambodia. Their paper represents the most robust analysis of the Cambodian education premium yet published, reporting premiums for men and women from three different time periods (1997, 2004, 2007), including a series of control variables in their regressions, and using both OLS and IV methodology.²

Following a convention of education economics, Lall and Sakellariou (2010) use a variation of the standard Mincer model (see Heckman et al. 2005), where the logarithm of wages is determined by education, experience, and a series of control variables, including locality (urban/rural), employment sector (public/private) and marriage status. Lall and Sakellariou report results separately for males and females.

Since the Mincer model is log-linear, the coefficient for total years of education—a continuous variable—can be interpreted, without any need for adjustment, as the education premium. For the 2007 data, for example, Lall and Sakellariou find an education coefficient of 0.066 for men and 0.068 for women (2010, 342), which means that every additional year of schooling is expected to

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2. The reader should note that Lall and Sakellariou (2010) calculated the ‘education premium’ and not the ‘return on education.’ While related, these two concepts are not the same: the education premium is a measure of the change in income associated with a change in education, whereas the return on education measures the relationship between the education premium and the cost of attaining that education. Lall and Sakellariou are clear and consistent throughout their paper in focusing on the education premium, and consequently in this paper I likewise concentrate solely on the education premium.

increase incomes by 6.6 and 6.8 percent respectively. I do not challenge the above estimates, which remain the best published estimates for the Cambodian education premium.

Continuing with convention, Lall and Sakellariou also provide a model that allows for non-linearity in the education premium. They do this by replacing the continuous education regressor with a series of education dummy variables, one for each of four levels of education (primary, junior high, senior high, university). Based on the coefficients for these dummy variables, Lall and Sakellariou report an annualized education premium for each different level of education. Where the first model estimated, e.g., an education premium of 6.8 percent for women in 2007, Lall and Sakellariou reported that the non-linear model estimated an annualized education premium of 7.9 percent for primary school, 5.5 percent for junior high, 7.8 percent for senior high, and 12 percent for university (2010, 343).

Those estimates, however, are based on an error in how Lall and Sakellariou interpreted the dummy variable coefficients, which results in a downward bias. Robert Halvorsen and Raymond Palmquist (1980) noted that dummy variable coefficients in log-linear models are commonly misinterpreted, pointing to several examples including papers by luminaries such as Robert Lucas (1977) and Zvi Griliches (1971). At least Lall and Sakellariou are in good company.

Again, the coefficient for a continuous regressor can be interpreted directly to be the premium. But Halvorsen and Palmquist (1980) pointed out that, when the regressor is a dummy variable, the coefficient ϵ needs to be transformed by $\exp(\epsilon) - 1$ before it can be interpreted as a premium. Further, Peter Kennedy (1981) observed that the Halvorsen and Palmquist transformation requires that we know the value of ϵ with certainty, and Kennedy provided a more robust solution where the estimated coefficient ϵ' needs to be transformed by $\exp[\epsilon' - \frac{1}{2}\text{Var}(\epsilon')] - 1$ before it can be interpreted as a premium. Lall and Sakellariou did not use either of these transformations, and the omission substantially changes the results.

In correspondence, Chris Sakellariou kindly provided the coefficients and t-values for each of the dummy variables; I reproduce these as column (1) in Tables 1 and 2 below. Then, I report three different results for the premium: annualized premiums as calculated by Lall and Sakellariou (column 2); annualized premiums calculated by me using the Halvorsen and Palmquist transformation (column 3); and annualized premiums calculated by me using the Kennedy transformation (column 4).

EDUCATION PREMIUMS IN CAMBODIA

TABLE 1. Annualized education qualifications premiums, among men ages 22–65 employed for wages

	(1) Coefficient (and t-value)	(2) Lall and Sakellariou (2010) result	(3) Halvorsen- Palmquist transformation	(4) Kennedy transformation
<u>1997</u>				
Primary	0.042 (0.6)	1.4%	1.4%	1.3%
Junior high	0.168 (2.2)	4.2%	4.7%	4.6%
Senior high	0.273 (3.3)	3.5%	4.4%	4.3%
University	0.573 (3.8)	7.5%	11.5%	11.1%
<u>2003/04</u>				
Primary	0.273 (4.7)	9.1%	10.5%	10.4%
Junior high	0.513 (8.8)	8.0%	11.9%	11.9%
Senior high	0.702 (10.9)	6.3%	11.6%	11.5%
University	1.186 (13.1)	12.1%	31.4%	31.2%
<u>2007</u>				
Primary	0.204 (1.8)	6.8%	7.5%	7.3%
Junior high	0.438 (4.5)	7.8%	10.8%	10.8%
Senior high	0.639 (6.3)	6.7%	11.5%	11.4%
University	1.091 (7.9)	11.3%	27.1%	26.6%

TABLE 2. Annualized education qualifications premiums, among women ages 22–65 employed for wages

	(1) Coefficient (and t-values)	(2) Lall and Sakellariou (2010) result	(3) Halvorsen- Palmquist transformation	(4) Kennedy transformation
<u>1997</u>				
Primary	0.009 (0.1)	0.3%	0.3%	0.2%
Junior high	0.066 (0.5)	1.9%	2.0%	1.8%
Senior high	-0.033 (0.2)	-3.3%*	-3.4%	-3.5%
University	-0.023 (0.2)	0.3%	0.2%	0.4%
<u>2003/04</u>				
Primary	0.219 (3.6)	7.3%	8.2%	8.1%
Junior high	0.438 (5.6)	7.3%	10.2%	10.1%
Senior high	0.669 (7.0)	7.7%	13.4%	13.3%
University	1.265 (7.1)	14.9%	39.8%	38.6%
<u>2007</u>				
Primary	0.237 (3.6)	7.9%	8.9%	8.8%
Junior high	0.402 (4.5)	5.5%	7.6%	7.5%
Senior high	0.636 (3.9)	7.8%	13.1%	12.5%
University	1.116 (6.8)	12.0%	29.1%	28.7%
*In their paper, Lall and Sakellariou reported this value as -1.1 percent (2010, 343, Table 8), based on the total senior high coefficient instead of the relevant difference.				

To calculate the annualized premium for a given level (e.g., university), the process is to convert regression coefficients into premiums, then take the difference between the premium for the level of interest and the premium for the preceding level (e.g., the university premium *minus* the senior high premium), and then divide that difference by the number of years of study for the given level (e.g., four years for university).³

To provide a numeric example, the regression results for men in 2007 show a university coefficient of 1.091 and a high school coefficient of 0.639 (see bottom two rows of Table 1). But at this point Lall and Sakellariou did *not* transform the coefficients into premiums. They took the difference between the two untransformed coefficients ($1.091 - 0.639 = 0.452$) and then divided that by the average number of years at university ($0.452/4 = 0.113$), and so they reported an annualized premium for the university level of 11.3 percent. In contrast, if they had transformed the coefficients prior to subtracting and dividing, they would have found that annualized premium to be 27.1 percent (Halvorsen-Palmquist transformation) or 26.6 percent (Kennedy transformation).

As shown in the above tables, the adjusted results are significantly different from those originally published in Lall and Sakellariou, especially in the case of university education. The new results suggest that education premiums in Cambodia are much higher than previously thought.

The updated premiums are high by international standards, but the premiums build off a very low base, so the dollar increase is not large. Once the cost of university is factored in, the rate of return on education is less impressive, though still above average. Exploring the reasons for the relatively high university premium goes beyond the scope of this article, but one possible reason is that a university degree can help graduates from regional towns to get a job in Phnom Penh, where wages are higher.

A minor addition: More recent data

It is now possible to extend the work of Lall and Sakellariou (2010) by applying their model to more recent versions of their source data. In their original paper, Lall and Sakellariou applied a consistent model to data taken from the Cambodian Socio-Economic Survey (CSES) for 1997, 2003/04, and 2007. It may be of interest to provide the equivalent results based on the 2010 CSES results.

The 2010 CSES results provided by Cambodia's National Institute of Statistics did not include one of the variables used by Lall and Sakellariou (location

3. University takes four years; each other level takes three years.

= rural/urban) and so it was necessary to create a proxy variable (work type = agriculture/other) as a replacement. In another minor difference, the original Lall and Sakellariou model used “rural” as the base case and provided a coefficient for the dummy variable “urban,” while the model applied to the 2010 data uses “non-agriculture” as the base case and provides a coefficient for the dummy variable “agriculture.” A third difference between the Lall and Sakellariou models and this imitation is that the former use only data for employed persons of ages 22 to 65, while I use data for employed persons of any age.⁴ Unfortunately, these differences may make a direct comparison unreliable.

TABLE 3. Regression coefficients by gender, among persons of any age who are employed for wages, 2010 data

Regression:	(1)	(2)	(3)	(4)
Variable	Men	Women	Men	Women
Years of schooling	0.083 (18.1)	0.069 (12.1)		
Primary			0.161 (3.6)	0.102 (2.1)
Junior high			0.298 (5.7)	0.257 (4.2)
Senior high			0.709 (11.7)	0.685 (8.9)
University			1.301 (18.1)	1.220 (12.5)
Experience	0.024 (4.3)	0.007 (1.3)	0.021 (3.9)	0.009 (1.8)
Experience ²	-0.0003 (3.3)	-0.0001 (0.7)	-0.0003 (3.1)	-0.0002 (1.8)
Married	0.052 (1.1)	0.104 (2.5)	0.063 (1.4)	0.083 (2.0)
Agriculture	-0.700 (15.1)	-0.684 (14.7)	-0.775 (16.9)	-0.746 (16.5)
Public sector	-0.404 (8.9)	-0.254 (3.7)	-0.389 (8.6)	-0.238 (3.5)
Constant	-1.73 (24.6)	-1.61 (21.9)	-1.34 (21.9)	-1.32 (20.8)
Adjusted R ²	0.318	0.313	0.332	0.334
N	1918	1393	1918	1393
<i>Note:</i> t-values in parentheses with robust standard errors. Regressions (1) and (2) use continuous variable for education, while (3) and (4) use dummy variables.				

Table 3 here presents the regression coefficients, in a format matching that of Lall and Sakellariou’s Tables 7 and 8 (2010, 342, 343)—dummy variable coef-

4. Of the employed persons in the 2010 data set, 23 percent (767 of 3,311) are either younger than 22 years old or older than 65.

ficients are unadjusted. It is worth noting that the negative coefficient for public service work remains in the 2010 results. Lall and Sakellariou (2010, 344) hypothesized that the negative coefficient might be due to greater job security and/or less demanding work conditions. Another possibility worth considering is that people are willing to accept public sector jobs at a lower wage because they are aware that working in the bureaucracy will provide opportunities to demand bribes, favors, or ‘service fees’ from clients. The above data does not provide sufficient data to be able to test these different theories.

Table 4 reports the annualized education premiums based on my regressions for 2010, using the Kennedy transformation. The table reports these premiums alongside the premiums I calculated from Lall and Sakellariou’s regression results (as also reported in Tables 1 and 2). Consistent with the earlier years, the results based on 2010 data show an increasing return on education, though in 2010 this is even more pronounced. Compared to the 2007 results, the education premium in 2010 is smaller for early education (primary and junior high) and larger for higher education (senior high and university). Unfortunately, the differences between the 2007 and 2010 models make it difficult to interpret these changes.

TABLE 4. Annualized education qualifications premiums, among persons employed for wages

	Men ages 22–65			Men, any age
	1997	2003/04	2007	2010
Primary	1.3%	10.4%	7.3%	5.8%
Junior high	4.6%	11.9%	10.8%	5.7%
Senior high	4.3%	11.5%	11.4%	22.8%
University	11.1%	31.2%	26.6%	40.9%
	Women ages 22–65			Women, any age
	1997	2003/04	2007	2010
Primary	0.2%	8.1%	8.8%	3.5%
Junior high	1.8%	10.1%	7.5%	6.2%
Senior high	–3.5%	13.3%	12.5%	22.9%
University	0.4%	38.6%	28.7%	34.8%

Note: Kennedy (1981) transformation of: for 1997, 2003/04, and 2007, regression coefficients as provided by Lall and Sakellariou; for 2010, regression coefficients as reported in Table 3 column (3).

The main conclusions that we can draw from the 2010 results are that the Cambodian education premium is convex (increasing returns) and that the university premium is high by international standards.

Appendix

Data and code for the results found in this paper can be downloaded [here](#).

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Why Weren't Left Economists More Opposed and More Vocal on the Export-Import Bank?

Veronique de Rugy¹, Ryan Daza, and Daniel B. Klein²

[LINK TO ABSTRACT](#)

Ex-Im seems to me to be another one of those issues, like housing policy, on which conservative economists have it right and the prominent left-leaning economists are silent.

—Arnold Kling (2015)

Like Arnold Kling, we think that the Export-Import Bank (“Ex-Im”) is a bad thing and that its demise is to be welcomed. As for Kling’s observation about left economists, we investigate and find it to be quite sound. Our motivation is to promote reflection on a question of political psychology: Why weren’t left economists, during recent periods of active discussion, more opposed to Ex-Im and more vocal? It is a question of political psychology and, as Kling indicates, one that pertains to other policy issues as well.

From 2013 to the present in 2015, the Export-Import Bank has been widely and actively discussed, because its charter was expiring and because people then wrangled (and still wrangle) over its extension and possible recharter. An important development in the politics of Ex-Im has been that, whereas in earlier years Ex-Im tended to find support among Republicans, in recent years the more free-market Republicans have opposed it; such opposition by ‘Tea Party’ Republicans may have created a dynamic wherein the Democrats became more supportive of Ex-Im

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than they had been. Another possibility is that maybe the corporate beneficiaries of Ex-Im have trended more Democratic, and maybe their relationship with the Democrats has grown cozier than it had been. Whatever the reasons, a new and now rather partisan conflict has emerged over Ex-Im, a conflict treated by David Dayen (2014) in an article titled “Wingnuts and Liberals’ Bizarre Role Reversal: Why Export-Import Politics Are So Perverse” (see also E. Klein 2015; Mascaro 2015).

Working from a list of two hundred top economics blogs, we examine the discourse on the Export-Import Bank. We look at who opposed it, who supported it, and who was silent on it, and then we consider the ideological profile of the different groups.

The motivation and moral of our paper is predicated on a number of things, including:

- an understanding of what Ex-Im does;
- a judgment that, on the whole, it is bad;
- a judgment that its badness corresponds in great measure to what leftists say they oppose, such as corporate welfare, privilege for the politically connected, a lack of transparency, as well as plain old economic distortion and inefficiency.

In what follows we go very light on explaining what Ex-Im does and on the two judgments, citing other sources for elaboration.

What the Export-Import Bank does

Created in 1934, the Export-Import Bank’s chief activities in recent decades have involved the financing of loans that conduce to increased export sales of selected American companies.³ Such arrangements take several forms. There are four primary kinds of players:

- The Export-Import Bank (Ex-Im).
- American companies selling for export and selected by Ex-Im. Examples: Boeing, General Electric, Bechtel.
- Foreign entities, especially privately owned and state-owned companies but also government organizations, which buy the exports. Examples: PEMEX Exploración y Producción, Emirates, Ryanair.

3. For a history of Ex-Im covering 1934 to 2000, see Becker and McClenahan 2003.

- American financiers. Examples: JPMorgan Chase, TD Bank, Private Export Funding Corporation, Citibank.

To illustrate the usual forms that arrangements take, we offer the examples below. Each bullet point describes a real arrangement, representing a common form that Ex-Im arrangements take.⁴

- Ex-Im makes direct loans to El Al Israel Airlines to buy airplanes from Boeing. Boeing benefits from increased demand for its product.
- Ex-Im arranges for JPMorgan Chase to lend money to Emirates to buy from Boeing, with Ex-Im guaranteeing the loan that JPMorgan Chase makes to Emirates (that is, if Emirates defaults on the loan, Ex-Im will step in, paying to JPMorgan Chase up to 85 percent of the amount lent to Emirates including accrued interest). In this case, JPMorgan Chase gains by risk reduction and by charging, apart from interest charges, special fees to Emirates.
- Enjoying Ex-Im guarantees through Ex-Im’s working capital program, Citibank lends money to Boeing to produce airplanes that are then to be sold to Emirates; here again Citibank receives risk reduction and special fees paid by Boeing.
- A lender, enjoying Ex-Im guarantees, lends money to small companies in Boeing’s supply chain and when Boeing receives the goods or services from the small company, it then reimburses the lender. Here the small business benefits from a discounted loan, and Boeing benefits because it will not have to use its own financing arm to help its suppliers—instead it transfers the risk to taxpayers.

Because Ex-Im “is backed by the full faith and credit of the United States” ([link](#)), that is, the U.S. taxpayers, Ex-Im can arrange financing at much reduced risk. Being backed by taxpayers gives Ex-Im an enormous privilege, one that competing financiers lack. Ex-Im is also privileged as a federal government corporation, more specifically the one that is the official U.S. export credit agency; it thereby enjoys status, political access, and influence that other financiers lack. Such privileges are the source of market power and a flow of pecuniary ‘rents.’ The wealth garnered from privilege is, in effect, distributed among the various players, including the officers and staff of Ex-Im itself.

4. There are other forms of arrangements, but those account for much small dollar amounts. For fuller descriptions of what Ex-Im does, data, lists of the top players, and analysis, see the Ex-Im Bank’s webpage “What We Do” ([link](#)); also see de Rugy and Katz 2015; de Rugy 2014b.

Our judgments about the Export-Import Bank

We think that a necessary condition to justify a government intervention is a responsible belief that there exists a really plausible, systemic market failure, one which the intervention is well suited to counteract or overcome, without producing undue ill effects elsewhere. Otherwise, we ought to oppose the intervention. The Export-Import Bank lacks any market-failure justification. A wealth of liberal thought—and we don't mean just blackboard models—favors a presumption against government interventions into markets and other voluntary private affairs. Defenders of Ex-Im do not come close to meeting and overcoming that presumption. Defenses of Ex-Im by economists include Stan Veuger (2014) and Amadou Sy (2014). The economist Paul Rubin suggests that, given political realities, maybe Ex-Im can be justified, even though the “first-best” arrangement would preclude it (Rubin and Rubin 2014; Rubin 2014). Other defenses of Ex-Im include Thomas Donnelly (2014a; 2014b), David Petraeus and Michael O'Hanlon (2014), Loren Thompson (2014), John Murphy (2015), Thomas J. Donohue (2015), and the White House (2015).

Ex-Im's privileges provide it with a platform for subsidizing selected exports. In Adam Smith's time, subsidies were called ‘bounties,’ and he wrote about them at length. The bounties he discussed were also focused on production for export, in part because, otherwise, augmented production might result in much reduced prices in home markets. Quotations from Smith on bounties have been gathered, as an auxiliary to the present article, to represent what he might have said about the Export-Import Bank (D. Klein 2015).

Smith opposed bounties. He writes of economic distortions and inefficiencies, but also of frauds and abuses, as well as corruption of morals and culture. One of the authors of the present paper, Veronique de Rugy, participates in the debate over Ex-Im (see, e.g., de Rugy 2014a; 2014b; 2015). She explains the economic distortions and inefficiencies involved, but also the pathologies of governmentalizing affairs: privilege, politicking, favoritism, lack of transparency, lack of accountability, corruption, and so on. Such inefficiencies and pathologies are things that people on the left claim to oppose. Other works arguing against Ex-Im include Sallie James (2011), Doug Bandow (2014), Daniel Ikenson (2014), Michael Strain (2015), and Diane Katz (2015).

Most of the literature we cite above, though often authored by people with Ph.D.s, emanates from Washington, D.C.-area think tanks and research centers, especially the Cato Institute, the Heritage Foundation, and the Mercatus Center at George Mason University (opposing Ex-Im), the American Enterprise Institute

(mixed on Ex-Im), and the Brookings Institution (supporting Ex-Im). Academic literature surveying or assessing the Export-Import Bank simply seems to be lacking. The Heritage Foundation has published a survey of research, “The Export-Import Bank: What the Scholarship Says” (Furth 2014), but the academic literature treated deals only generally, often theoretically, with strategic trade policy and export subsidies (e.g., Krugman 1986).

In addition to scholarly articles and research papers, blogs are another venue available to economists who are oriented toward addressing the public at large, usually about policy issues and politics.⁵ By examining the content of blogs we can identify the relative extent to which an issue is discussed, and in what manner it is discussed, by economists of different character types. When looking at the treatment of Ex-Im by economics bloggers, a clear pattern emerges with regard to divisions of economists along ideological lines.

Method

We used an August 2013 Analytica ranking of the top 200 influential economics blogs, ordered by their “Analytica Influence Index” ([link](#)).⁶ At each of the blogs, we searched for “export-import bank,” “export-import,” “ex-im,” and “exim,” using the blog’s internal search engine (if available), supplemented by Google’s search engine when the internal engine yielded no results. We did not limit the search to any particular start date, so the results reach as far back in time as results were found, and go up to August 1, 2015. All results are included in this research.

Results of the blog search

We proceeded to code blog authors into categories on the basis of their blog posts addressing Ex-Im, as shown in Table 1. If a blog site has more than one

5. The IGM Economic Experts Panel ([link](#)), sponsored by the University of Chicago Booth School of Business, has not yet been asked about the Export-Import Bank. We encourage Anil Kashyap, the leading player there, to put the plain question of overall desirability to the panel.

6. We excluded only the blogs that were defunct during the period of searching. If the blogger offered a link to a new web address, we searched the new website address. Some websites were solely blog sites, while others were multifaceted websites offering materials other than the blog itself; such extended materials, such as columns, were not included in this research. For example, the Ludwig von Mises Institute website has an internal blog called *Mises Wire*; the website also has other articles, not used in this research, in its *Mises Daily*.

author, each author is treated separately, with his or her own row in the table.⁷ Within each category code, authors are listed according to their Analytica Influence Index ranking. Of the 200 blogs from the Analytica list, we found nine to be “defunct.” Of the 191 blogs in operation, we coded 147 as “silent on Ex-Im”—a finding that no author on the blog has made a post mentioning Ex-Im. We coded a further 18 blog authors as being “neutral” toward Ex-Im or having made only “insignificant” mentions of Ex-Im. The remaining blog authors are coded as having expressed either “positive” or “negative” judgments toward Ex-Im. Detailed descriptions of the the category codes follow:

- *Defunct*: We identified a blog as defunct if its author(s) indicated as such on the blog or if the link provided by Analytica otherwise could not connect us to the website indicated.⁸
- *Insignificant finds*: This category indicates that the blog author was found to have only mentioned Ex-Im in passing, or only within lists of ‘daily links’ (e.g., in posts at *Crossing Wall Street*). For example, the *Financial Times* blog, *Alphaville*, mentions Ex-Im repeatedly in connection with financial impacts on Boeing.
- *Silent on Ex-Im*: This code indicates that a blog was found to have zero posts mentioning Ex-Im.
- *Multiple clearly negative judgments, One clearly negative judgment, and Only mildly negative judgment, on the whole*: We coded a blog post as “negative” if the author, on the whole, makes a judgment supportive of ending Ex-Im or critical of the institution itself.
- *Only neutral judgments*: If an author raised the Ex-Im issue but makes no judgment on it, or makes a judgment that is not clear, is equivocal, or is only very mild, the post is coded as “neutral.”
- *Positive judgments*: A blogger makes a “positive” judgment when they indicate support for the continued maintenance of the Export-Import Bank or make some other statement in support of what the bank does. Only one blogger, Barry Ritholtz, passes a positive judgment about the bank.⁹

7. Blog posts that are anonymous, do not indicate an author, or give the name of the website as an author are given in the table as “no author.” Two blogposts are cross-posted. Each blog is given its individual row regardless of cross-posting.

8. The defunct blogs are not listed in the table within this article, but they are listed in the Excel file that accompanies this article ([link](#)).

9. This single positive judgment is brief, so we may as well provide the quotation in full: “*WTF? Incoming House majority leader won’t support re-authorizing Export-Import Bank (WSJ) see also Reasons Why Washington, DC, Is the Worst Place Ever (Vice)*” (Ritholtz 2014; hyperlinks and italics are as in original).

LEFT ECONOMISTS ON THE EXPORT-IMPORT BANK

**TABLE 1. Judgments on the Export-Import Bank,
as expressed on economics blogs, grouped and coded by author**

Author	Blog	Linked posts ^a
<i>Multiple clearly negative judgments</i>		
Tyler Cowen	Marginal Revolution	1, 2*, 3, 4, 5
“Tyler Durden”	Zero Hedge	1*, 2, 3, 4, 5, 6, 7, 8*, 9, 10*, 11*, 12, 13, 14
Donald Boudreaux	Cafe Hayek	1*, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20*, 21, 22*, 23, 24, 25, 26, 27*, 28, 29, 30*, 31, 32*, 33, 34, 35*, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55*, 56, 57, 58, 59, 60, 61*, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72
Charles Burris	LRC Blog	1*, 2
Robert Wenzel	Econ Policy Journal	1*, 2*, 3, 4*, 5*, 6, 7*, 8*, 9*, 10, 11
William Shughart	The Beacon	1*, 2, 3*
No author	Mises Wire	1, 2, 3
Dana Rothrock	The Economic Populist	1, 2*, 3*
Daniel Mitchell	International Liberty	1*, 2*, 3, 4, 5, 6*, 7, 8*, 9, 10, 11*, 12, 13*, 14, 15, 16*, 17*, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35*, 36, 37, 38, 39, 40, 41*, 42*, 43
Matt Mitchell	Neighborhood Effects	1*, 2
Alden Abbott	Truth on the Market	1, 2*, 3*
Andrew Roth	Club for Growth	1*, 2, 3, 4, 5, 6, 7, 8*, 9*, 10, 11, 12, 13*, 14, 15, 16*, 17, 18*, 19*, 20
Doug Sachtleben	Club for Growth	1*, 2, 3, 4, 5, 6, 7, 8*, 9, 10, 11*
Barney Keller	Club for Growth	1, 2*, 3*, 4, 5, 6*, 7, 8, 9, 10*, 11, 12, 13*
<i>One clearly negative judgment</i>		
Arnold Kling	EconLog	1
David Henderson	EconLog	1
Greg Mankiw	Greg Mankiw’s Blog	1
Peter Klein	Organizations and Markets ^b	1
Keith Hennessey	Keith Hennessey	1
Peter Boettke	Coordination Problem	1
Robert P. Murphy	Free Advice	1
Peter Klein	The Beacon ^b	1
Robert Higgs	The Beacon	1
Mike Norman	Mike Norman Economics	1
Warren Meyer	Coyote Blog	1
Jeff Deist	Mises Wire	1
John P. Cochran	Mises Wire	1
Carmen Elena Dorobât	Mises Wire	1
Tom Woods	The Tom Woods Show	1

Author	Blog	Linked posts ^a
<i>Only mildly negative judgment, on the whole</i>		
Brad DeLong	Grasping Reality	1*, 2
Jared Bernstein	On the Economy	1*, 2, 3, 4*
Max Keiser	Financial War Reports	1
Paul H. Rubin	Truth on the Market	1, 2*
<i>Only neutral judgments</i>		
Paul Krugman	Conscience of a Liberal	1*, 2
Neil Irwin	The Upshot	1
Yves Smith	Naked Capitalism	1
James Kwak	The Baseline Scenario	1
Noah Smith	Noahpinion	1
Steve Roth	Angry Bear	1
Donald Marron	TAXVOX ^b	1
Robert Reich	Robert Reich	1*, 2, 3
David Llewellyn-Smith	Macro Business	1, 2
Donald Marron	Musing on Economics, Finance, Life ^b	1
Arthur MacEwan	Triple Crisis	1
Matias Vernengo	Naked Keynesianism	1
<i>Positive judgment</i>		
Barry Ritholtz	The Big Picture	1
<i>Insignificant finds</i>		
No author	FT Alphaville	1, 2, 3, 4
Fred Bergsten	Vox	1
Mark Thoma	Economist's View	1
Owen Henstadt	Working Economics Blog	1
Robert E. Scott	Working Economics Blog	1
Renu Zaretsky	TAXVOX	1
Harlod Gleckman	TAXVOX	1
Richard Kogan	Off the Charts	1
No author	Crossing Wall Street	1, 2, 3
George Monbiot	George Monbiot	1
Bud Meyers	The Economic Populist	1

LEFT ECONOMISTS ON THE EXPORT-IMPORT BANK

Author	Blog	Linked posts ^a
<i>Silent on Ex-Im</i>		
Econbrowser; The Money Illusion; Calculated Risk; Next New Deal; Crooked Timber; Freakonomics; Worthwhile Canadian Initiative; Tax Foundation; Interfluidity; Why Nations Fail; Mish's Global Economic Trend Analysis; Credit Writedowns; Liberty Street Economics; The Incidental Economist; The Grumpy Economist; Macro Market Musings; NIESR Blog; iMPdirect; Steve Keen's Debtwatch; Capital Gains and Games; Bruegel; Mainly Macro; Billy Blog; The Irish Economy; New Economic Perspectives; Eschaton; Statistical Modeling, Casual Interference, and Social Science; Macroblog; The Big Questions; Stumbling and Mumbling; Overcoming Bias; Pragmatic Capitalism; Tim Harford; China's Financial Markets; Uneasy Money; Consider the Evidence; Bleeding Heart Libertarians; Confessions of a Supply-Side Liberal; Economics One; The NEF blog; The Volokh Conspiracy; Dani Rodrik's Weblog; Conversable Economist; EURO Intelligence; The Market Monetarist; A Fistful of Euros; Center of the Universe; The Enlightened Economist; The Street Light; Econospeak; TaxProf Blog; Adam Smith Institute; Alt-M; The Reformed Broker; John Kay; Infectious Greed; Cheap Talk; Michael Hudson; John Quiggin; Kids Prefer Cheese; The Market Ticker; Real-World Economics Review Blog; Daniel W. Drezner; ToUChstone; Historinhas; Facts and Other Stubborn Things; New Monetarist Economics; Credit Slips; The Bonddad Blog; The Economic Collapse; Corey Robin; Sober Look; Environmental Economics; Bronte Capital; Club Troppo; Catallaxy Files; Coppola Comment; Of Two Minds; ThinkMarkets; Tax Research UK; A Dash of Insight; Chris Blattman; The Aleph Blog; Economics & Thought; UDADISI; The Slack Wire; Economics for Public Policy; Supply and Demand (In That Order); Development Research Institute; OECD Insights; MacroMania; Economic Thought; Jesse's Cafe Americain; Yanis Varoufakis; Political Calculations; Dan Ariely; Abnormal Returns; Ideas; Monetary Freedom; Azizonomics; Tim Worstall; Falkenblog; Rajiv Sethi; Core Economics; Knowledge Problem; I, Cringley; David Smith's Economics UK; Sanjeev Sabhlok's Revolutionary Blog; Peter Martin; The Epicurean Dealmaker; Economists Do It With Models; Dr. Ed's Blog; Growthology; Multiplier Effect; Economics Intelligence; The Capitol Spectator; Offsetting Behavior; Antonio Fastas On the Global Economy; Owenzidar; Market Design; Economics of Contempt; Balance; Jim Sinclair's Mindset; Environment and Urban Economics; A Economic View of the Environment; Tax Justice Network; The Sports Economist; Mathbabe; Financial Armageddon; Brett Keller; Social Democracy for the 21st Century; Robert Skidelsky; Moneyness; Sparse Thoughts of a Gloomy European Economist; Rick Bookstaber; Alpha.Sources.CV; Karl Whalen; Macro Man; Robert's Stochastic Thoughts; Taking Hayek Seriously; Ralphonomics; Middle-Class Political Economist; Ed Dolan's Econ Blog; Roubini; Adam Smith's Lost Legacy; Greed, Green & Grains; Cassandra Does Tokyo.		
<p><i>Notes:</i> Starred posts are those that, relative to other posts by the same author, were significant in our coding of the author's judgments on Ex-Im. A more detailed presentation of the results of the blog search is available in the Excel file that accompanies this article (link).</p> <p>^aPosts enumerated within a cell are ordered most recent first.</p> <p>^bCross-posted.</p>		

When looking over Table 1, and reflecting on our personal knowledge of the ideologies of the authors, we see that classical-liberal economist bloggers have been quite vocally opposed to Ex-Im, but left-leaning economist bloggers have not been.

‘Give me wisdom and virtue, only not yet’

But I wretched, most wretched, in the very commencement of my early youth, had begged chastity of Thee, and said, “Give me chastity and continency, only not yet.” For I feared lest Thou shouldst hear me soon, and soon cure me of the disease of concupiscence, which I wished to have satisfied, rather than extinguished. And I had wandered through crooked ways in a sacrilegious superstition, not indeed assured thereof, but as preferring it to the others which I did not seek religiously, but opposed maliciously.

—St. Augustine, *Confessions*, Book VIII

The most significant paragraph in Brad DeLong’s only significant blog post on Ex-Im reads:

Me? I’m against the Export-Import Bank. A lower real value for the dollar is a better export-oriented industrial policy if an export-oriented industrial policy is wanted. That said, right now—until the risk-bearing capacity of the private sector recovers to normal levels, and we reattain full employment—we want the federal government to make more loans and shoulder more risk. I’m an Augustinian on this. (DeLong 2014)

That post appeared eight days after Paul Krugman’s only significant post on Ex-Im, in which he said:

So it looks quite likely that the Tea Party will claim a scalp from the business lobby, and kill the Export-Import Bank. And there is a case for doing away with the lender—except that this is the worst possible time for it.

Under normal circumstances, we can argue that ExIm neither improves the US trade balance nor creates jobs. Even if it does succeed in increasing some exports, the standard view would be that any expansion of the US economy would be choked off by a rise in interest rates as the Fed tries to prevent overheating, which would lead to a rise in the dollar, which would lead to a fall in other exports and/or a rise in imports. So you can claim that ExIm is mercantilist trade policy, and counterproductive.

Against this you can make various strategic trade policy arguments, but the case for a special export lender is weak at best.

Right now, however, we’re at the zero lower bound, which means that the Fed won’t raise rates. As I’ve said a number of times, under current conditions mercantilism works—so this is exactly the moment when ending an export-support program really would cost jobs. (Krugman 2014)

Indicating that in “normal circumstances” it is better not to have Ex-Im, both Krugman and DeLong write about the Ex-Im issue as though policymakers have at their regular discretion opportunity to abolish the agency. But the opportunity to abolish it came when Ex-Im’s charter was expiring—the time of these posts—and such an opportunity is very rare. Any such abolition must overcome strong status-quo interest groups, consisting of business interests, union interests, bureaucrats, and politicians, which complete what Gordon Tullock (1975) called the transitional gains trap. Krugman and DeLong must understand that, which makes their attitude curious. We believe that they suffer from some kind of hyperbolic discounting that makes them perpetually Augustinian on such issues.

Conclusion

Among Onalytica’s top 200 economics blogs, a few left economists raised the Ex-Im issue and offered comments that, on balance, seem neutral with regard to the policy issue on the table. But most left economist bloggers simply fell silent on the matter. That list of 200 blogs may not be representative of the relevant universe of economic discourse, but it is our impression that it is. Kling’s observation quoted at the head of this article is found to be sound as regards Ex-Im.

One very notable exception, however, is Dean Baker, a left-leaning economist whose blog, *Beat the Press* ([link](#)), is not included in the Onalytica list. On his blog and elsewhere, Baker has very consistently opposed Ex-Im (see, e.g., Baker 2015a; 2015c). But Baker himself would probably agree with our conclusions here. As he remarks, in a piece titled “Export-Import Bank Debate Reveals the Corruption of Economics” (Baker 2015b): “It is striking that so few economists have been outspoken in opposition to the reauthorization of the Export-Import Bank.”

Kling suggested that Ex-Im is just one topic on which, by and large, normally vocal economists on the left fall distressingly silent. Another topic is investigated by Jeremy Horpedahl (2015), namely Uber, Lyft, and similar transportation network companies, and he finds similar results. Like Kling, we believe that the same pattern can be found on other issues as well.

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Ideology Über Alles? Economics Bloggers on Uber, Lyft, and Other Transportation Network Companies

Jeremy Horpedahl¹

[LINK TO ABSTRACT](#)

For decades in most major U.S. cities, taxicab services have been organized as cartels, often with the support of municipal governments. Recently a new competitive threat has emerged in the form of ‘ridesharing services’ or ‘transportation network companies’ (TNCs), which operate through smartphone apps.² The new apps allow consumers to bypass traditional taxicabs, offering the potential of lower prices, faster service, higher quality, and services when people might not have used a traditional taxicab.

In many cities the taxicab cartels and local regulators have been fighting such services. The fighting has been occurring for one overriding reason: transportation network companies are or have recently been in complete violation of current laws and regulations, or at the very least of questionable legality. In most cities, it is illegal to pick up riders on the street without having the proper government license, and drivers with Uber, Lyft, and other companies typically make no attempt to obtain these licenses. They will either operate in clear violation of the current

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2. In this paper I will use the more cumbersome but accurate phrase *transportation network companies*, abbreviated TNCs, which is being used by courts and the legal system. See, e.g., the California Public Utility Commission ([link](#)).

rules, attempt to change the rules, or both—often, sequentially, in that order.³ The objections raised by traditional taxicabs are often presented as concerns about consumer protection (e.g., safety or consistent pricing) and about protecting their own income stream, considering that they had, in the past, incurred substantial costs to obtain government permission to ply their trade.

Economists' views on taxicab markets and TNCs

A good sense of economists' general views on taxicab markets and their new competitors can be gleaned from two sources I present here. The first is a survey article by Adrian Moore and Ted Balaker (2006), who examined the published research by economists on taxi market deregulation. They found that of 28 works discussing this issue, 19 generally supported deregulation, two had mixed results, and seven generally opposed deregulation. Of the seven opposing deregulation, just one was an empirical study or case study, the others being theoretical works. Meanwhile, eight of the 19 supporting studies were empirical or case studies. While not finding a perfect consensus, Moore and Balaker (2006) does indicate support in the published research for deregulating taxi markets.

The second item worth highlighting upfront is a recent survey of prominent economists conducted as part of the University of Chicago Booth School's Initiative on Global Markets Forum (IGM Economic Experts Panel 2014). In September 2014, the panel was asked to respond to the following statement: "Letting car services such as Uber or Lyft compete with taxi firms on equal footing regarding genuine safety and insurance requirements, but without restrictions on prices or routes, raises consumer welfare." Of the 43 economists on the panel, 40 choose to respond to this statement. All 40 responded with "strongly agree" or "agree," with most answering "strongly agree" ("uncertain" is also an option, though none exercised it on this statement). Taken together, the Moore and Balaker article and the IGM Forum survey indicate there is a lot of support among economists for taxi market deregulation in general and for companies such as Uber and Lyft.

One of the roles of economists as public intellectuals is to comment publicly on issues of importance, particularly those policy issues that will increase social welfare but may be blocked by concentrated interests. One form of public outreach is through online blogging, and many prominent economists now blog regularly;

3. Similar companies that have tried to change the law before beginning operations in the market have not found much success. See, e.g., the case of Night School (Cagle 2015).

other economists have become prominent through blogging. Economists might choose to have a public blog for a variety of reasons, but an overriding reason is likely that they wish to be engaged with the public as a communicator of economic ideas. While some economics blogs cover specific areas (e.g., macroeconomics or monetary theory), many also serve as general interest blogs. These general interest blogs often discuss issues that are currently in the public debate, or bring issues into the public eye.

With the public intellectual role of economics bloggers in mind, I performed a search of top economics blogs for key terms related to TNC apps. My primary interest is to understand which bloggers are covering Uber, Lyft, and related services and whether they are emphasizing the benefits to consumers from the new competition. A secondary interest is to investigate whether there is a connection between the bloggers' political ideologies and their coverage of this issue. Before discussing my search, I will briefly discuss taxicab markets.

Taxicab cartels

In most U.S. cities today, taxicab markets are not organized on the principles of free competition. Instead, suppliers operate as cartels, almost always sanctioned by municipal authorities. To be clear, again: until very recently, TNCs have generally been illegal in U.S. cities. Only recently have TNCs started to push back against regulations in some cities, establishing some legal space to sell rides to willing buyers.

The clearest examples of cartel behavior are in cities where there is a numerical cap on the number of taxicab permits, enforced by government power. In cities which operate under permit or medallion systems, the number of taxicabs is fixed by a government agency or a private organization that is delegated such powers by the municipal government. The permit systems are often accompanied by a uniform pricing system to prevent price competition within the cartel. In some cities permits are allowed to be traded on a secondary market, which gives us good price data on the value of the restricted market to the taxicabs. In the largest U.S. cities, permits are often purchased for hundreds of thousands of dollars (Badger 2014). In New York City, the “average market price” for an individual medallion was recently reported to be over a million dollars (Flegenheimer 2013).

The fact that individual taxicab drivers and corporate taxicab companies are willing to pay such large sums for the permits is a strong indication that monopoly rents are being earned. It also strongly suggests that there is a large loss of consumer surplus and a deadweight loss to society. Such results can be represented in basic supply-and-demand analysis. But that basic analysis is inadequate when it comes to

illuminating what really happens on the supply side of the market, and the welfare effects over time.

In an early application of his new theory of rent seeking, Gordon Tullock (1975) described a problem he termed the “transitional gains trap.” Tullock specifically used the New York City taxicab medallion system as an example of a market subject to this trap, where a historical limit on the number of taxicabs gradually capitalized value into the licenses as demand increased over the years. Over time, Tullock noted, those who enter on the supply side of the market do not earn super-normal returns, because the privilege of supplying the market is something *they have to pay for*. All of the super-normal profits were delivered in the past, to the recipients of the privileges when these were first created. New suppliers pay dearly to enter the market, so, even though they receive artificially high prices thereafter, those revenues have to be put against the artificially high entry costs they incurred.

It is no wonder that those who have incurred such artificially high costs are extremely angry about the TNCs, and even feel as though an injustice is being visited upon them. They now stand to lose out from the system ending, and they may be willing to mount lobbying efforts that approach the value of their investments (which include the investments in their privileges). Meanwhile, consumers have little individual incentive to lobby against the medallion system; they may not even know that it harms them. The “trap” thus closes: few if any real resources are directed toward the prospect of reform, while powerful efforts are consistently mobilized in support of the status-quo rules.

The moral of Tullock’s story is that society’s falling into the transitional gains trap is tragic. The super-normal beneficiaries are all in the past, and now and forever into the future the living are stuck in a system in which *no one* really garners super-normal returns—and, of course, the system is also otherwise inefficient, with higher prices and lower quantities transacted.

Tullock’s analysis helps us enter into the disappointment and anger of the suppliers threatened by the TNCs. But it also helps us to see the larger picture: The emergence of the TNCs creates a golden opportunity to escape the transitional gains trap. Such an escape would hurt the incumbent privileged suppliers; but that would be a one-time hurt; and maybe it would be possible to offer up some aid to them for this one-time hurt? But the larger opportunity is to open up a market that now has discovered numerous fabulous new modes of production efficiency and consumer satisfaction, meaning that, by comparison, the restricted system is even more inefficient, even more tragic, than it had been. The question is whether society will escape this particular transitional gains trap.

Dynamic pricing

Uber and Lyft both use a form of dynamic pricing, sometimes called “surge” pricing, in contrast to the fixed pricing in traditional taxicabs based only on mileage and time.⁴ Prices can adjust upward from the base rate when quantity demanded exceeds quantity supplied, sometimes several multiples of the base rate.⁵ This is not, generally speaking, a pricing method that consumers otherwise encounter in their day-to-day lives. Gasoline prices come the closest, but even these change at most only a few times a day, and only by small amounts.

While dynamic pricing can be a source of frustration for consumers unfamiliar with the practice, it is an excellent example that economics bloggers could use to teach the public about the role of prices. Dynamic pricing provides an incentive for more drivers to get on the road, or to go to specific areas, and an incentive for consumers to wait until busy times pass (Hall, Kendrick, and Nosko 2015). Neither the drivers nor riders need know why the price increase occurs, but the dynamic pricing induces them to act in socially beneficial ways much as Friedrich Hayek describes in his famous essay “The Use of Knowledge in Society” (1945).

Dynamic pricing has been a target of much criticism. Governments of the city and state of New York both have seen bills introduced to regulate it (Eisinger and Fermino 2015; Brunelle and Rubinstein 2015). And prominent University of Chicago law professor Eric Posner (2015) has argued for price caps on Uber and similar services on the grounds that TNCs could, someday, displace taxi cartels as the new monopoly.

Professor Posner notwithstanding, I believe, and proceed on the supposition, that the government-created taxi cartels are undesirable, and that legalizing the TNCs and allowing dynamic pricing would be greatly to the good.

Method of the blog search

To perform the search on economics blogs, I used an August 2013 list of the top 200 economics blogs from Analytica.⁶ It was the only such list I could find

4. The pricing practices of traditional taxicabs are of course often regulated, which is to say they are specified by the regulator.

5. See “What is Surge Pricing?” on Uber’s website ([link](#)) and “Prime Time” on Lyft’s website ([link](#)).

6. The Analytica webpage currently appears to be down ([link](#)), but an archived version is available ([link](#)).

that is produced in a semi-transparent way, and it included all of the blogs that are popularly referenced in the economics blogosphere.

When possible, I used a blog's internal search engine to perform the search. If these searches appeared to be missing relevant posts, I supplemented the searches with a site search via Google or other search engines to find additional relevant posts. The terms I searched for were "Uber" and "Lyft," as these are the dominant TNCs. Any discussion of the issue of taxicab cartels is highly likely to mention one of these services. I did not limit my search by date, and I attempted to include as many blog posts as possible; the data goes through August 2015.

Several blogs on the Onalytica list were excluded from my search. In this paper I am primarily interested in academic economists based in the United States writing for a general audience. Thus, the search was mostly limited to those with a Ph.D., currently teaching at a U.S. institution, though prominent policy analysts with advanced degrees were also included (even if they have no current academic affiliation). Graduate students in economics programs were also included. Many blogs were excluded on one or more of the following grounds:

- Any blogs from economists not primarily based in the United States were excluded.
- Any large 'group blogs' with multiple bloggers were excluded. Having more than one blogger was not solely a condition for exclusion, but blogs with many bloggers and many rotating guest bloggers were excluded as it would be extremely difficult to ascertain the ideology of all these individuals (in many cases, they are not academic economists anyway).
- Blogs written under pseudonyms were excluded.
- Blogs that are not written by economists (e.g., law blogs, finance blogs, or tax blogs) were also excluded, as were several blogs focused on investing and stock markets (even though some of them discuss matters related to TNCs, e.g., Uber's market valuation).
- Several blogs now appear to be defunct as they have not updated the blog in months or years. A list of the excluded blogs can be found in the Excel file that accompanies this paper ([link](#)).

Finally, I should note that I included all blogs that were not excluded by one of the criteria discussed above, even if the blogs do not have a general-interest outlook. While I did not expect, for example, a blog focused on monetary theory to discuss the politics of Uber, I included such blogs in the search anyway for completeness.

Results of the blog search

Of the 200 blogs from the Analytica list mentioned above, by my criteria 138 of the blogs were excluded, from one or more of the exclusion criteria (including 12 blogs that appear to be defunct or haven't been updated in more than a year). After the exclusion criteria were applied, 62 blogs were left to search for mentions of Uber or Lyft. Of these 62 blogs in my sample, 37 made no mention of Uber or Lyft through August 2015. The remaining 25 did mention Uber or Lyft at least once, and for six blogs by more than one blogger.

I then analyzed the content of the relevant blog posts to get an idea of whether the blogger was expressing support for Uber and Lyft, and if so whether that support was strong or weak. I coded any blog post as "strong support" if the author seemed, on the whole, to support strongly the freedom of TNCs and their trading partners, as shown, for example, by the author's accentuating the benefits to consumers of the increased competition or free pricing system. I coded a blog post "weak support" if it was supportive, on the whole, but only mildly. For blog posts that were openly hostile to TNCs, without any real discussion of corresponding benefits, I coded the blog post "negative." Blog posts that were simply informative, without any clear support or opposition, I coded "neutral."

Whatever downsides new TNCs may have, they are, in my view, a likely overall boon to local economies. Prior to smartphone-based TNCs, the case for taxi deregulation was already strong (Moore and Balaker 2006). New technology makes it stronger. TNCs serve to break down legal cartels and thereby provide benefits in the form of increasing consumer welfare. There may be legitimate concerns about safety and consumer understand dynamic pricing. Raising these and other concerns in a blog post is perfectly legitimate and perhaps part of the economist's job as public intellectual. But I think that the concerns about TNCs are outweighed by the benefits of breaking down the taxi cartels, of escaping, finally, this particular transitional gains trap.

The position of "silence" on this or any issue also deserves a few comments. Uber is but one of many economic issues. But TNCs and taxi cartels are an issue where most economists, regardless of their field of specialization, should be able to offer basic thoughts on the benefits of competition and free pricing. Especially given that there is often negative press about TNCs, the economist has an opportunity to contextualize the issue and provide insights that are lacking in the broader public debate.

Also for the "silent" bloggers, I listed only those individuals who write at a blog where no bloggers had discussed TNCs. For example, on the *EconLog* blog,

Bryan Caplan has not discussed Uber or Lyft, but several of his co-bloggers have, so Caplan is not here listed among the “silent.”

A further complicating factor in scoring economics blog posts is that a common practice in blogging is to provide quotations from other blogs or simply link to the posts of others. How do we interpret a quotation or link? Is it agreement with the linked material? Or might a quotation be to point out particularly bad analysis? Sometimes, the author of the blog provides guidance on this issue (e.g., “I agree with Professor X. Y. Zee’s analysis of Uber”). But in many cases judgment and context are necessary to interpret the citing of other blogs. As a default, my assumption is that the blog author agrees with the individual they are quoting, unless sufficient guidance is given in another direction.⁷

Table 1 shows the results of the blog search and my coding of the posts by the authors, listed within each category code alphabetically by first name. A more detailed list of the relevant blog posts and my codings is found in the Excel file ([link](#)). I have divided up the list by placing each academic blogger into categories based on the content of their blog posts and provided links to the relevant blog posts. But please note that for some bloggers, not all of their posts correspond to the categories I have placed the blogger under. For example, Tyler Cowen is listed under “multiple strong supporting blog posts” and has six linked blog posts, but this does not mean that *all* six of Cowen’s posts are strongly supporting posts (some are neutral posts). Instead, it means that Cowen had more than one strong supporting blog post and no negative blog posts (there were no bloggers that had both negative and positive posts).

To summarize the table, of the 62 blogs in my sample, around 60 percent (37 blogs) made no mention of Uber or Lyft. I also divided up the “silent” blogs into general interest blogs and what I consider niche or specialized blogs, of which there are 19 blogs. Some of these blogs have a narrow focus, such as monetary policy, macroeconomics, or environmental policy. Thus, we probably would not expect them to mention Uber or Lyft. That leaves 18 general interest blogs which were silent.

Focusing just on those that did mention Uber or Lyft, I found that three bloggers were primarily negative in their views of TNCs, four were neutral or mostly neutral, and 25 academic economics bloggers had generally supportive posts about TNCs. If I lump the negative and neutral bloggers with the 18 silent general interest blogs (treating each of these as individual data points), there are 25 in this combined category, exactly equal to the 25 generally supportive bloggers.

7. If any blog author disagrees with my interpretation of his or her meaning, I hope he or she will contact me about it.

ECONOMICS BLOGGERS ON UBER AND LYFT

**TABLE 1. Economists' views on Uber and Lyft,
as expressed on economics blogs, grouped and coded by author**

Economist	Blog title
<i>Multiple strong supporting blog posts</i>	
Alberto Mingardi (1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12)	EconLog
Alex Tabarrok (1, 2, 3)	Marginal Revolution
Art Carden (1, 2, 3, 4, 5)	EconLog
David Henderson (1, 2, 3, 4)	EconLog
Don Boudreaux (1, 2, 3, 4, 5)	Cafe Hayek
John C. Whitehead (1, 2)	Environmental Economics
John Cochrane (1, 2, 3, 4, 5)	Grumpy Economist
Lynne Kiesling (1, 2, 3, 4)	Knowledge Problem
Matthew E. Kahn (1, 2, 3, 4, 5)	Environmental and Urban Economics
Matthew Mitchell (1, 2, 3, 4, 5, 6)	Neighborhood Effects
Michael Munger (1, 2)	Kids Prefer Cheese
Noah Smith (1, 2, 3)	Noahpinion
Per Bylund (1, 2, 3)	Ludwig von Mises Institute
Russ Roberts (1, 2)	Cafe Hayek
Timothy Taylor (1, 2)	Conversable Economist
Tom Woods (1, 2)	self titled
Tyler Cowen (1, 2, 3, 4, 5, 6)	Marginal Revolution
<i>One strong supporting blog post</i>	
Abigail Hall (1)	Beacon Blog
David Howden (1)	Ludwig von Mises Institute
Jodi Beggs (1, 2)	Economists Do It With Models
Lawrence J. McQuillan (1)	Beacon Blog
Michael Giberson (1)	Knowledge Problem
Miles Kimball (1)	Confessions of a Supply-Side Liberal
Paul H. Rubin (1)	Truth on the Market
Robert P. Murphy (1)	Free Advice
<i>One weak supporting blog post (plus neutrals)</i>	
Al Roth (1, 2, 3, 4*, 5)	Market Design
Paul Krugman (1, 2*, 3)	Conscience of a Liberal
<i>Negative blog post(s)</i>	
Mark Thoma (1, 2)	Economist's View
Peter Dorman (1)	Econospeak
Robert Reich (1, 2, 3, 4, 5)	self titled
<i>Only neutral blog post(s)</i>	
Brad DeLong (1, 2, 3, 4)	self titled
Jeff Ely (1)	Cheap Talk

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<i>Silent on Uber/Lyft (general interest blogs)</i>	
Daniel J. Mitchell	International Liberty
Daniel Kuehn	Facts and Other Stubborn Things
David Friedman	Ideas
Donald Marron	self titled
Ed Dolan	self titled
Evan Soltas	self titled
Greg Mankiw	self titled
J. W. Mason	The Slack Wire
Jared Bernstein	On the Economy
John B. Taylor	Economics One
Jonathan M. F. Catalán	Economic Thought
Keith Hennessey	self titled
Kenneth Thomas	Middle Class Political Economist
Matías Vernengo, David M. Fields, and Nathaniel Cline	Naked Keynesianism
Owen Zidar	self titled
Rajiv Sethi	self titled
Robin Hanson	Overcoming Bias
Steven Landsburg	self titled
<i>Silent on Uber/Lyft (niche/specialized blogs)</i>	
Bill Woolsey	Monetary Freedom
Casey Mulligan	Supply and Demand
Chris Coyne, Dave Prychitko, Frederic Sautet, Pete Boettke, Peter T. Leeson, and Steve Horwitz	Coordination Problem
Dan Ariely	self titled
Dani Rodrik	self titled
Daron Acemoglu and James Robinson	Why Nations Fail
David Andolfatto	MacroMania
David Beckworth	Macro and Other Market Musings
David Glasner	Uneasy Money
Gerald O'Driscoll, Larry White, George Selgin, and Chuck Moulton	Free Banking
Glenn Hubbard and Tim Kane	Balance
James D. Hamilton and Menzie Chinn	Econbrowser
Michael J. Roberts	Greed, Green & Grains
Nicolai J. Foss, Peter G. Klein, Richard Langlois, and Lasse B. Lein	Organizations and Markets
Robert Stavins	An Economic View of the Environment
Scott Sumner	The Money Illusion
Simon Johnson and James Kwak	The Baseline Scenario
Stephen D. Williamson	New Monetarist Economics
William Easterly	NYU Development Research Institute

Paul Krugman

Paul Krugman's blog *The Conscience of a Liberal* mentions Uber in three blog posts. Krugman's blog is, arguably, the most influential economics blog (it was at the top of the Analytica list) and is published on the website of what is arguably the most influential newspaper, the *New York Times*. For these reasons alone it deserves special attention.

Krugman first mentions Uber in a December 2013 blog post titled "Uber and the Macro Wars." This post is not about TNCs but rather macroeconomic thought (part of a series of posts on the topic). But two paragraphs in the post use Uber as an analogy for the use of "wage stickiness" in macroeconomic models. Krugman suggests that dynamic pricing works in theory (like flexible wages in macro models) but for certain services consumers hate this pricing strategy in practice. I scored this December 2013 Krugman blog post as "neutral."

Krugman's second blog post mentioning Uber was in July 2014, titled "Life Without Cars." He begins his analysis by saying: "the big benefit from new IT-mediated car services will come if they make it possible for lots of people—and not just people in Manhattan—to live without owning their own cars." Krugman's main point is that if Uber and similar services become widespread and reliable, many Americans can forgo owning a car, which is a resource they currently greatly underutilize (according to Krugman). The discussion is supportive of TNCs and explains why dynamic pricing is beneficial. But Krugman claims that the main benefit for both individuals and society is that we would not be tying up so much capital in automobiles. While all valid points, Krugman missed an opportunity to highlight some of the bigger and clearer benefits of TNCs, such as breaking down the cartels and the consequent consumer benefits that would arise—for example, for people who do not at present have a car. I coded this blog post "weak support."

Krugman's most recent relevant post, from July 2015, is titled "Uber and the New Liberal Consensus." The piece points out reasons why Uber has become a hot political topic. Oddly, it does not provide what I consider to be the primary reason, which is that the new competition hurts the traditional, privileged suppliers. Rather, according to Krugman, one reason that Uber has become a hot political topic is that Uber represents the "smartphone revolution." A second reason is given more centrality: Uber's "workers supposedly are free contractors, not employees, exempting the company from most of the regulations designed to protect employee interests," and "Republicans are eager to dismantle as many worker protections as they can." But Krugman does not come out against Uber on this score. He concludes by saying that is it possible "to promote the use of new

technology without prejudicing the interests of workers. But progressives need to work on doing that, and not let themselves get painted as enemies of innovation.” Krugman coaches progressives on how not to be painted a certain way; I coded the post as “neutral.”

Ideology

Of those expressing support for Uber and Lyft, nearly all are either classical liberal or of no very discernible ideology.⁸ For left-leaning U.S. academic economics bloggers, they are by and large silent on the issue: Krugman has one supportive post, a few others have neutral posts, while Mark Thoma, Peter Dorman, and Robert Reich are outright hostile towards TNCs.

The silence or lack of clear support from the left-leaning bloggers on TNCs should, perhaps, be considered at least mildly surprising, particularly because outside of the blogosphere a good deal of support has been voiced for TNCs from left-leaning economists. One prominent example is Alan Krueger, the former chair of Obama’s Council of Economic Advisers and a strong supporter of minimum-wage increases (Solman 2013). In January 2015, Krueger released a working paper, coauthored with Jonathan Hall of Uber, which examined the labor market for Uber’s drivers. Since Krueger’s field of specialty is labor economics, it is not surprising that he chose to focus on the supply side of the market rather than on consumers. But even so, Hall and Krueger do say that TNCs “lower prices for consumers compared with” taxis and that TNCs do so without necessarily harming drivers because the lower prices induce a greater quantity demanded (2015, 25). And Krueger has speculated elsewhere that “Uber has ‘reduced the value’ of companies that had monopolies on the industry,” a clear reference to the cartel aspect of most taxicab markets (quoted in Golub 2015).

The general silence of left-leaning economics bloggers on TNCs is also puzzling given that, in notable ways, the matter intersects with traditional concerns of the left. TNCs pit consumers against government-backed cartels. TNCs ‘cut out the middle man,’ allowing drivers to receive a higher share of their fares as opposed to more profit going to corporate owners. TNC drivers enjoy more secure working conditions than do taxi drivers, as they carry no cash at all, and they have the slightly greater assurance of safety that comes from the riders having registered their identities within the app (as compared to taxis picking up street hails, where the passengers are completely anonymous). One of the longstanding

8. I fully acknowledge that I may be incorrectly interpreting the ideology of bloggers on all sides of this issue. Any feedback from bloggers themselves would be appreciated.

complaints against taxi monopolies has been a possible disinclination to pick up minority passengers or to serve poor neighborhoods (Davis and Johnson 1983, 81; Suzuki 1995; Moore and Balaker 2006, 112), but TNCs stand to enhance mobility by unleashing service to all neighborhoods. TNCs also, of course, offer earnings opportunities to persons with spare time and an automobile.

Above I mentioned the IGM Forum survey question on Uber and Lyft (IGM Economic Experts Panel 2014). It is worth highlighting the panel again in the context of ideology, as it includes members with diverse political views, including many that are left-leaning. For example, another former Obama CEA chair, Austan Goolsbee, is on the panel. Not only did Goolsbee answer “strongly agree” that allowing Uber and Lyft raises consumer welfare, he gave a confidence level of 10 and elected to leave a comment: “yes. yes. a thousand times yes. Instead, try calling for a cab on Saturday night from the south side of Chicago and see what happens.” Goolsbee clearly sees legalization of the TNCs as a way to address an issue that left-leaning individuals (and others) should care about: underserved urban areas. The IGM Forum demonstrates that when left-leaning economists are *asked* about TNCs, rather than having to bring the issue up on their own blog, they may often express support and sometimes enthusiasm.

Conclusion

The case in favor of transportation network companies is not unassailable. There are regulatory and equity concerns that should be taken seriously and addressed. Discussing these concerns, but also explaining why TNCs are good for consumers and the economy, is an important activity for economic educators, bloggers, and public intellectuals to take up. Many economics bloggers have chosen to cover this topic, and I commend them for doing so. It offers an excellent opportunity to explain fundamental issues of microeconomics (e.g., price adjustments to changing supply and demand conditions) and political economy (e.g., monopoly rents and rent-seeking). Classical liberal economics bloggers have made much of this opportunity, but the left has been mostly silent.

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Venezuela: Without Liberals, There Is No Liberalism

Hugo J. Faria¹ and Leonor Filardo²

[LINK TO ABSTRACT](#)

Montesquieu's view [is] that a republic (that is to say, what we would call democracy) rests upon the virtue of its citizens. Where the elementary public virtues are lacking, democracy can only lead to chaos which will end in dictatorship.

—Stanislav Andreski, *Parasitism and Subversion:
The Case of Latin America* (1969, 279)

This report uncovers that there is not much liberal discourse or activity in Venezuela, nor has there been much in the country's past. The moral and political culture of Venezuela is exceptionally unfavorable to liberalism. This article highlights the dire consequences stemming from the absence of public virtues and the attendant paucity of pro-growth economic institutions.

Some descriptions offered here are impressionistic, so it is especially appropriate to inform the reader that we, the present authors, are both Venezuelan and for many years have agonized over Venezuelan affairs to the extent of writing several books attempting to convince our political and entrepreneurial leaders to implement fundamental reforms to economic institutions. We believe in the protection of our God-given natural rights, which include freedom of speech and the cornerstones of economic freedom: personal choice, voluntary exchange, freedom to enter and compete in markets, and security of the person and of well-

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acquired private property. Unfortunately, these natural rights have been frequently violated in Venezuela, to the point of extinguishing the flame that ignites the prosperity and well-being of citizens.

To document Venezuela's institutional decadence, we mainly rely on the Economic Freedom of the World (EFW) index published by the Fraser Institute. The transparency of the EFW index enables scholars to reconstruct and replicate the rating for each country. The derivation of each component incorporated into the EFW index measure is clearly specified. Further, the underlying data are from reputable sources such as the World Bank, the International Monetary Fund, and the PricewaterhouseCoopers accounting firm. The annual EFW report gives the source of the data for each component, the methodology used to transform the raw data into component ratings, and how the component ratings are used to derive the summary rating for each country. All these procedures help to ensure that partial judgments of the authors do not influence the rating for any country.

Liberalism in Venezuela: A brief historical perspective

[T]he predicament of Latin America is ... the consequence of the original sin of the conquest, which bequeathed to the republics customs and institutions which constitute an enormous obstacle to political order and economic progress. (Andreski 1969, 26)

Historical evidence strongly suggests that institutional heterogeneity existed among colonial powers. The quality of political and economic institutions differed markedly between England on the one hand and France, Portugal, and Spain on the other (see Collins 1908; Acemoglu, Johnson, and Robinson 2005). Former colonies broadly reflected this heterogeneity. The difference in the relative rates of private land ownership in the United States versus Venezuela impacted the independence goals of both countries. British-American proprietors, particularly in the north as led by the founding fathers, wanted freedom. Venezuelan *caudillos* wanted independence.³

3. Sokoloff and Engerman (2000) argue that differences in factor endowments, such as suitability for growing sugar, rice, tobacco, and coffee, which require large land extensions relative to small-scale crops and livestock, contributed to there being few landowners in Latin America but many small proprietors in the United States. Accordingly the small number of owners in Latin America fought for institutions favorable to the few—exclusionary institutions—while the numerous American owners demanded inclu-

From Mexico to Argentina, between 1808 and 1810, revolutionaries swore allegiance to King Fernando VII of Spain. Their grievance with the local authorities, who were Spaniards appointed by the crown, was the allegation that these crown representatives were ‘usurping’ political positions to which wealthy locals of European descent felt entitled (Uslar 1962; Fronjosa 2012). Once the Spanish Crown did not hear—or else misunderstood—the underlying plea, the early patriots switched their efforts to the objective of obtaining independence from Spain.

But Venezuela’s independence was established by European descendants and for European descendants. The intent was to replicate locally the vices that existed with the crown. Indeed, the privileges that the local aristocracy had obtained during the colonial period persisted in the aftermath of the independence war (Angeles 2007; Bruhn and Gallego 2012). The independence war was really a civil war in which most of non-European descent, led by Spanish generals, fought in defense of the crown against the local European elites who were perceived, correctly, as oppressors.

Venezuela’s Simón Bolívar, who is known as the father of the Venezuelan nation and the “Liberator,” said, on December 15, 1812, in a famous speech known as the Cartagena Manifesto, that “the worst thing that could happen to Venezuela would be to embrace the natural-rights view that supports individualism, breaking the social pact to induce chaos and anarchy, because Venezuelans lack the true virtues characteristic of a Republic” (Bolívar 2003, 6). Such lack of trust in the people pervaded Bolívar’s thinking. As he wrote: “unsure of our future destiny and threatened by anarchy for lack of a legitimate, just, and liberal government, we threw ourselves headlong into the chaos of revolution... Until our compatriots acquire the political skills and virtues that distinguish our brothers to the north, entirely popular systems, far from being favorable to us, will, I greatly fear, lead to our ruin” (*ibid.*, 21, 23).⁴

Lamentably, Bolívar’s education and upbringing did not permit him to ponder the possibility of limited democracy coupled with economic institutions similar to those that existed during his lifetime in England and the United States. Institutional changes are capable of altering peoples’ behavior and ways of thinking

sive institutions, beneficial to the majority. Examples are the much earlier extension of the franchise and education for most Americans relative to Latin Americans in general and Venezuelans in particular.

4. These quotes of Bolívar were a reaction to Venezuela’s first constitution in 1811, which, inspired by the American and French Revolutions, contemplated a representative and federal government organized as a liberal republic. Comparing the American Constitution with the 1811 Venezuelan Constitution, Bolívar in his Manifesto also wrote that it was a miracle that the American project had been so prosperous, but he attributed this to the unique character of the U.S. inhabitants, saying that Venezuela was unprepared to enjoy a federal system immediately after emerging to independence. *See* Hernandez 2012.

in light of different and better results. Chile's experience over the last 35 years attests to the merits of this method. Today we might call the mechanism "learning by doing" (Arrow 1962).

The insidious ways of colonial times continued in the independent Venezuela. As Andreski writes:

Once a society is pervaded by parasitic exploitation, the choice is only to skin or be skinned. A man may combine the two roles in varying measure but he cannot avoid them: he cannot follow Candide's example and till his garden, relying on hard work for his well-being, because he will not be left alone: the wielders of power will pounce upon him and seize the fruits and tools of his labour.... In ... Venezuela, Paraguay, [and] the Dominican Republic ... nothing was safe from the conquerors of power, who grabbed the estates of those who did not belong to their band. (Andreski 1969, 11)

Andreski emphasizes that "throughout Latin America political power has always been the surest and quickest way to wealth; and more often than not it was the only way" (ibid.). Any private wealth accumulations in Venezuela attained outside the political-power mechanism are the exception to the rule. Political turmoil has been the usual state of affairs in Venezuela, and the identities of the wealthy have changed with the turbulence: in the two centuries since independence, Venezuela has had 21 constitutions.

A hiatus from infighting commenced around 1910 under the government of Juan Vicente Gómez. Gómez was a ruthless dictator who "during his long rule appropriated for himself hundreds of millions of dollars from the public treasury and substantial amounts for his family and military associates" (Andreski 196, 76). Nevertheless, Gómez pacified the country, establishing the underpinnings of a system of private enterprise, which allowed most Venezuelans to prosper. Economic growth was boosted following Venezuela's first discovery of an important oil field on April 15, 1914. Gómez allowed multinational companies to extract oil from the subsoil, which in Venezuela is owned by the government.

The economy experienced high growth rates from 1920 until 1935, when Gómez died (see Baptista 2011). During Gómez's 27 years as head of state, Venezuela evolved from a mainly agricultural country to the second-largest oil producer of the world. Thus, with Gómez, Venezuelans started to escape income stagnation associated with the Malthusian trap. Venezuela became strategically important to the British Empire and a reliable oil supplier to the U.S. Atlantic seaboard (see McBeth 1983). Rómulo Betancourt, who became the first democratically elected president in 1958, suggested in his book *Venezuela: Oil and Politics* that Gómez was a servant of powerful foreign oil interests (Betancourt 1979).

During the Gómez administration, Venezuela had a semi-free system of banking, price stability, low taxation, and low levels of government spending and intrusion in the economy. The government paid down the internal and external debt—fiscal discipline, then, coexisted with corruption which was centralized, limited to high-ranking government officials. The 1920–1935 period thus marks the apogee of economic liberalism in Venezuela, unfortunately tarnished by Gómez and his acolytes’ corruption and tyrannical measures taken against political foes. Other non-liberal policies were the creation of three government banks, aimed at helping workers (Banco Obrero), home buyers (Banco Hipotecario), and farmers (Banco Agrícola y Pecuario), and high tariff rates aimed at the generation of governmental revenues given the absence of income taxes (see Lahoud 2015). Nevertheless, this contrasting performance in politics and economics has prompted historian Manuel Caballero (2007) to dub Gómez “*el tirano liberal*” (the liberal tyrant).⁵

After Gómez’s death in 1935 and on through 1957, policy lurched gradually in the interventionist direction. A central bank was created in 1939, coercing Venezuelans to use the currency issued by the governmental monetary authorities, and a governmental board was established to control prices of more than 100 goods, justified by the onset of the Second World War. The government-owned Banco Industrial was established to fund industrial endeavors consistent with governmental industrial policies which already existed in the agricultural sector.⁶ In 1940, the recently created central bank recommended and implemented exchange-rate controls. In 1943, taxation of people’s income and corporations’ profits was introduced, and numerous government-owned regional banks were established to promote development. Also came a government-owned steel industry, nationalization of the telephone company, and even numerous government-owned hotels. However, one pro-growth policy implemented after Gómez’s death, a substantial investment in human capital, was the attacking and virtual eradication, circa 1960, of tropical diseases like malaria and Chagas disease (Oletta 2012).

In spite of the growth-retarding policies adopted after 1936, the Venezuelan economy experienced income per capita growth rates that exceeded West Ger-

5. To better understand the *raison d’être* of policies favoring agricultural and industrial activities, even today, we note that the onset of the oil revolution caused the so-called Dutch Disease, which rendered agriculture less competitive—and many political leaders were farm owners. Taking into account that the Venezuelan people were and are *de jure*, not *de facto*, owners of the oil wealth, no constituency emerged to counterbalance the manifold inefficient programs and policies aimed at helping farmers and industrialists. Thus, the Dutch Disease was really a Schumpeterian process of creative destruction, which required adaptation to a new reality in the form of economic activity compatible with oil such as tourism.

6. Banco Industrial de Venezuela has been the source of manifold corruption scandals. The government (*viz.*, the people) has on various occasions had to recapitalize the bank because borrowers are not, and do not feel, compelled to pay back the loan.

many's economic miracle. According to Adrubal Baptista (2011), Venezuela's GDP growth rate during the 1940s averaged 12 percent, and the central bank puts the average growth rate during the 1950–57 period at 9.4 percent.⁷ Andreski (1969, 5) provides a table reporting economic growth of 20 Latin American countries over the period 1945–1958, and Venezuela tops the list quite handily.

Andreski suggests that these numbers are misleading and that “the fabulous income from oil ... was squandered” by “ruling cliques” with a “taste for spend-thrift ostentation” (1969, 68). Here we beg to differ. Corruption, prior to 1957, was centralized among a few, and so the plunder had little effect on business processes, and the amounts plundered were a relatively small fraction of GDP or government revenues. The average Venezuelan in 1958 had a living standard much higher than in 1920.

It is true that a greater effort could have been made in the area of education. However, today's largest university, the Central University of Venezuela, enjoys the physical infrastructure laid out by Marcos Pérez Jiménez in the 1950s. Similarly, many of the highways within Caracas and connecting Caracas to other cities were built by the Pérez Jiménez dictatorship.⁸ In real terms, Pérez Jiménez's government had far fewer resources than did the Carlos Andrés Pérez administration in the 1970s, when due to the Arab oil embargo oil prices quadrupled and fiscal revenues tripled (see Central Bank Economic Report 1975).

After the advent of democracy in 1958, a deterioration in Venezuela's economic institutional quality accelerated. Between 1959 and 1999, the following policies were adopted (in parentheses are the names of the presidents who initiated the policies during the democratic period):

1. European and Latin American immigration was substantially curbed.⁹ (Rómulo Betancourt)
2. Creation of OPEC, founded by the Venezuelan secretary of energy. (Rómulo Betancourt)
3. Establishment of CORDIPLAN, an economic planning agency. (Rómulo Betancourt)
4. An end to the extension of tract lands to oil multinationals to find and extract oil reserves. (Rómulo Betancourt)
5. Creation of the CVP, a government company in the oil business. (Rómulo Betancourt)

7. See Sánchez-Coviza and Olcoz (1966).

8. Important impacts on productivity and growth can be spurred by investments in transportation infrastructure (Michaels 2008; Donaldson 2010; Jedwab and Moradi 2015).

9. See on this CEPAL (2000).

6. Agrarian reform, or redistribution of agricultural lands, where the new 'owners' did not receive a property title but only a right to farm the land. (Rómulo Betancourt)
7. Marginal income tax rates at the personal level were tripled from 12 percent to 36 percent, and numerous tax brackets created increasing complexity of the tax system. (Rómulo Betancourt)
8. Rent controls and strengthening of the legal capacity of the rent-payer to remain in the property after contract expiration and against the will of the owner (Rómulo Betancourt)
9. Exchange-rate controls. (Rómulo Betancourt 1960–1964; Luis Herrera and Jaime Lusinchi 1983–1989; Rafael Caldera, second term, 1994–1996; Hugo Chávez and Nicolás Maduro, 2003 to the present)
10. Price controls, which have been ubiquitous in the Venezuelan economy during the democratic period until the present. (Rómulo Betancourt and Raúl Leoni)
11. The Central Bank Law was amended to allow lending to the government by the central bank. (Rómulo Betancourt)
12. High inflation and concomitant devaluations. (Carlos Andrés Pérez and Luis Herrera)
13. Minimum-wage decrees and rulings to prohibit dismissal of workers. (Carlos Andrés Pérez)
14. Nationalizations of the Central Bank (which had been 49 percent owned by the private sector), iron industry, and oil industry. (Carlos Andrés Pérez)
15. Rampant corruption at all levels of government, including the judicial system. (Rafael Caldera and Carlos Andrés Pérez)
16. National policy of 'import substitution' (governmentalization of international trade), increasing the cost of living to average Venezuelans and reducing the benefits conferred by greater choice of goods to buy. (Rómulo Betancourt and Raúl Leoni)
17. Complex regulations that stymie business formation, increase the cost of dismissal, and compel banks to allocate loans to sectors deemed by the government as strategic. (Carlos Andrés Pérez)

In short, Venezuela is plagued with a plethora of centric, coercive, exclusionary policies and institutions.¹⁰

10. See Faria (2008) for a detailed account of the 1960–2000 period; see also Sánchez-Coviza and Olcoz (1966).

The economic growth literature characterizes Venezuela's economic performance from 1960 through 2000 as a growth disaster.¹¹ Growth was weak in the 1960s, and from 1978 to 2000 real per capita income experienced a negative growth rate, on average—population growth exceeded real product growth. By 2000, Venezuela's GDP per capita was only 22 percent of that for the United States, down from 45 percent in 1960 (Heston, Summers, and Aten 2012).

It is important to underscore that the growth disaster took place before the accession of Hugo Chávez. The Chávez-Maduro 'revolution' is better understood as a consequence of the dismantling of Venezuela's liberal economic institutions such as they existed in 1957. The consequent absence of economic growth played a major role in the wide acceptance of Chávez's redistributionist rhetoric, which listed 'capitalism' and 'neoliberalism' as the culprits behind Venezuela's rising poverty. The Chávez-Maduro economic revolution is an exacerbation of the interventionism that was salient in the 1960–2000 period.

With Chávez, a new economic elite has emerged. The new group of wealthy people are accumulating vast fortunes, greater than those made in the past. But, like the big wealth from the 1960–2000 period, the new wealth has been principally acquired by government privilege.¹² Meanwhile, the political opposition, financed by the elites who made their wealth in the 1960–2000 period, is aptly described as 'Chávez light.' Perusing local newspapers, it can be easily gleaned that the opposition is not advancing liberalization. Leopoldo López is the chief opposition leader—now a political prisoner atrociously sentenced to 14 years behind bars—and even the party he founded, *Voluntad Popular* ("Popular Will"), is a full member of Socialist International ([link](#)).

2000 to today

Generally speaking, parasitism constitutes the most powerful brake on economical progress by destroying the link between the effort and the reward. (Andreski 1969, 12)

11. See Barro and Sala-i-Martin (2004); Hanushek and Woessmann (2012); Jones (1999); Jones and Romer (2010). Jones and Vollrath (2013) extend the calculations up to 2008, and Venezuela shows up as a growth disaster also for the 1960–2008 period.

12. This is not to imply that all the well-to-do under Chávez-Maduro are new. Some were wealthy prior to Chavez but with a capacity to blend in with the new providers of government largesse. Naturally most beneficiaries become at least passive defenders of the government. Hence, the old expression that "Venezuela is a society of accomplices." Our conscience is bought by the wealthy government.

Hugo Chávez was democratically elected president in 1999. Underlying this outcome was a generalized disenchantment of the population with political parties of the status quo, namely, AD and COPEI, which alternated in control of the presidency since the onset of the democratic rule in 1959. Chávez, a charismatic populist projecting an image of an outsider and employing the rhetoric of class warfare, exploited the consequences of the economic disaster abetted by AD, COPEI. He also targeted Fedecamaras, a union of entrepreneurs who actively lobbied government successfully on many occasions and influenced the appointment of cabinet members.

Governmentalization dominates the commanding heights of the Venezuelan economy. In the Economic Freedom of the World (EFW) index (2014), which ranks the economic freedom of 152 countries, Venezuela ranks last, below the Republic of Congo and Zimbabwe, with a score of 3.71 on a scale that goes from zero to ten where higher numbers are associated with higher levels of freedom.¹³

The oil sector in Venezuela is owned by the government, and the state-owned companies are managed very inefficiently, generally operating at a loss. The political rhetoric is that oil belongs to all Venezuelans. A much better description of the reality is that average Venezuelans are excluded from the oil sector, which is reserved to the state, a clear example of an exclusionary institution. The proceeds from oil extraction, taxes and dividends, are reaped by the government. If Venezuelan citizens were true owners, they would receive oil proceeds and would have publicly traded shares allowing equity holders to sell their shareholdings. Moreover, under liberal institutional arrangements, multiple private companies would be allowed to extract and refine oil resources.

Venezuela has a greater amount of oil reserves than any country in the Americas. Venezuela's reserves are comparable in size to Saudi Arabia's.¹⁴ Nonetheless, oil production under the state holding company, PDVSA, is at a very low level and on average declining. PDVSA is engaged in many non-oil activities such as food importing and distribution. PDVSA is suffering from a tragedy of the commons, as resources owned by the government are also susceptible to predation

13. An additional reason for using in this study the Economic Freedom of the World index (EFW), published by the Fraser Institute and built over the years by Gwartney, Lawson, and Hall (2014), is that it provides a good quantitative measure of the extent to which a given economy is capitalist, that is, economic liberal. Another factor of considerable importance, is that recent research provides compelling empirical evidence suggesting that institutional and policy quality measured by the EFW is a better growth predictor than other measures of economic institutional quality, political institutions, social capital and human capital gauged by cognitive skills (see Faria and Montesinos-Yufa 2009; Faria, Montesinos-Yufa, Morales, and Navarro 2015; Bennett et al. 2015).

14. According to OPEC, Venezuela has proven reserves of 299.95 billion barrels of oil, whereas Saudi Arabia has 266.58 billion barrels of oil ([link](#)).

and parasitism, even from foreign entities such as the Revolutionary Armed Forces of Colombia (Molina 2015).

The situation is similar in the iron, steel, coal and electricity sectors. According to the 2014 Economic Freedom of the World Report, the Venezuelan government sector gets a rating of 4.88, where the most flagrant component is “government enterprises and investment”, which is rated with a zero. Moreover, 61 percent of total investment undertaken in Venezuela is by government-owned companies.

A dreadful area is that of monetary arrangements. As of July 2015 annual inflation surpassed 800 percent, according to the Cato Institute’s Troubled Currencies Project (Hanke 2015). The government threatens coercion against Venezuelans who use a currency other than the bolívar within Venezuela. Access to other currencies is reserved for the few with sufficient income to travel, to buy dollars, and to send wealth abroad where it is less susceptible to governmental plunder. Common Venezuelans are unable to protect their income from the ravages of inflation, rooted in government’s fiscal irresponsibility and illiberal policies. In other countries, such as Peru and the Dominican Republic, dollar bills circulate alongside domestic currency, and in Ecuador, Panama, and El Salvador the US dollar is the main currency. Not surprisingly, in the EFW area of “sound money” Venezuela receives a low rating of 4.16.

Another grim area is international trade policy, where again interventionism dominates. There are high tariffs, quotas, other non-tariff barriers, and outright prohibition of imports, all of which unfortunately help make Venezuela an expensive country for poor people. For example, while very expensive cars are assembled by multinational company plants located in the country, one alternative option could be used cars from the United States—but the government at least since the 1960s prohibits the importation of used cars.¹⁵ Such restrictions also apply to food, as no common citizen can import corn, sugar, soy, or other staples. A 25 percent tariff is levied on wheat, even though Venezuela does not produce wheat. As for beer, in practice there is a local duopoly. In the EFW index Venezuela receives a low rating—3.26—in the “freedom to trade internationally” area. The component with the lowest rating is the black market exchange rate, rated at zero, indicating a severe disparity between the official and black-market exchange rates. The component “non-tariff trade barriers” is rated at 3.9 and “compliance cost of importing and exporting” is at 0.47.

The Venezuelan economy has a profusion of restrictions and impositions on businesses, particularly in the areas of labor and new business formation. Only the big, well-established companies can afford the high regulatory burden. This is

15. The Maduro regime is allowing importation of used cars but imposing a high tariff.

consistent with George Stigler's (1971) insight on regulatory capture, which abets government creation of monopolies stymieing competition. Further, the high levels of informal or underground economic activity in Venezuela are consistent with existence of a high regulatory burden (see Diaz and Corredor 2008). Unsurprisingly for such a setting, corruption is rampant.¹⁶ The EFW index rates the regulatory area at 4.36, with the component "hiring and firing workers" at 1.13 and the "cost of tax compliance" 1.12.

In the judicial system, corruption is out of control, rendering justice unavailable for the average citizen. The Chávez regime circa 2004 started to transfer international reserves from the central bank to government funds without compensation, dissipating the bank's net worth. On March 8, 2006, García-Mendoza, in unison with José Guerra, Jesus Rojas, and Orlando Ochoa, challenged the constitutionality of the executive actions. The Supreme Court received the pertinent legal documents but as of today no pronouncement on the constitutionality of the government's actions have been made (see García-Mendoza, Guerra, Rojas and Ochoa 2007). Another recent conspicuous case is that of Alberto Federico Ravell, former co-owner of a TV network, against whom the government has initiated legal action for his exercise of free speech (via the website LaPatilla.com). The EFW rating for Venezuela in the area of legal system and property rights is 2.20, the lowest among the five different areas of the index. The component with the worst performance is "judicial independence," with a score of 0.19.

Price controls are pervasive in the Venezuelan economy. Peacetime generalized price controls started in the 1960s. A brief episode of price liberation existed in the second presidential term of Carlos Andrés Pérez (1989–1993), but controls were reestablished in the second term of Rafael Caldera starting in 1994. Under the Chávez-Maduro administration, price controls have been intensified. The sorry results include widespread scarcity of basic consumer goods like toothpaste and toilet paper, as well as reduced profits for producers, costs to economic actors of lobbying government to allow price changes, and the cost to taxpayers of hiring bureaucrats to enforce the controls.

What can explain the pervasiveness of price controls in the Venezuelan economy in spite of their consequences? A reason invoked by governmental officials for decreeing price controls is that there are few producers in Venezuela's

16. Venezuela is classified by Transparency International in the Corruption Perception Index of 2014 as a "very corrupt country", ranking as the 161 most corrupt country out of 174 countries and territories, tied with Angola, Haiti, and Yemen ([link](#)). An institutional arrangement that abets corruption is government ownership of the oil wealth. It fosters rent-seeking activity, a corrupt activity, and promotes a perverse behavior of people living off the government. In all well-established democracies the government lives off the people.

small economy. In the absence of price controls, it is argued, widespread price collusion would take place among producers. Of course the liberal answer to this argument is to open the economy unilaterally, reducing most trade barriers down to zero. However, Venezuelan firms, government officials, and bureaucrats would dislike this solution. Firms would be forced to compete in the international arena, government officials would lose power by virtue of a lower dependency of the private sector on government, and bureaucrats would lose income from corrupt practices at customs level.

This hypothesis is consistent with the non-existence of educational campaigns by the private media on the perverse consequences of price controls. The private media in Venezuela was capable of reaching vast segments of Venezuela's population prior to the hostile takeover of RCTV by the government in 2007. Thus private entrepreneurs prefer to endure the costs associated with price controls and complex regulations than the costs associated with competition.

Education and health care are heavily governmentalized. The poor have to patronize government-owned hospitals, which typically are under-stocked because of plunder by hospital employees (see Jaen and Paravisini 1999; Oletta 2012). Eric Hanushek and Ludger Woessmann (2012) report evidence clearly indicative of the dismal performance of Venezuela's educational system. They find that within Latin American countries, Venezuela ranks next-to-last in translating years of schooling into cognitive skills, as measured by test scores (Hanushek and Woessmann 2012, 502, fig. 3). Analysis of the relation between conditional growth and conditional test scores reveals that Venezuelan students rank last in terms of cognitive skills within Latin America (*ibid.*, 504, fig. 4). This evidence casts a huge shadow on the legitimacy of Venezuela's democracy, given its inability to provide quality education, a predictor of income, to most of its citizens. A low-income parent whose child is in a failing public school does not have the choice to place the child in a private school, which on average offers better quality.

Universities, media, and culture

Universities

Teaching at the university level is highly influenced by Marxist thinking and, in the case of economics, Keynesianism. Liberal alternatives are marginal, at best relegated to elective courses. Private and public universities seemingly differ in their approaches, but both ignore liberalism. Private universities are Keynesian, while government universities are mainly socialist.

At private universities, mainstream economics is distinctively Keynesian. The textbooks in vogue are those by Olivier Blanchard, Rudiger Dornbusch and Stanley Fischer, and Jeff Sachs and Felipe Larrain. The Keynesian view is taught as if it is simply the truth, that there is no other school of thought. Hardly any mention is made of Chicago- or Austrian-school ideas. In some universities Milton Friedman is demonized, and Friedrich Hayek's image is that of a philosopher rather than an economist; the prevailing view is that his economic reasoning must be taken on faith.

Public choice analysis helps to explain why Keynes is king in Venezuela at private universities. First, the Keynesian view is predicated on the notion of a nation-wide market failure, which requires government expenditures to extricate the private economy from a low and stable level of income that is causing high unemployment. The general notion conveyed is that markets are unstable and prone to failure and that governmental intervention is the only remedy. In short, the Keynesian view provides intellectual cover for a panoply of governmental interventions, which university academicians as good Keynesians think are just fine.

Second, the most renowned private universities in Venezuela were created with substantial contributions from the private sector in the form of land donations and building infrastructure. Those donor families built their wealth under mercantilist practices such as trade barriers and complex regulations that preclude international and local competition. Big business can finance high regulatory costs, survive price controls, and has enough clout to lobby government to obtain price increases when revenues cannot cover costs. Moreover, these donor families have influence on the administration of the universities. Given that most university authorities are drawn from faculty members who have a socialist orientation, they constitute a check on the few liberal academics and consequently indirectly end up defending the economic interest of the founders. This helps to explain private universities' reluctance to hire liberal professors. Liberal professors will indicate that markets work and are capable of achieving social goals and make the case for rule of law, opening the economy, streamlining regulations, tax simplification, monetary freedom and limited government. Such discourse goes against the interest of political and entrepreneurial elites.¹⁷

In government-owned universities, Marx still lives alongside Keynes. These universities teach typically at least one semester of Marxism in the departments of economics and sociology. The university of the military establishment, called UNEFA, when it comes to economics, teaches only central planning. Accounts provided by students, including reactions of professors to the possibility of inviting

17. Available upon request are several personal experiences on the issue of hiring by private universities.

liberal-oriented individuals, clearly suggest that markets are brushed aside with derision. Liberal economics is ignored except when it is abused as a barbaric relic of the past.

In our view the only university in Venezuela where liberal teachings are mainstream is Monteávila University. Individuals who stand behind this accomplishment include Daniel Morales, Rafael Ávila, and Hugo Bravo. The latter two have doctorates in Austrian economics, and Ávila is dean of the faculty of business and social sciences. Other market-oriented professors at Monteávila are Carlos Navarro, Victor Contreras, and Ricardo Pérez.

A handful of professors at Andrés Bello Catholic University (UCAB), which is private, have a liberal orientation. These include Daniel Lahoud, who teaches Austrian economics both at UCAB and at the Central University of Venezuela (which is government owned), as well as Antonio Canovas, Liliana Fasciani, and José Valentín González, who teach in the UCAB law school, and Victor Maldonado in the department of sociology.

At the Central University of Venezuela, individuals with liberal orientation include Andrea Rondón, Luis Alfonso Herrera, and Alonso Domínguez in the law school, and Sara Levy and Jose Valentín González in the economics department. At the Metropolitan University, professors oriented toward liberalism include Alexander Guerrero and Ernesto Fronjosa in the faculty of economic and social sciences, Nestor Luis Álvarez in the faculty of studies in law and politics, and Oscar Valles in philosophy. At the University of Carabobo (UC), there are Thomas Chacon and Domingo Sifonte, both in economics. Finally, at University Institute of Technical Management, Guillermo Rodríguez is a professor in economics.

Media

Prior to the gradual takeover of the private media by the government in Venezuela, the private media was mercantilist in viewpoint, while the government-owned media was socialist. No Venezuelan media outlet offered an editorial position espousing economic liberalism.

The privately owned media are mercantilist, because their big advertisers have accumulated wealth by eliminating competition. They have been aided and abetted by governmental intervention. Thus, while these media voice some opposition to the government, it is mainly about issues like inflation and unemployment, voting rights, political representation, crime, electoral rules, and access to government power. The implied cause of our problems is that we have the wrong people in power and not that they face perverse incentives. Consequently, liberal ideas about economic institutions hardly enter the discourse.

In recent years, major media outlets have been acquired by cronies and dependents on government power and privilege; the image is that of private acquisition, but the effect has been that criticism of the regime and of statism generally has become even more tempered. And while some moderate independents belonging to the political opposition are invited to participate in opinion programs, every opinion-maker fears censorship.

The government-owned media are socialist because the politicians are socialists. For those unfamiliar with the twentieth-century history of Venezuelan politics, a brief review follows.

The generation of 1928 who rebelled against Gómez was mainly composed of communists. Some of them morphed into social democrats, among them Rómulo Betancourt, founder of Democratic Action (AD) and also known as the father of Venezuela's democracy. Unfortunately and as stated above, in 1959, Betancourt began destroying the underpinnings of a well-functioning democracy by decimating some important liberal economic institutions.

Rafael Caldera founded an 'opposition' party in 1946 known as the Social Christian Party (COPEI). Although a Christian, Caldera turned out to be no less socialist than Betancourt. Nicomedes Zuloaga (whom we will discuss later) said of COPEI: "These are communists that go to Mass."¹⁸

Regrettably, the new generation of politicians is also socialist. None of them, for example, proposes privatizing—that is, devolving ownership to the people, free to trade away the property they own—oil, gas, iron, steel, or electricity. Perhaps Venezuela's institutional structure influences the politicians' points of view. They may be socialists of convenience given the enormous power wielded by politicians stemming from government ownership of the most important industries of the country.

Furthermore, at least half of the revenues received by the government do not proceed from the people's pockets. This arrangement has serious repercussions on the performance of the economy and on the viability of decent democratic rule. First, it diminishes accountability of governmental officials to the people, because the perception is that the people do not pay their salaries. Second, the lack of accountability contributes to the low quality of government. Third, people not fully experiencing the cost of government may think that government's cost is low or nearly non-existent. In our opinion, a critical check and balance of democracy is the idea that politicians and bureaucrats live off the people. In Venezuela, the people

18. This well-known statement was communicated to us in a personal conversation with Mr. Zuloaga. Although the assertion is exaggerated, it correctly provides the flavor of the economic mindset of COPEI's leaders.

are thought to live off the government, giving rise to a society of rent-seekers and cronies, and rampant corruption.

Socialism and mercantilism have more in common than at first meets the eye. Both loathe free markets: socialists believe that markets are incapable of achieving social goals, while mercantilists do not want to compete.¹⁹ Trade barriers, complex regulations, and price controls confer benefits to politicians in the form of greater power, and to established business firms through lessened competition. Currency devaluations provide more revenues to the government, as oil dollar proceeds from PDVSA's exports are converted into more bolívares, and imported goods denominated in dollars become more expensive, favoring domestic industry. The reaction of private actors to nationalizations of the commanding heights of the economy is to engage in rent-seeking activity and other manipulations of government and democracy for private gain at the expense of citizens.

Thus, the Keynesian–mercantilist alliance is a manifestation of the latent socialist–mercantilist symbiosis that is broad in scope and that pervades the psyche of average Venezuelans. The underlying cause that unites leaders of both groups would seem to be greed, including a thirst for power, attention, and status, ignoring the deplorable consequences to the welfare of Venezuelans.

This alliance cripples the economy and helps explain the economic growth disaster in Venezuela. Evidence of a socialist Venezuela can be found in the Economic Freedom of the World index: in 1990, nine years prior to the advent of Chavez, the component “government enterprises and investments” received a rating of zero and more than 65% of total investment was undertaken by the government. Evidence of mercantilism is there too: in 1990 mean tariff rates were 30.6% and the standard deviation was 24.4%. The regulatory area received a mediocre rating of 4.93. The standard deviation of average inflation was more than 30%, and this component's rating was zero.

For the most part, media space given to economic issues is occupied by those of a Keynesian or socialist bent. Most of the economic issues addressed are related to ephemeral events. Perhaps a commentator may criticize the government over some instance of malfeasance or corruption, but the commentator will invariably ignore the rules of the game, the institutional structure of the country, and the benefits of adopting inclusive, liberal rules.²⁰ The lack of meaningful proposals by

19. Their main argument is that they create jobs. Of course jobs are desirable, but society is better off without welfare-destroying jobs.

20. Inclusive institutions are those that offer the potential to maximize voluntary transactions, consistent with a ‘social optimum,’ and therefore do not unnecessarily exclude citizens from accessing corporate resources, goods, and services. Examples of exclusionary institutions are nationalizations, price controls, trade barriers, minimum-wage laws, complex business regulations, and inflationary policies. The common

economists is reminiscent of Venezuela's political opposition, which does not offer institutional reforms to improve the well-being of citizens.

For example, on the day of this writing in Venezuela a major discussion is taking place on the issue of dollarization. Pedro A. Palma, a prominent economist with a Ph.D. in economics from a prestigious Ivy League university, is still against the idea of dollarization in spite of the outrageous failure of Venezuela's monetary system—a system of forced use of the bolivar—a system that has wrought wretchedness and sorrow for average Venezuelans.²¹ This seems to be another case of thinking that the problem is not of institutions but one of the wrong people heading the central bank. But who benefits and is protected under the current monetary institutions? Those who have dollars—that is, the elites. Which is the monetary institutional arrangement that is most capable of protecting the fruits of the labor of all Venezuelans? We suggest it is the model of monetary freedom, which does not imply elimination of the bolivar but will challenge the monopoly of the central bank. Even in the United States, forums on Venezuela's economy that take place in Miami, New York, or Washington will usually exclude liberal economists, even when they have academic credentials comparable to Keynesians. It may be that the large mercantilist Venezuelan businesses have sympathetic ears among organizations promoting closer ties between the United States and Latin America.

The clergy and laity

Another source of anti-'capitalism' and anti-'neoliberalism' discourse is provided by most members of the clergy and some influential laymen of the Catholic Church. Markets are viewed with suspicion and as a source of materialism. One of the co-authors of this paper was educated by the Jesuits. Although very grateful for many of the teachings received, by graduation time from high school this individual was indoctrinated in the merits of communal property. After graduating from UCAB, a university also run by the Jesuits, as an economist this co-author emerged a Keynesian.

Today an influential layman among Catholics in Venezuela is Rafael Tomás Caldera, a renowned scholastic philosopher. In a public forum on January 31, 2015, with presentations by anti-capitalists like Father Luis Ugalde, Dr. Caldera pleaded for the establishment of "international social justice."²² His emphasis was

feature of these policies is that they unnecessarily restrict the number of voluntary transactions and therefore represent instances of government failure.

21. Palma's newspaper article is available upon request.

22. Evidence on the discourse given by Dr. Caldera and on Ugalde's anti-capitalism view is available upon request.

on redistribution, not on wealth creation. He decried the “return” of economic liberalism, particularly after the Berlin Wall came down. He claimed existence of an attempt (he did not specify by whom) to impose a market ideology that does not recognize the exigencies of social justice.

A crucial word missing from encyclicals and the social doctrine of the Church is *mercantilism*. Typically the options presented are between socialism and capitalism. Mercantilism, however, is not denounced in spite of its consequences of greater unnatural inequality and the suffering of poor people.²³ Moreover, mercantilism or crony capitalism is the traditional and true foe of economic liberalism, as documented in the writings of Adam Smith.²⁴ Mercantilists enjoy this omission because it sidelines economic liberalism and allows them to accumulate wealth free of moral stigma.

Latin American reverberations of the socialist–mercantilist alliance

Democracies afflicted by socialist and mercantilist institutions become dysfunctional or collapse because they are captured for the benefit of the political and entrepreneurial elites. The capture precludes high and sustained growth, fostering a state of continuous social tension and conflict verging on violence. Such was the state of Venezuela prior to Chávez, and is the state of Argentina today. The way out of this internal rift in badly functioning political systems has been through political leadership—typically, autocratic leadership.²⁵ In some countries these political leaders create or allow liberal institutions and the country starts to grow. The concomitant improvements of the living standard convince the people that this is the road out of serfdom and into freedom and prosperity. These are the cases of Chile and Peru (also called “the new Chile”) and to a lesser extent El Salvador, Nicaragua, and Panama, where the latter partially lives off the inertia imparted by the 1900 US decision to establish a regime of monetary freedom. In other cases, the strongman maintains the poor institutional quality or makes matters even worse. Such are the cases of Ecuador, Bolivia, and Venezuela. There

23. For clear Gospel teaching on the importance of satisfying basic material needs of thy neighbor, such as hunger, thirst, and clothing, see Mathew 25:31–46.

24. “The French have been particularly forward to favour their own manufactures by restraining the importation of such foreign goods as could come into competition with them. In this consisted a great part of the policy of Mr. Colbert, who, notwithstanding his great abilities, seems in this case to have been imposed upon by the sophistry of merchants and manufacturers, who are always demanding a monopoly against their countrymen” (Smith 1976/1776, IV.ii.38).

25. The entrepreneurial elites make their wealth in a non-liberal setting. Consequently, there is no substantial financing to educate the electorate through the media on the merits of the capitalist view, which is a prerequisite to increase and sustain Venezuela’s level of economic freedom via democratic rule.

is a third category, where democracy plagued by the socialist–mercantilist nexus implements some liberal reforms, but at a slow pace. These are the cases of Brazil, Costa Rica, Colombia, Guatemala, Honduras, and Mexico.²⁶

Significant centers that promote liberal economic thinking

There have been a few prominent liberals in the history of Venezuela. The first was Henrique Pérez Dupuy (1881–1979) also known as Don Henrique. In 1925 he founded Banco Venezolano de Crédito and remained its president until the mid-1960s. He published several books with titles indicative of his liberal roots, including *Socialism Is the Ruin of Nations*, *Governmental-Economic Interventionism Is a Sign of Decadence*, and *Creative Liberalism Versus Destructive Socialism*. He was a staunch opponent of the direction taken by the country in economic matters after Gómez's death. Socialists and mercantilists attacked him viciously and personally, to the point of demonization (see Lahoud 2015 for a lucid account of Don Henriquez's Austrian views).

Another well-known liberal was Nicomedes Zuloaga (1926–2006). He was the first Venezuelan—and perhaps Latin American, along with Manuel Ayau from Guatemala—to become a member of the Mont Pelerin Society. Zuloaga befriended Hayek, Friedman, Ludwig von Mises, James M. Buchanan, and Wilhelm Röpke, among others. He published several books of high academic caliber and many newspaper articles. In addition, he frequently invited liberal intellectuals from Latin America to speak for Venezuelan audiences, using his house as a venue. He founded a journal with Joaquin Sanchez-Coviza titled *Economic Orientation*, in which liberal views were defended with Austrian-inspired arguments and empirical evidence.

Economic Orientation was a precursor for CEDICE, almost the only think tank that promotes liberal economic ideas in Venezuela. CEDICE is the Spanish acronym for the Center of the Diffusion of Economic Knowledge. CEDICE was founded in 1984, after a meeting of principals with Antony Fisher, founder of the Institute of Economic Affairs in London. The meeting was attended by Carlos Ball, Ricardo Ball, Jesus Eduardo Rodríguez, Enrique Sánchez, Oscar Schnell, Nicomedes Zuloaga, and Ricardo Zuloaga.

Since its founding, CEDICE has been a beacon of freedom in Venezuela. Many renowned liberal thinkers visit Venezuela, give talks, and are exposed to

26. Evidence on these cases is beyond the scope of this article, but it is certainly available upon request.

the media under the aegis of CEDICE. CEDICE also promotes liberal thinking in the local media. Venezuelan economic and political elites have responded to CEDICE with both passive and active hostility. The passive resistance principally takes the form of a ‘conspiracy of silence,’ which is to say that a message conveyed by CEDICE will be apparently well-received and understood, but there is no ensuing action consistent with the message. More recently, under the Chávez-Maduro regime, active opposition has occurred, with protests, sometimes violent, taking place in the area near CEDICE events. In addition, Chávez has publicly insulted, in front of TV cameras, speakers invited by CEDICE to Venezuela.

Since the 1990s CEDICE has been led primarily by Oscar I. García-Mendoza, who has steered the organization successfully through very troubled waters. García-Mendoza has established and funded educational programs, some aimed at students and young politicians. He is president of Banco Venezolano de Credito. The bank is managed scrupulously, even to the point of not accepting deposits from the government in order to avoid pernicious influence and to ensure García-Mendoza has an independent voice. García-Mendoza is also a director of the Atlas Foundation in Washington, D.C., which is indicative of his liberal bona fides. But his support of liberal principles has had substantial personal costs. As of the date of this writing, García-Mendoza is in exile in the United States as a result of his having spoken out against corruption.

Other liberals worth mentioning are Rafael Alfonzo, Rocío Guijaro, and Andrés Sosa Pietri. These have staunchly defended existing outlets for liberal discourse and worked to create new opportunities for political action.²⁷

Conclusions

Venezuela is experiencing a struggle for power reminiscent of the infighting that took place in the nineteenth century prior to the advent of Gómez. On this occasion we have two illiberal groups vying for control of the country.

One is represented by the late Hugo Chávez, who as an outsider won the 1998 presidential election.²⁸ This group has mainly aggrandized the economic vices of its predecessors such as corruption of the judiciary, price controls, nationalized companies, inflation, devaluation, fiscal opacity in the areas of taxation and government spending, regulatory burden of businesses, exchange-rate controls,

27. This is the best recollection of Venezuelan liberal personalities that we can make. We apologize to those who inadvertently we have failed to mention.

28. Revealingly, most of the private media supported Chávez during this election. One of the current authors had two private meetings with Chávez prior to the elections and easily noted his socialist mindset.

minimum-wage increases, governmental indebtedness, trade barriers, and exacerbation of housing rental laws biases against the property rights of real estate owners. Moreover, the Chávez-Maduro government has further abused what political and civil liberties had existed during the preceding four decades. The second group, led and financed by those who made their wealth during the forty years prior to the election of Chávez, defend democracy but have not repudiated the exclusionary economic policies and institutions implanted in the pre-Chavez period.

Hayek (1944) and Friedman (1962) argued that economic freedom is a necessary condition for political and civil liberties. Venezuela appears to lend credence to the Hayek-Friedman hypothesis. The high levels of economic freedom enjoyed by Venezuelans during the 1920–1957 period spurred on the advent of democratic rule. However, subsequent destruction of institutions promoting economic freedom, which accelerated with the onset of democracy in 1958, has undermined freedoms in the political and civil spheres. Thus by privileging certain political rights over economic freedom, Venezuelans have ended with no freedom (see Lawson and Clark 2010).²⁹ If Venezuela had more entrepreneurs with the ethical fiber of Pérez Dupuy, Zuloaga, and García-Mendoza, more staunch defenders of economic freedom, most likely the country would not be in its current predicament. Venezuela and most Latin American countries suffer from the absence of entrepreneurial leadership that champions economically inclusive, liberal institutions. The nation needs to adopt a philosophy that will make property secure, reduce governmental intervention, and confine interventions to those that follow regular and certain rules.

However, as of the date of this writing both competing groups appear to be more interested in fulfilling, rather than straining against, the so-called ‘iron law of oligarchy.’ This lack of leadership aimed at surmounting problems of collective action helps to explain why millions of Latin Americans, particularly Venezuelans, have suffered poverty and its attendant hardships. Such leadership will be needed to excise the numerous exclusionary and illiberal institutions that persist in Venezuela, embedded throughout its history by ravaging rulers.

29. Further, the democratic transition, the widespread phenomenon of democracies substituting for autocracies, is induced by the rapid rise in income per capita that has proceeded since the onset of the Industrial Revolution circa 1800 (see Faria, Montesinos-Yufa, and Morales 2014). We note that during the Malthusian epoch of stagnating income per capita, historical records do not document establishment of permanent democracies.

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Classical Liberalism and Modern Political Economy in Denmark

Peter Kurrild-Klitgaard¹

[LINK TO ABSTRACT](#)

Over the last century, classical liberalism has not had a strong presence in Danish social science, including economics. Several studies have shown that social scientists in Denmark tilt leftwards. In a 1995–96 survey only 7 percent of political scientists and 3 percent of sociologists said they had voted for (classical-)liberal or conservative parties, whereas support for socialist parties among the same groups were 51 percent and 78 percent. Lawyers and economists were more evenly split between left and right, but even there the left dominated: 31 percent and 25 percent for at least nominally free-market friendly parties and 38 percent and 36 percent for socialist parties.² Very vocal free-market voices in academia have been rare.

This marginalization of liberalism was not always the case. Denmark was among the first countries to see publication of a translation of Adam Smith's *Wealth of Nations* (Smith 1779/1776; see Rae 1895, ch. 24; Kurrild-Klitgaard 1998; 2004). Throughout the 19th century the emerging field of economics at the University of Copenhagen was visibly inspired not only by Smith and David Ricardo but also the “Manchester liberals” and French classical liberal economists Jean Baptiste Say and Frédéric Bastiat, of whose works timely translations were made. The university had professors of economics who today would be termed classical liberals, e.g., Oluf Christian Olufsen (1764–1827), Christian G. Nathan David (1793–1874), Carl Johan H. Kayser (1811–1870), Niels Christian Frederiksen (1840–1905), William Scharling (1837–1911) and Vigand A. Falbe-Hansen (1841–1932). Olufsen

1. University of Copenhagen, 1165 Copenhagen, Denmark. I am grateful to Jane S. Shaw, Otto Brøns-Petersen, and three anonymous reviewers for useful suggestions and comments.

2. See Andersen 1998. The remaining shares were for two centrist parties and for “don't know.” Only academics in the field of business economics had more (classical-)liberal/conservative votes than socialist.

was the first Danish professor of economics and an ardent follower of Smith. David was a politician for three decades, first affiliated with liberal groups and later with more conservative ones. The latter four professors were all sometime MPs for either liberal groups or liberal factions of the conservative group in the then-emerging party system.³ Kayser and Frederiksen were explicit admirers of Bastiat, who as late as 1910 was a prominent name in Danish economics training (Boserup 1976, 22ff.; Christensen 1976b, 152ff.). But while these professors were influential in their times, they were not very original and rarely left an enduring mark on the field of economics. After World War I, ‘social democracy’ and an interventionist economy became the default position, both in intellectual debates and in party politics.

This paper seeks to give an overview of the status of liberal thinking among Danish social scientists in the latter half of the 20th and early 21st centuries—a topic about which very little has been written.⁴ The emphasis here is on classical liberal *thinking* as an intellectual and academic enterprise and in its political-historical context. It is not a survey of Danish liberalism as a political or partisan movement (e.g., as associated with the self-declared liberal parties “*Venstre, Danmarks Liberale Parti,*” “*Liberalt Centrum,*” and “*Liberal Alliance*”). Nor is it a history of political activism and political polemics based on more or less free-market ideas. Rather, the following survey is generally limited to individuals with an academic background who have contributed at length to academic or public debate. Finally, the focus here is on liberalism in its classical sense, as a persuasion in the traditions of John Locke, David Hume, Adam Smith, Jeremy Bentham, Herbert Spencer, John Stuart Mill, Ludwig von Mises, F. A. Hayek, Milton Friedman, and others, and with a special focus on political economy.⁵

3. See articles in Christensen 1976a, e.g., Boserup 1976; Johansen 1976, 118–123; Christensen 1976b; Hansen 1976a; 1976b. David and Scharling were both Minister of Finance, and the former was also head of the Danish National Bank. The Danish classical liberal economists and free-market groups of the 19th century have, remarkably, been left almost entirely out of the most recent survey of 19th century Danish liberalism (Nevers 2013), which unfortunately presents Danish liberalism quite selectively as more or less synonymous with the positions of self-declared liberal parties and essentially as entirely politically liberal and egalitarian in its focus. Consequently, economically liberal ideas are written out of Danish 19th century “liberalism,” which is given a left-slanted character akin to the Anglo-American definition of liberalism.

4. A few works with brief passages of some relevance include, e.g., Palmer 1989; Kurrild-Klitgaard 1996a; 2010b; 2012; Gress 2011; Olsen 2013; Nevers, Olsen, and Sylvest 2013a. The book that includes the last two studies (Nevers, Olsen, and Sylvest 2013b) largely ignores the classical part of liberalism, branding it as “neoliberalism;” meanwhile, it uses the term liberalism as it is typically done in the United States and Canada.

5. In recent decades, the term libertarianism is often used in the Anglo-American world to signify classical liberalism. However, that choice may be less than fortunate for a number of reasons, and it certainly has never caught on in Denmark, although the adjective *libertær* occurs occasionally. Furthermore, ‘libertarianism’ has in the United States sometimes been identified more narrowly with an axiomatic natural-rights version of liberalism.

The paper is structured in the following way. First, an overview of some of the solitary figures and circles that represented a classical liberal perspective in Danish public discourse in the decades following World War II. Then an overview of the renaissance occurring in the decades since ca. 1980, centered on a presentation of three different organizations that have played a part in this. Subsequently surveys are made of the individual intellectual profiles, split between those specializing in philosophy and history of thought and those in economics and political science, as well as a group of profiles outside academia.

It should be noted, as will become evident throughout the text, that the present author is not only an observer but also a participant in classical liberal circles. As such the article draws freely from my personal experience, reflects my personal judgments, and highlights the facts and the people that have made a personal impression on me as one immersed in the classical liberal efforts in Denmark—and should be read bearing that in mind.

The long drought (ca. 1945–ca. 1980)

The period from the end of World War II to the early 1980s saw a steady decline and a new low point in the interest in Danish free market thinking. While parties that might be seen as more or less liberal in their orientations occasionally did well on the political scene, from around 1960–1965 they basically gave up stemming the tide of socialization. The time was not one of liberal discourse. The few pro-free market bastions of opinion struggled and faltered, while the institutions of higher learning were rapidly emptied of the few remaining, vocal non-socialist voices. Virtually every academic article or book with any ideological flavor tilted left, or at least in favor of the status quo of an interventionist welfare state.

An illustrative example is Carl Iversen (1899–1978), who was professor of economics, a founding member of the Mont Pèlerin Society in 1947, and a very prominent academic in Denmark. He was full professor for almost three decades and chancellor of the University of Copenhagen, as well as the first chairman of the Danish Council of Economic Advisors. He was also a close intellectual ally and professional collaborator of the Swedish economist and Nobel Prize winner Bertil Ohlin, and seems to have shared Ohlin's liberal approach to international trade. Iversen had an interest in the capital theory of Mises and Hayek and met the latter when he visited Copenhagen in 1933. But whatever liberalism Iversen may have shared, it is little reflected in his work, and Iversen seems to have left no visible mark as a liberal—neither in his academic works nor in public discourse.

The same waning tide of free-market ideas characterized debates on public policy in newspapers. Few voices challenged the expansions of the state and

redistribution in the decades following WWII. One of the exceptions, who consistently championed and promoted a distinctly classical liberalism, was the economist and political writer Christian Gandil (1907–1999).⁶ Gandil had originally been educated with a double master’s degree in forestry and economics, but when he met F. A. Hayek and Ludwig von Mises, he chose a career as a writer and organizer on behalf of liberal ideas. Gandil himself had become a member of the Mont Pèlerin Society in 1948 (the year after its founding), and from 1968 to 1972 was its vice president.⁷

Gandil’s primary contribution was as an organizer, president, and leading voice of *Erhvervenes Oplysningsråd* (“Enterprise Information Council”), an organization founded in 1945 that aspired to become something like the American Enterprise Institute (founded in 1943). The organization was formally initiated by *Grosserer-Societetet* (the Chamber of Commerce), especially two businessmen, Rudolph Schmidt and Dethlef Jürgensen, and there was some overlap with an earlier organization called *Frihandelsklubben af 1932* (“The Free Trade Club of 1932”). However, Gandil was the main intellectual force, and the primary inspiration for his project was Hayek’s *The Road to Serfdom* (in Danish as *Vejen til trældom*, Hayek 1946/1944).

The context of the creation of the Enterprise Information Council was debates over abolition of the wartime restrictions on commerce and the socialization plans pushed by Social Democrats and Communists. The Council sought to spread ideas about the value of a free market economy, not only to the public in general but also to executives. Intellectually, the Council was explicitly anti-Keynesian and very positive toward the ‘Austrian school’ of economics (see Gandil 1971, 4). In practice, the Council aimed at influencing public debate through meetings, op-eds, and policy reports.

Soon after the founding of the Council, a number of other business organizations became members, including representatives from agriculture, industry, insurance, and banking. By the early 1970s, however, it became too difficult to raise money for the operation: The business organizations tended to appease an increasingly corporatist and interventionist Danish public sector, and in fact some organizations withdrew their support—after which it became too expensive for the remaining organizations.⁸

6. On Gandil, see Kurrild-Klitgaard 1999; Jensen 1999; Olsen 2013.

7. Gandil received the Danish Adam Smith Prize in 1989. The Libertas Society had instituted the Danish Adam Smith Prize the year before, with the purpose of honoring individuals who have affected public debate or policies in a free-market direction.

8. For a history of the first 25 years of the organization, see Gandil 1971. After the demise, some of the remaining funds of the Council were transferred to a new organization named Libertas: Næringsliv og Samfund (“Libertas: Enterprise and Society”), which organized a series of meetings in the 1970s. However,

Gandil was more of an organizer and public debater than an original thinker—earning him the nickname “Propa-Gandil.” His most weighty intellectual contribution to political thought at the intellectual level was probably the book *Moderne liberalisme* (Gandil 1948b), an anthology that took as its point of departure the 17th–18th century liberalism of Locke, Hume, Smith, Immanuel Kant, Thomas Jefferson, et al., but also drew on European liberals of the 1940s (Gandil 1948a, 5ff.). The book included essays outlining the thinking of economists such as Mises, Hayek, Wilhelm Röpke, Trygve J. B. Hoff, and Herbert Tingsten. The book called for a liberal revival and argued that Marxist socialism and national-socialism were based on errors and were similar in nature. It was for many years one of the few Danish books in print that dealt explicitly with liberal ideas.

Aside from the circle around *Erbhvervenes Oplysningsråd* the only group in Denmark to systematically champion liberal economic ideas was a group of Georgists. This group had connections to the so-called *Retsforbundet* (“Justice Party”) and the associated Henry George Society, which favored free trade and free enterprise. However, the Georgists also championed the so-called ‘single-tax’ on land, which essentially would nationalize ownership of all land. While the latter was never popular with other liberals (or many voters), it is only fair to say that the Justice Party for many years provided the most consistent free-trade voice in Danish politics.

One of the more prolific individuals of this group was Knud Tholstrup (1904–1989). He was originally a farmer who had been kicked out of elementary school due to dyslexia—and went on to become one of the country’s most successful industrialists and self-made kroner-billionaire. He later went into politics as a member of Parliament for the Georgists and subsequently became the author of several books (e.g., Tholstrup 1986), many pamphlets (Tholstrup 1973; 1988), and numerous op-eds and letters to the editor on industrial policy, monetary policy, growth, taxes, and so forth. Tholstrup was a proponent of liberalism in all its forms: freedom of enterprise, trade, and speech, and he received the first Danish Adam Smith Prize in 1988. Even so, his influence was limited, and his impact was made primarily on fellow Georgists.

A less prolific author in his early years was the hell-raising, rugged individualist Flemming Juncker (1904–2002). First a farmer, he also turned industrialist, making—and losing—a fortune in the timber industry. Most famously, he was the leader of the Jutland-based resistance during the German occupation of Denmark. He eventually had to flee for his life, settling in London where he became an officer of the Special Operations Executive, leading strategic missions behind

this more modest organization too was up against the tides of the times and had become dormant by ca. 1980.

German lines. For the next forty years Juncker was a high-energy powerhouse as a path-breaking farming and business entrepreneur. Juncker eventually spent his retirement, from age 75 to 97, as an active writer. He always championed limited government, low taxes, and free markets, but it was not until his retirement that he devoted himself to public debate. Then, he came out as a fan of Friedman, the Chicago school, and Austrian economics (e.g., Juncker 1986). But Juncker's writings were too late and perhaps too eclectic to gather a wide audience or make any greater impact than being a rare free-market voice on the op-ed pages and an occasional contributor to *Libertas*.⁹

Another liberal from this era is Svend Thiberg (b. 1920). Thiberg has eschewed a public profile and is little known to the public. His influence came as a publisher and editor of the weekly magazine *Finanstidende* ("Financial Times"), which had been founded in 1914 by Thiberg's father-in-law, the economist Carl F. S. Thalbitzer (1876–1970). The Thalbitzer family had been prominent liberals for generations, and for 75 years the magazine relentlessly criticized pervasive Danish taxes and interventions, providing one of the very few places where liberal academics might write. In the decade before its closing, *Finanstidende* regularly featured articles on such topics as public choice theory, government failure, privatization, and F. A. Hayek.¹⁰

Apart from people such as Gandil, Tholstrup, Juncker, and Thiberg, there were few intellectual standard-bearers of a classical liberal bent, and on the political scene the picture was perhaps even more depressing. Among conservative and liberal politicians, whatever elements of anti-statism had remained in the 1950s and 1960s gave way to what was mostly a very defensive position and often a more state-embracing, left-leaning, big-government ideology.

A few examples may suffice to illustrate the point. Among the Conservatives, who had in the 1950s been stalwart defenders of individual liberties, private property, and free markets (see, e.g., Kraft 1956), there was in the 1960s a decisive turn toward statism. The novelist Hans Jørgen Lembourn (1923–1997), who for a period was an MP, spokesman, and unofficial 'chief ideologue' of the Conservative Party, in the late 1960s resurrected the idea of a corporatist organization of society, which many on the right had championed in the 1930s. In his book *Een/mange* ("One/Many"), Lembourn distanced his brand of conservatism from the free-market economics that had characterized the collaboration of the Conservatives and the Liberal Party in the 1950s and early 1960s. Instead, he proposed alliances with the left, under the misleading label "liberal conservatism" (Lembourn 1967).

9. Juncker received the Danish Adam Smith Prize in 2001 (see Kurrild-Klitgaard 2001b).

10. A *festskrift* in Thiberg's honor included contributions from many Danish free marketeers who had been employees of the magazine over the years (Ziegler 1990).

Perhaps most illustrative of this trend is the case of Per Stig Møller (b. 1942)—son of the Conservative Party leader and former Finance Minister Poul Møller (1919–1997) and nephew of Aksel Møller (1906–1958), both of whom had fought the welfare state in the 1950s (see Kraft 1956). The younger Møller became chairman of Conservative Students and, in the spirit of 1968, a proponent of a sharp left turn for the Conservatives (see Møller 1968). Møller went so far as to posit Mao Zedong as an ideal who should inspire conservatives rather than Adam Smith (Møller 1970). He also embraced central elements of the left-wing Frankfurt School of Jürgen Habermas, championing a “utopia” he called “total democracy,” which he saw as “a realistic-idealistic socialism.” It included specific proposals such as collectivization of the means of production, government publication of newspapers, a social organization based on collectives and with communal property, income taxes approaching 90 percent, energy usage based on quotas, prohibition against excessive consumption of television, forced cross-racial marriages, and forced relocation of all citizens every seventh year (Krarup, Møller, and Reich 1973). Møller went on to become leader of the Conservative Party and a longtime cabinet member.

A new beginning: From three circles to many strands

By the late 1970s there was plenty rotten in the state of liberalism in Denmark. With a few isolated exceptions, no intellectual circles existed; little academic work of note was being done; no outlets produced anything longer than op-eds. But around 1980 a visible rejuvenation of non-socialist thought began to take place in Denmark.

For the first time in decades, authors began going against the tide and even on the offensive—a tendency that coincided with the broader Western phenomenon of the ‘New Right’ and the rediscovery of liberalism. Simultaneously new winds and new inspiration came into Danish academia through developments abroad in economic and political science research. Initially the number of persons was small, and their contributions were diverse and sporadic and characterized more by idiosyncrasies and an anti-left reaction than by the articulation of a constructive line of thinking. The developments took place through a number of quite heterogeneous channels, but in various phases the process was assisted by at least three organized circles: the publishing company Forlaget i Haarby in the early 1980s, the liberal debate forum *Libertas* in the late 1980s and 1990s, and the think tank Center for Political Studies (CEPOS) since 2004.

Forlaget i Haarby

Forlaget i Haarby was a small private publishing company founded in 1977–78 by Poul A. Jørgensen (1934–1996).¹¹ Jørgensen was a schoolteacher with a background in the Liberal Party (*Venstre*) but with a more intellectual than partisan outlook. Jørgensen was a frequent participant in public debates, but like Gandhi he was perhaps less of an original thinker than an idealistic entrepreneur who made a difference by bringing others together. Over a relatively short period, Jørgensen managed to assemble intellectuals from the center-right to produce a number of books bringing liberal intellectual ideas to a broad Danish audience.

Forlaget i Haarby produced new reprints of classics such as the long out-of-print Danish translation of F. A. Hayek's *The Road to Serfdom*, *Vejen til trældom* (1946, republished 1981) and selections from Alexis de Tocqueville's *Democracy in America*, published as *Lighed og frihed* ("Equality and Freedom," Tocqueville 1978). Jørgensen also published Danish translations of more recent books such as Eamonn Butler's introduction to Hayek (as *Vejen til frihed*, Butler 1986); Lars Gustafsson's *För liberalismen: en stridskrift* (Gustafsson 1983), and Guy Sorman's overview of the new liberal wave (as *Den liberale løsning*, Sorman 1986).

But perhaps most importantly Jørgensen provided a publishing outlet for original works by Danish authors, such as professor of philosophy Justus Hartnack's analysis of the debate between John Rawls and Robert Nozick (Hartnack 1980) as well as public policy books by center-right politicians. Following serious illness—and perhaps less-than-stellar commercial success—Jørgensen closed shop in the late 1980s and sold the rest of his books to another, new forum: *Libertas*.

Libertas

Libertas was founded first as a magazine, in 1982, and then as an organization in 1986. The forum traces its history back to the late 1970s when a group of leaders within *Konservativ Ungdom* (KU, the "Young Conservatives") took part in a couple of meetings of the Mont Pèlerin Society, where they met Hayek, Friedman, and others. First and foremost were two young economics students, Otto Brøns-Petersen (b. 1961) and Palle Steen Jensen (b. 1961), and the writer Villy Dall (b. 1955).¹² In 1982 the three founded what they envisioned to be a think tank, the "Danish Adam Smith Institute," and launched the magazine *Libertas*, whose first issue was published in early 1982. It featured articles about Friedman and monetarism, the economic policies of the Thatcher government, and other topics. The

11. On Jørgensen, see Kurrild-Klitgaard 1996b.

12. On the history of *Libertas*, see Kurrild-Klitgaard 1996a.

name *Libertas* was borrowed from the short-lived forum *Libertas: Næringsliv og Samfund*, which had briefly succeeded Gandil's *Erbhvervenes Oplysningsråd*.

For a number of reasons the magazine was discontinued, but in 1985 the same group as well as newcomers re-created *Libertas*—but this time at a lower level of ambition, organized as a society and centered around a more modestly published journal, which was to serve as a forum for debate, translations of classics, and new work done mostly by students. A statement of principles was drafted and the first meetings were organized by Peter Kurrild-Klitgaard (the present author, b. 1966), then a first-year student of political science, who was elected secretary (i.e., functioning as chairman). There were about 35 founding members, mostly students, but more took part in the first conference, and soon there were between 100 and 200 subscribers to the magazine (a number that would peak at about 300–400 at some point).

Initially most people in *Libertas* were drawn from tight-knit ranks within the Young Conservatives and Conservative Students, but this was gradually to change. One reason was an increasing hostility to liberal ideas within the Conservative Party—including the party leadership tacitly supporting a purge of libertarians in 1988–1989 and the party's secretary general stating publicly in 1990 that there were too many libertarians among the Young Conservatives.

Another reason was that liberal ideas came to have a better reception elsewhere. Among an emerging, broader circle were Bent Honoré (b. 1936), a Lutheran priest, former member of Parliament for the Christian People's Party, and book publisher, whose firm Forlaget Kontrast published several free-market works; Jens Løgstrup Madsen (b. 1961), a political scientist and later MP for the Liberal Party from 1994 to 1998; Christopher Arzrouni (b. 1967), a political scientist, journalist, political advisor, and author, long active in the Liberal Party; Kim Behnke (b. 1960), leader of the Progress Party and member of Parliament from 1987 to 2001; and Nicolai Juul Foss (b. 1964), professor at the Copenhagen Business School.

The circle around *Libertas* was heavily influenced by the Anglo-American strands of classical liberal and libertarian thinking, which had emerged or gained wider attention in the 1970s and early 1980s. These included the works of Hayek, Nozick, Milton Friedman, David Friedman, James M. Buchanan, Murray Rothbard, and Ayn Rand. Early on, contacts were established among *Libertas*, British think tanks such as the Institute of Economic Affairs and the Adam Smith Institute, and U.S.-based organizations such as the Institute for Humane Studies, the Heritage Foundation, the Cato Institute, and the Ludwig von Mises Institute. In particular, people such as Leonard P. Liggio (1933–2014), John Blundell (1954–2014), and Tom G. Palmer (b. 1956) played a significant role in *Libertas*'s early years.

Aside from the magazine and one or two annual conferences, *Libertas* has never been extroverted, so to speak. The Danish media have perhaps both overestimated and underestimated the importance of *Libertas*: newspaper articles have described it alternately as “influential,” “the closest Denmark gets to a political think tank,” a new “intellectual elite”—and as an irrelevant group of sectarian students.¹³ What is clear is that from the circle came a number of works which while in themselves were perhaps not too impressive, nonetheless signaled a change in the uniform direction of public discourse. For the first time in two generations, young non-socialist intellectuals were producing ideological and scholarly work that unapologetically defended the free market and provided uncompromising attacks on socialism as a doctrine and the modern welfare state. In the first few years alone, these works included the aforementioned translation of Eamonn Butler’s book about Hayek, two anthologies on privatization (Kurrild-Klitgaard 1988; Behnke, Borges, and Hansen 1990), a translation of selected works by Frédéric Bastiat (1989), and a hard-core libertarian anthology, *Samfund uden stat* (“Society Without State,” Andersen 1992). Later came such publications as the anthology *Den moderne liberalisme: rødder og perspektiver* (“The Modern Liberalism: Roots and Perspectives,” Madsen 1997), with essays on subjects such as public choice theory (Arzrouni and Ziegler 1997; Ziegler 1997) and the challenges facing liberals who want to reform society (Kurrild-Klitgaard 1997).

A distinctive trait of this group of younger, ideologically driven liberals was a great attention to history of political thought and the roots of liberalism. This was particularly evident in the coverage in the magazine *Libertas*—articles not only on thinkers such as Locke, Smith, Jefferson, James Madison, Herbert Spencer, Hayek, Friedman, Rand, Buchanan, and Nozick, but also some less well-known writers such as Etienne de La Boétie, the Levellers, the French radical liberals, Bastiat, Lysander Spooner, Max Stirner, Rothbard, Johannes Hohlenberg, Gerard Radnitzky, Anthony de Jasay, and David Gress. Topics and themes have included pre-liberal quasi-liberalism, feminism, public choice theory, monetarism, Christianity, constitutional theory, the Danish constitution, international relations, immigration, moral relativism, conservatism, and anarcho-capitalism. Policy issues have ranged from the mainstream—privatization of state enterprises, financial regulation, insider trading, the Iraq war, globalization, the environment—to Bitcoin, Buddhism, civil disobedience, and anarchic societies.¹⁴

At the beginning of the new millennium, *Libertas* faltered somewhat as an organization, due to a lack of willing individuals to take on leadership positions,

13. For the positive evaluation of *Libertas*’s influence, see Kristiansen 1990; Hergel 1990; Bistrup 1994; Thomsen 1996. For the negative judgments, see, e.g., analysis by Ritzaus Bureau, October 6, 1994.

14. As of March 2015, *Libertas* had been published in 60 issues (some double) since 1986.

plus the evolution of the Internet and its potential for producing new forms of interaction. Partly as a consequence and partly for other reasons, a number of new, more ephemeral forums appeared. The hard-core libertarians organized the Internet portal *Liberator.dk* (founded 2001 by economics students Thomas Breitenbach Jensen and David B. Karsbøl), while the more academically oriented created the blog *Punditokraterne.dk* (from 2005).¹⁵

However, many liberals also gravitated toward the creation and operation of the first, full-scale, successful attempt to create a center-right think tank in Denmark.

Center for Politiske Studier (CEPOS)

In late 2003 a number of center-right intellectuals and former politicians decided to create a think tank. The project was launched in 2004 with businessman and former Conservative MP and Minister of Defense Bernt Johan Collet (b. 1941) as chairman and prime mover.¹⁶ He headed a rather prominent list of founders drawn from politics, the business sector, the media, and the arts—as well as world-famous soccer player Michael Laudrup. The *Libertas* circle provided several of the founders (e.g., Arzrouni, Foss, Kurrild-Klitgaard, Edith Thingstrup), as well as later employees (Brøns-Petersen, Henrik Gade Jensen). Board members have subsequently included public intellectuals such as Mikael Bonde Nielsen and university professors such as Anders Wivel, Christian Bjørnskov, and Ole P. Kristensen.

By the following year, 2005, enough funds had been raised to ensure the operation of the Center for Politiske Studier (CEPOS), which since then has been headed by economist Martin Ågerup. While not formally adopting a clear ideological label other than “*borgerlig-liberal*” (“bourgeois-liberal”), CEPOS has become the single most important forum for free-market ideas in Denmark at any point since the 1970s and possibly much longer.

With approximately 20 employees and an annual budget of three to four million dollars, CEPOS has published a large number of books, including about liberal thinkers (Jensen 2008), conservative thinkers (Andersen and Jensen 2009), the history of the Danish welfare state (Elbjørn and Gress 2006; Jensen 2011),

15. Editors and contributors to *Punditokraterne.dk* have included, among others, economics professors/economists Christian Bjørnskov, Otto Brøns-Petersen, and Niels Westy Munch-Holbek, law professors/lawyers Jesper Lau Hansen and Jacob Mchangama, political science professors/political scientists Peter Kurrild-Klitgaard, Jørgen Møller, Jens Ringsmose, Casper Dahl, and Henrik Fogh Rasmussen, and independent writers such as David Gress and Mikael Bonde Nielsen.

16. On the founding of CEPOS and Collet's role therein, see Kurrild-Klitgaard 2012; Jensen 2013. Collet was the 2013 recipient of the Danish Adam Smith Prize.

Danish political thinking after the fall of the Berlin Wall (Gammeltoft and Jalving 2010), the Danish constitution (CEPOS 2013), freedom of speech (Mchangama 2012), differences between Denmark and the United States (Rasmussen 2007), as well as hundreds of reports and thousands of commentaries and op-eds. CEPOS also occasionally publishes translations, such as a new edition of Milton and Rose Friedman's *Free to Choose* (2012/1981) and a Danish translation of Niall Ferguson's *Civilization* (2014/2011).

The history and philosophy of liberal ideas

By the 1970s there was very little explicit free-market liberal thinking among Danish university scholars. While the left had organized dramatically—reaching the point where a prominent law professor, Ole Krarup, publicly advocated that only Marxists should be given tenure—the right was withering away. And those who were center-right seemed to be either non-ideological (or, even moderately social-democratic) or status quo-‘conserving’ conservatives, rather than being liberal. There were, however, two prominent exceptions among philosophers.

One was the internationally prominent Danish philosopher Justus Hartnack (1912–2005), who had been professor of philosophy at the University of Aarhus from 1954–72, but left it in disgust with student rebellions and Marxism. Hartnack subsequently became a professor at City College, New York, until 1982. Hartnack—once a military officer who had actively fought the German invasion of April 9, 1940—had primarily been interested in empiricism and Ludwig Wittgenstein, and, later, Hegelian philosophy. Over the years, however, he came to be more of a Kantian moral philosopher. While he was an impartial academic more than an explicit proponent of liberalism, he was certainly sympathetic to freedom and rights, as evidenced by his 1980 book on Nozick and Rawls, *Menneskerettigheder* (“Human Rights”), published by Forlaget i Haarby.

The other exception was Mogens Blegvad (1917–2001), a professor of philosophy at the University of Copenhagen. He had a strong interest in liberal ideas, which he promoted indirectly as a scholar of political thought. Among Blegvad's writings that preserved some liberal thinking in an otherwise illiberal period were works on John Stuart Mill (e.g., Blegvad 1962; 1969), as well as his edited Danish collection of Mill's own works (Mill 1969). Later Blegvad would return to the thought of Mill, as well as scholars such as David Hume, Adam Smith, Jeremy Bentham, James Buchanan (e.g., Blegvad 1979; 1992; 1996). He also initiated a radio lecture series on 20th century political thought, subsequently published as the book *Samfundstænkning i 100 år* (Blegvad 1984). This little book contained introductions accompanying selections from a number of classics, including

Herbert Spencer, but also modern liberals—not only Rawls but also Nozick, Hayek, and Karl Popper, who here received perhaps the most mainstream attention they ever had from Danish academics.

Blegvad's greatest impact came from being a teacher and colleague of other Danish philosophers, who came to take an interest in liberal thought. According to one of his students, Blegvad was an exceptional academic in the 1970s and early 1980s because he dared to teach students using texts by Hayek, Nozick, Buchanan, and Thomas Sowell. He did so without ever 'pushing' particular points of view in public or engaging in political discussions, always remaining neutral and scholarly. His more prolific students included philosophers such as Knud Haakonsen (b. 1947, later internationally acclaimed professor of philosophy at Boston University and University of Sussex, a scholar of natural law and natural rights) and Flemming Steen Nielsen (b. 1937, for many years associate professor of philosophy at the University of Copenhagen and a Popper specialist). A third student, Henrik Gade Jensen (b. 1959), taught philosophy at the universities of Copenhagen and Roskilde, but later worked at the think tank CEPOS, as a newspaper columnist, and as a parish priest. Jensen is an eclectic thinker, with strong conservative values but also quite radical libertarian positions and research ideas (including private law enforcement), who has published many articles, books, and edited volumes on the history of liberal and conservative thought (e.g., Jensen 2008; Andersen and Jensen 2009; Jensen 2011).¹⁷

In the late 1980s Blegvad became peripherally involved with the *Libertas* circle. There he met a group of younger, liberal students, mostly in law, economics, and political science, who were influenced by his emphasis on the history of liberal thinking. Subsequently some of the same people co-produced the first book published by a Danish academic press dealing specifically with classical and modern liberal thought, *Etik, marked og stat: Liberalismen fra Locke til Nozick* (Foss and Kurrild-Klitgaard 1992).

A third figure is the historian David Gress (b. 1953), who has described himself as a Christian, part conservative traditionalist, part liberal, and part anarchist (see Gress 2011). Gress became known in the 1970s as a gifted, young, right-of-center intellectual, who left Denmark to study at Cambridge and Bryn Mawr and to work, among other places, at the Hoover Institution. Gress was influenced by the writings of the 'New Right' of the 1980s and became markedly more libertarian in his political positions, while generally reasoning from a critical conservative view of society. In the late 1990s, having returned to Denmark, Gress became a prolific public debater and writer, working as a newspaper columnist, university teacher, and senior fellow of CEPOS, which he helped co-found in 2004. As an academic,

17. Blegvad's career and contribution has been assessed by Jensen (2001).

Gress's main work is the international bestseller *From Plato to NATO* (Gress 1998). Here Gress criticized the conception of “the West” as often found in 20th century popular versions of history of thought. What is uniquely Western is not a simple, straightforward product of ancient Greece plus Rome plus Enlightenment, but rather a much more complex mixture of those elements and Christianity, Germanic tribal society, feudalism, and other elements. Gress's most recent works—only published in Danish—are more straightforwardly normative and deal with the historical development of the concept of freedom (Gress 2005) and the cultural and institutional roots of prosperity (Gress 2007).

A final figure who may be counted in this camp is the now-retired professor of economics at the University of Copenhagen, Hector Estrup (b. 1934). In his three decades as full professor he did much to promote an interest in the history of economic thought including the works of Adam Smith and other liberals (e.g., Estrup 1992; 1998a/1991; 2002) and topics of clear relevance to free-market ideas, e.g., through his article on “Economic Liberalism” for the Danish National Encyclopedia (Estrup 1998b).

Political economy and public choice

Just as in philosophy, there were very few liberals in Danish economics and political science in the years ca. 1968. One of the few university economists to engage in political debates from a free-market perspective was one who actually ended up leaving academia. Steen Leth Jeppesen (b. 1938) was trained as an economist, then became assistant professor at the Department of Economics of the University of Copenhagen and associate professor at the Department of Political Science, and then full professor at the National School of Public Administration from 1974 to 1984. In these positions Jeppesen taught economics and economic policy to students of political science and public administration, and he produced a number of textbooks for the field (Jeppesen 1979/1967; Henningsen and Jeppesen 1973; Jeppesen 1979/1971). He left academia and for two decades was CEO of the insurance companies' professional organization. Before, alongside, and after his academic career Jeppesen has worked as economics editor at several newspapers, and as a freelance editorial writer at *Finanstidende* and today *Børsen*. Jeppesen has also been chairman of the Tax Payers' Association and a parliamentary candidate for the Liberal Party (*Venstre*). Through his career as a writer Jeppesen has been one of the most consistently pro-free market voices in Danish debates on economic policies—although often without a byline.

The Chicago school

A point of influence for liberal ideas might have been interest in Milton Friedman, ‘monetarism,’ and the Chicago school. However, such interest has been at the same time broad and quite limited—broad because Friedman has been influential on debates, but limited in that very few have acted as champions of Friedmanite economics.

A good example is the Harvard-educated monetary scholar Niels Thygesen (b. 1934), who is widely seen as the most internationally influential Danish economist of the late 20th century. On several occasions he has published on Friedman, monetarism, and the Chicago school (e.g., Thygesen 1998). Thygesen, while a full professor at the Department of Economics at the University of Copenhagen, ran for the European Parliament as a candidate for the Liberal Party in 1979, but otherwise he has never been very outspoken.

A much more vocal exception has been the economist Lars Christensen (b. 1971), external lecturer at the University of Copenhagen and sometime secretary of *Libertas*. Christensen, who has had a high-profile position as chief analyst at Danske Bank, has written extensively on Friedman and Chicago economics, including a book on Friedman (Christensen 2002) and a variety of academic articles. His blog, “The Market Monetarist,” arguably is the most widely read Danish economics blog of the second decade of the new millennium.

The Austrian school

One of the most important strands in the international renaissance of liberal thinking since the 1970s has been the Austrian school of economics, associated with such economists as Mises, Hayek, Rothbard, and Israel Kirzner. The Austrian school has inspired at least two generations of Danish liberal students, but on the academic side the impact has been marginal.

The only major name in Danish economics to give serious, detailed, and predominantly positive attention to the Austrians, both methodologically and theoretically, has been the previously mentioned Nicolai Juul Foss, one of the youngest-ever full professors of economics in Denmark (at the Copenhagen Business School) and among the most internationally prominent and most frequently cited Danish economists.

Foss, who has been involved with *Libertas* and later with CEPOS, has served for decades on the editorial boards of the *Review of Austrian Economics*, the *Quarterly Journal of Austrian Economics*, and the *Journal des Économistes et des Études Humaines*, as well as on (much more prominent) mainstream and field journals. Early on he wrote extensively on Hayek’s thought (e.g., Foss 1992) and authored the first

Danish book on the Austrian school (Foss 1994b), and he made attempts at incorporating semi-Austrian insights into more mainstream economic thinking in areas of entrepreneurship, management, and organization. Foss's more important works with a distinct liberal perspective have been on socialist calculation (Foss 1990; Brøns-Petersen and Foss 1990), Austrian capital theory (e.g., Foss 2012), entrepreneurship (e.g., Foss and Klein 2002; Bjørnskov and Foss 2008), and classical liberalism (Foss 1992; Foss 1994a), as well as contributions to the Danish National Encyclopedia on Austrians such as Carl Menger, Mises, Hayek, Kirzner, and Ludwig Lachmann.

Another high-profile scholar influenced by 'Austrian' thinking is the previously mentioned economist Otto Brøns-Petersen, one of the founders of *Libertas*. He began as a writer at *Finanstidende* before pursuing a successful career in the civil service (including as deputy permanent secretary of the Treasury), and in 2013 he was hired as research director of CEPOS. Over the years Brøns-Petersen has maintained part-time teaching positions in economics and political science at the University of Copenhagen, and he was elected to the Mont Pèlerin Society in 1994. His primary academic contributions outside the technical field of tax policy have been in the intersections between Austrian economics, public choice analysis, and political theory, and have included works on the socialist calculation debate (Brøns-Petersen and Foss 1990), radical libertarianism in the United States (Brøns-Petersen 1992), classical liberalism and "neo-liberalism" (Brøns-Petersen 2003; 2009; 2013).¹⁸

Public choice

While the Danish academic interest in the Austrian school has been negligible—aside from Hayek's political thought—the same cannot be said about the other prominent branch of modern liberal political economy: public choice analysis, as developed by such economists as Buchanan, Gordon Tullock, Mancur Olson, William Niskanen, and to some extent George Stigler and Gary Becker, as well political scientists such as William H. Riker, Elinor Ostrom, and Vincent Ostrom.

Even before public choice analysis really became a well-developed discipline, the longtime socialist Jørgen S. Dich (1901–1975), professor of economics at the University of Aarhus and one of the architects of the Danish welfare state, wrote a scathing public choice-style analysis of interest group politics and the public sector.

18. Together with the present author, Foss and Brøns-Petersen organized three Danish conferences on Austrian economics in the years 1989–1991. The proceedings were collected in three modest publications (Kurrild-Klitgaard, Brøns-Petersen, and Foss 1989; 1990; 1991).

In *Den herskende klasse* (“The Ruling Class,” with the subtitle “A Critical Analysis of Social Exploitation and the Means to Combat It”), Dich (1973) combined semi-Marxist metaphors with reasoning very close to that of Tullock and Niskanen. He argued that the modern state had been taken over by a new ruling class: experts, in charge of bureaucracies, with vested, personal interests in the constant expansion of their domains. Using concepts from economic analysis, Dich demonstrated that there is an oversupply of government, and that the losers are small businessmen, the working class, and eventually society as a whole.

While Dich’s analysis was original, it was perhaps too colorful and controversial to make any lasting impression on the academic mainstream. However, at around the same time a group of, first, economists and then collaborators in political science began taking an interest in the thoughts developed by the Virginia, Chicago, Rochester, and Bloomington schools. Since the 1980s ‘rational choice’ analysis of politics has become very prominent in Danish academia (Nannestad 1993). Not all of its proponents have been classical liberals, but they have all adopted a methodologically individualist approach to politics, an understanding of ‘government failure,’ and an implicit skepticism of expansion of public activities.

The first to do so were two economists, Kjeld Møller Pedersen (b. 1949) and Jørn-Henrik Petersen (b. 1944) of the University of Odense (later renamed the University of Southern Denmark). Neither of them can be seen as classical liberals; in fact, the latter is widely viewed as one of the modern ‘engineers’ of the social-democratic welfare state and continues to call himself a socialist. However, in their book *Hvorfor kan den offentlige sektor ikke styres?* (“Why Is the Public Sector Uncontrollable?”), Pedersen and Petersen (1980) basically presented in Danish most of the major points of Virginia public choice. In subsequent academic works Petersen has continued to push the basic analytical points made by the Virginia School (Petersen 1987; 1988; 1996). Partly due to Petersen’s influential works, the basic tenets are today well-known by many economists educated since the 1980s.

Belonging to the same ‘first wave’ of Danish academic interest in public choice analysis were a number of political scientists and economists located at the University of Aarhus and typically born in the 1940s or 1950s. Among the most prominent is public administration professor Jørgen Grønnegaard Christensen (b. 1944); he has applied public choice-style analysis to regulation, showing that vested interests prevent genuine reform of superfluous and sometimes even harmful legislation (Christensen 1991).

Probably the most influential Danish scholar of public choice with a fairly liberal orientation has been Ole P. Kristensen (b. 1946), formerly political science professor at the University of Aarhus, who in articles and a book demonstrated how in practice it is not the median voter that determines the outcomes of the policy processes but rather the asymmetric nature of costs and benefits, possibly

leading to an oversupply of government (Kristensen 1980; 1982). The point was earlier made in the works of, e.g., James Q. Wilson, Mancur Olson, and James Buchanan, but Kristensen applied it empirically in a highly influential treatise on Danish public spending (Kristensen 1987). Kristensen later left academia for senior positions in the private and public sector and is now affiliated with CEPOS and an editorial writer of the daily *Børsen*. He has continued to write and publish, often including public choice insights such as the possibility of constitutional reform (Kristensen 2004).

Other prominent public choice scholars from the same generation include professors Martin Paldam (b. 1942, economics, Aarhus), Peter Nannestad (b. 1945, political science, Aarhus), and Poul Erik Mouritzen (b. 1952, political science, Odense). While these cannot be labeled as ideological classical liberals, all have made significant academic contributions to the explanation of public expenditures, voter and interest group behavior, and the dynamics of the welfare state inspired by public choice theory (see, e.g., Borner and Paldam 1998; Mouritzen 2001; Winter and Mouritzen 2001; Christoffersen and Paldam 2003; Nannestad 2004; Christoffersen et al. 2014; Paldam 2015).

A ‘third wave’ of Danish public choice scholars consists mostly of economists and political scientists born in the 1960s and 1970s who grew up as ‘students’ or junior colleagues of Christensen, Kristensen, Paldam, Nannestad, Mouritzen, et al., and who since 1999 have organized an annual Danish Public Choice Workshop. Not all of them are liberals, but many of them come close and have produced works of relevance to a free society. Among these are Gert Tinggaard Svendsen (b. 1963, professor of political science, Aarhus), a student of Paldam and Nannestad, who also was a visiting doctoral student with Mancur Olson (Svendsen 2012). Another is Christian Bjørnskov (b. 1970, professor of economics, Aarhus), also a student of Paldam, while a third is the present author, Peter Kurrild-Klitgaard (b. 1966, professor of political science, Copenhagen), once writer at *Finanstidende*, later an academic and colleague of Nannestad and Mouritzen. To the same group may added Kurrild-Klitgaard’s former student, Mogens K. Justesen (b. 1977, associate professor, Copenhagen Business School).

While far from a monolithic group, the aforementioned have all been interested in issues of comparative political economy. A particular theme for Svendsen and Bjørnskov has been the social and institutional determinants of economic growth, including the importance of trust and social capital, economic freedom and entrepreneurship (e.g., Bjørnskov and Foss 2008; 2012; 2013; Berggren, Bergh, and Bjørnskov 2012; Bjørnskov and Svendsen 2013; Bjørnskov and Kurrild-Klitgaard 2014; Bergh and Bjørnskov 2014). Bjørnskov has also been the leading scholar internationally looking at ‘life satisfaction’ in a political economy perspective, including considering how government size may affect life

satisfaction and suggesting that market economic societies achieve it better (Bjørnskov, Dreher, and Fischer 2007; Bjørnskov 2014).

Justesen and Kurrild-Klitgaard have focused on constitutional arrangements, including how property rights, separation of powers, and other freedom-supporting institutions tend to sustain economic growth and long term prosperity (e.g., Kurrild-Klitgaard 2003; Kurrild-Klitgaard and Berggren 2004; Justesen 2008; Justesen and Kurrild-Klitgaard 2013). They have also applied social choice analysis to empirical data derived from Danish politics (e.g., Kurrild-Klitgaard 2001a; Justesen 2004; Kurrild-Klitgaard 2008; 2013).

Although not a rational choice or public choice scholar, one might with this group also mention the political scientist Jørgen Møller (b. 1979, professor of political science, Aarhus), a self-described “comparativist” with a strong and explicit interest in liberal ideas. His works on constitutional arrangements in a comparative perspective have focused, inter alia, on the causes and consequences of different degrees of democracy and authoritarianism (e.g., Møller 2008; 2009; Møller and Skaaning 2011).

Liberal scholars outside academia

Outside the universities, a number of academically trained classical liberals and free-market conservatives have contributed significantly to Danish discourse generally and also to discussion in academic circles.

For many years the only Danish thinker who wrote at length about liberal and conservative ideas and made original contributions beyond essayist commentaries was Henning Fonsmark (1926–2006). Fonsmark, originally educated as a literary scholar, was for many years a prominent voice in the Danish non-socialist newspapers, as editor of the cultural magazine *Perspektiv*, then of the conservative daily *Berlingske Tidende*, and finally as of the daily financial newspaper *Børsen*. Fonsmark had for years been known as a vocal critic of socialism, but his legacy as a thinker really stems from two books from the beginning of the 1990s. The first of these, *Historien om den danske utopi* (“The History of the Danish Utopia”), is a tour-de-force history of the growth of the Danish welfare state and the ideas justifying it (Fonsmark 1990). The book does not outline Fonsmark’s own convictions (although these generally shine through); rather, it traces the constructivist enthusiasm for planning among Danish intellectuals and politicians since the 1920s and the corresponding decline of the center-right. Characteristic of the book is Fonsmark’s analysis of how the Liberal and Conservative parties went from being vocal critics of taxes, socialization, and the welfare state in the 1950s, to embracing and promoting all of these policies, at least in practice, by the late 1960s. Fonsmark

saw a major fault in the tendency of Danish politicians to pursue consensus. That led to a split between the Liberals and the Conservatives in the mid-1960s and to those parties competing for voters by appealing to the Social Democrats. His last book, *Den suveræne dansker* (“The Sovereign Dane,” Fonsmark 1991), was more of a philosophical critique of the thinking underlying the Danish welfare state.¹⁹

The most widely known Danish proponent of liberal ideology since the 1970s is probably the political scientist and politician Bertel Haarder (b. 1944). Haarder, who comes from a family and an environment traditionally associated with the Liberal Party, was originally a folk high schoolteacher, then entered politics, becoming an MP in 1975 and a cabinet member for long periods (1982–1993 and 2001–2011). Alongside this career Haarder has authored a number of short books dealing with liberalism and public policy. These include, among others, *Statskollektivism og spildproduktion* (“State Collectivism and Surplus Production,” Haarder 1973), *Institutionernes tyranni* (“The Tyranny of Institutions,” Haarder 1978), *Grænser for politik* (“Boundaries to Politics,” Haarder 1990a), and *Slip friheden løs* (“Unleash Freedom,” Haarder 1990b). He also coauthored *Ny-liberalismen og dens rødder* (“The New Liberalism and Its Roots,” Haarder, Nilsson, and Severinsen 1982), which was one of the first attempts to describe the contributions of Friedman and other so-called ‘neo-liberals.’ Haarder’s works are rarely deeply analytical and may often seem inconsistent; however, they have been among the very few publications offering Danes intellectual arguments in favor of liberal positions.

The most influential book defending liberal ideas in many years was written by the economist and then-vice chairman of the Liberal Party, later Danish prime minister and NATO Secretary General, Anders Fogh Rasmussen (b. 1953). In 1993 Rasmussen published *Fra socialstat til minimalstat* (“From Social State to Minimal State,” Rasmussen 1993) which owed a great deal of both personal and intellectual inspiration to individuals associated with Libertas. Rasmussen (1993) criticized the tendency to found liberalism on utilitarian considerations, and he instead called for a deontological liberalism, inspired by such thinkers as Kant, Rand, and some of the Austrians. In the first half of the book Rasmussen criticized the thinking underlying the modern Danish welfare state, and he addressed specific policy issues. Rasmussen’s later tenure as first leader of the opposition (1998–2001) and then prime minister (2001–2009) was a huge disappointment to liberals. From the moment Rasmussen took over the party leadership he took—inspired by British Labour leader Tony Blair—a swift and marked turn towards the very center of the political landscape and almost adopted a social democratic platform, at least on economic policy and the role of government. As Danish businessman and liberal columnist Asger Aamund (b. 1940) later phrased it in a speech at CEPOS in 2008, Rasmussen

19. Henning Fonsmark received the Danish Adam Smith Prize 1991 and the CEPOS Prize 2006.

“looked in the mirror and asked himself: ‘What would you most like to be? A free-market liberal or prime minister?’”

A public figure whose importance is hard to overestimate, and who has doubled as a political activist, is the political scientist Christopher Arzrouni. In the 1980s and 1990s he spearheaded the renaissance of classical liberal ideas within the Young Liberals and the Liberal Party, and for several years he was a close advisor and worked as speechwriter to Anders Fogh Rasmussen, both at the parliament and free-lance. Arzrouni has contributed to several academic and political anthologies (e.g., Arzrouni et al. 2001; Elbjørn and Gress 2006; Arzrouni et al. 2007; Jensen 2008). He has been a prolific public debater and writer, including serving as an editor and columnist at the weekly newspaper *Weekendavisen* and, since 2011, as op-ed editor and lead editorial writer of the daily *Børsen*. There he has assembled a large and diverse cast of free-market op-ed writers. Arzrouni’s best known work is the book *Helt uforsvarligt* (“Completely Indefensible,” Arzrouni 2005), a book inspired by and much in the same spirit as Walter Block’s infamous classic *Defending the Undefendable* (1976), which inspired many young Danish libertarians in the 1980s. Arzrouni’s book brings to new levels the essentially Blockesque premise that if an interaction is voluntary it is also—at least *prima facie*—beneficial to both parties. He includes not only classic cases such as prostitution and drug dealing but also trade in organs and endangered species.

Two other authors trained as economists who have contributed to economic debates are the CEO of CEPOS, Martin Ågerup (b. 1966, with an M.A. in economic history), and the banker and entrepreneur Lars Tvede (b. 1957, with a B.Sc. in international commerce and an M.Sc. in engineering). As the primary face of CEPOS, Ågerup has participated in hundreds of public debates on political thinking and public policy. He is the author of two monographs: *Enerne* (“The Individualists,” Ågerup 1998), about work at the turn of the millennium, and *Den retfærdige ulighed* (“The Justifiable Inequality”, Ågerup 2007), which collected empirical data in support of the view that, if inequalities are the result of market processes, they are not only justifiable but may result from processes that benefit the least well off.

Tvede, while pursuing a very successful business career, has written a number of books, including one on ‘super-trends’ and one on the psychology of investments, but his liberal credentials stem mostly from *The Creative Society* (Tvede 2015/2014) and *Business Cycles: History, Theory and Investment Reality* (Tvede 2006). The former deals with practical insights from the thought of John Law, Adam Smith, David Ricardo, Joseph Schumpeter and other economists, while the latter searches for the foundations of prosperity.²⁰

20. Tvede was awarded the Danish Adam Smith Prize in 2015.

A Danish lawyer who has made a significant contribution to debates on liberalism is the Hayekian civil liberties author Jacob Mchangama (b. 1978). He began as a professional lawyer and taught human rights as an external lecturer at the University of Copenhagen, then worked at CEPOS for five years before eventually establishing and heading his own think tank, Justitia, in 2013–2014. Mchangama has published work on freedom of speech and constitutional reform (Mchangama 2012; CEPOS 2013), and his writing has appeared in outlets such as *Wall Street Journal*, *The Times*, *Foreign Policy*, and *National Review*.

Conclusions

After a long drought, the 1980s brought a visible renaissance of liberal thinking and writing in Denmark, and the present study has surveyed and highlighted some of the more visible circles and personalities. One lesson the history here presented may offer is that a few individuals and a few ‘centers’ may actually influence quite a lot.

It is not easy to determine exactly how much of the Danish liberal renaissance has been *sui generis* and locally driven and how much has been determined, or at least significantly influenced, by factors and influences originating outside Denmark. Certainly, inspiration from abroad has been pervasive.

Much of the liberal renaissance in Denmark has taken place outside academia, but there is certainly a marked difference from, say, the 1970s. Liberal academics today are conducting research at all the four most important institutions of higher learning, and they are working on issues central to liberal thought. The liberal renaissance, while strong in many ways, is weak at the economics departments and is extremely heterogeneous, with no unifying profile or paradigm. It is also one whose contributions have so far received little attention outside the country.

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Liberalism in India

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Daniel Sutter³, and Lawrence H. White⁴

[LINK TO ABSTRACT](#)

We tell of the life of liberal ideas in India, from the nineteenth century down to today. Indian intellectuals in the nineteenth century were influenced by British and continental liberal philosophers. During the early twentieth century, however, the imagination of the Indian intelligentsia was captured by socialist ideas, which were gaining immense popularity all over the world. By the 1920s the reigning intellectual force in colonial India was socialism, in particular, the Fabian Society brand of socialism. In 1947, when India became independent, its leadership—with Jawaharlal Nehru at the helm—was committed to socialist and statist solutions working within a democratic framework.

For the next four decades, India experienced central planning, with each decade witnessing greater state control over citizens. The only liberal movement during this time was a fringe of opposition, represented in academia by the economist B. R. Shenoy. The opposition to planning in political and civil society was, mostly, led by C. Rajagopalachari. Also growing in importance were academic Indian expatriates, who lived in the United States or elsewhere but advanced liberal ideas for India. More recently, in post-liberalization India, there are many different voices in the press and civil society that support liberalism.

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Intellectual currents before 1947

In India in the 19th century, prominent intellectuals like Ram Mohun Roy, Dadabhai Naoroji, and Sir Syed Ahmed Khan were influenced by British and continental liberal philosophers. Many Indian liberals wrote against the caste system and lobbied for equal rights for men and women (see Guha 2010, 33, 101, 213). Roy (1772–1833) was an advocate of “a limited government presenting a variety of checks on any abuse of its powers” (Arnot 1834). He argued for constitutional limitations constraining the British East India Company and advocated greater freedom of press, judicial independence, and elected representatives (Bayly 2007).

Liberals who supported individual rights and freedom and wanted to make them available to Indian citizens of the Empire founded the Indian National Congress Party in 1885. The party played a leading role in the independence movement, culminating in independence in 1947. Gopal Krishna Gokhale (1866–1915), who joined the party in 1889, was inspired by liberal thinkers such as Edmund Burke and John Stuart Mill. Gokhale believed in a free society with a limited role for the state in the provisioning of public goods and free education (Guha 2010, 99). He was teacher and mentor to the man who was perhaps the most important Indian leader in the early twentieth century, Mohandas Gandhi. Gandhi, however, felt that Gokhale was too liberal in his ideas and his favor for Western institutions; Gandhi believed more in village-level grassroots institutions.

Dadabhai Naoroji (1825–1917) was also a liberal thinker and “first and foremost a constitutionalist” (Doctor 1997, 28). Even though both he and Gokhale wrote extensively against the British Empire, and supported self-rule in India, their demand was for a liberal society. Given that India was dealing with social problems such as the caste system, untouchability, and the low status of women, the only legal way to deal with these concerns was to create a liberal constitution that granted political equality.⁵

In the 1920s the movement for some form of home rule or *Swaraj* gained momentum. At the All Parties Conference in 1928, Motilal Nehru, father of Jawaharlal Nehru, wrote a draft constitution calling for a democratic republic. The first proposed constitution for India written by Indians, it conceived of Dominion status for India within the Empire and was very similar to the American consti-

5. This critical social reform was an urgent and pressing concern. Changing these social circumstances through education and culture was considered too long a process, leaving social change through state intervention to be seen by many as the ideal solution.

tution, going so far as to outline a Bill of Rights. But with the passing of leaders like Gokhale and changing times, the once-strong liberal character of the Indian National Congress had faded.

By the late 1920s the new generation of Congress leaders was more inspired by socialist ideas. In particular, the British Fabian Society influenced Indian intellectuals (see Bhagwati 1993; Austin 1999; Das 2000; Guha 2007; Varma 2008; White 2010). The most prominent political leader amongst the young and upcoming socialists was Jawaharlal Nehru (1889–1964), who, while studying law in London, was enormously influenced by Fabian ideas.⁶ Nehru believed that capitalism in India would weaken both political and socioeconomic equality: “Democracy and capitalism grew up together in the nineteenth century, but they were not mutually compatible. There was a basic contradiction between them, for democracy laid stress on the power for many, while capitalism gave real power to the few” (Nehru 2004/1936, 547).

The main thread joining the dislike of capitalism and the embrace of democracy was the idea that political equality in India would be meaningless without economic equality. Sidney and Beatrice Webb, the founders of the Fabian Society, emphasized this connection (Webb and Webb 1920). The ideas of the Webbs, George Bernard Shaw, and Harold Laski all left their mark on Nehru during his time at Harrow, Cambridge, and London (Nehru 2004/1936, 27). Whereas the liberal Whig philosophy of the 18th century profoundly influenced the founding and set the early course of an independent United States, the democratic-socialist philosophy of the late 19th century profoundly influenced the founding and set the early course of an independent India.

The ideology of planning gradually found its way into the heart of the burgeoning independence movement, the Indian National Congress. A Congress Socialist Party, spearheaded by Nehru and consisting of ardent socialists and planning enthusiasts, was formed within the broader fold of the Congress in 1934. More importantly, the Congress organized a National Planning Commission in 1938 to chart out in greater detail the role that state planning could play in aiding the growth of the nation. The National Planning Commission met at intervals throughout the late 1930s and early 1940s, coming up with proposals that greatly influenced the goals and the institutional structure of the planning mechanism in independent India. By the end of the Second World War, socialism was the new orthodoxy in Indian politics. This orthodoxy led to the adoption of central economic planning when India gained independence from the British in 1947.

6. The core of Fabian socialism was to advance the principles of socialism through gradualist and reformist means and not by violence or revolution.

From the perspective of liberalism, the years since independence can be broken up into three broad periods:

- 1950–1975, featuring the liberal economist B. R. Shenoy and the emergence of a broader movement opposed to state planning;
- 1975–1990, characterized by the absence of any significant liberal opposition within Indian civil society and a shifting of the anti-planning forces to universities abroad; and
- 1990–2015, the years of economic reform, which have witnessed the re-emergence of a limited liberal movement making headway within the press and policy circles but not in academia.

The state-planning ideology comes to power

During the second half of the 19th century and the early decades of the 20th century, significant economic change rippled through the Indian economy. India became more integrated into world trade and opened up to “the influences emanating from the rapidly growing areas centering on the North Atlantic” (S. Shenoy 1971, 13). There was a deepening of the division of labor and increased commercialization in the rural economy. More output was sent to market and the cultivation of commercial crops such as cotton, jute, and oilseeds became more widespread. Pockets of modern industry began to emerge and towns and cities mushroomed, owing their existence not, as before, to the largesse of *rajās*, both petty and noble, but to the hustle and bustle of commerce. By 1947 India could boast of having the world’s largest jute textile industry and the sixth-largest cotton textile industry, and of accounting for nearly half of the world’s tea exports.

Yet these changes barely altered the fundamental nature of the colonial Indian economy. It remained highly agrarian, with the rural economy in many parts of the country characterized by a pre-modern institutional framework, resembling the rural economy of medieval Europe or Czarist Russia more than one of an industrialized Western nation. Indeed, most modern economic growth occurred in the interstices of that institutional framework, in pockets where market forces could emerge and operate. Nevertheless, by the late 1930s a vocal and committed movement had emerged calling for centralized economic planning and singing the praises of socialism, while blaming most of the abject poverty of the country on the evil forces of markets and capitalism.

Two momentous international events fuelled the movement toward statist ideologies and policies. The Great Depression had wreaked havoc on the inter-

national division of labor, leaving in its wake severe agrarian distress in parts of India, which occasioned bitter criticism of trade and markets. More importantly, the grand experiment with central planning in the Soviet Union had commenced. While many important Indian planning enthusiasts, including Nehru, were uneasy with some aspects of Soviet central planning, they admired the rapid industrialization that it apparently had engendered. The imagined success of state planning reinforced amongst the Indian intelligentsia the already dominant idea that a market economy is inherently unstable and unreliable, while a centrally planned economy can deliver rapid growth and development.⁷

During the 1930s and 1940s there appeared numerous plans for India's economic development. The first emerged in 1934 and was the brainchild of Sir Mokshagundam Visvesvarayya, an engineer from Mysore; its "essence [...] was industrialization," with a "proposed doubling of the national income over a period of ten years" (Hanson 1966, 30). In the 1940s came the Bombay Plan, drawn up by a group of industrialists; the People's Plan, crafted by M. N. Roy and encapsulating the position of the more radical communist Left; and the Gandhian Plan of S. N. Agarwal, which placed a greater emphasis on the preservation of the village and traditional cottage industry. Politicians debated which plan to pursue, but not the question of whether the state should engage in central planning.

With the Second World War, the planning enthusiasm spread to the colonial government as well. In 1944 the government set up a Planning and Development Department under the leadership of Sir Ardeshir Dalal, one of the signatories of the Bombay Plan. In 1945 the department issued "a Statement of Industrial Policy which foreshadowed in many ways the Industrial Policy Resolutions of 1948 and 1956" (S. Shenoy 1971, 21). More importantly, the war brought with it a host of economic controls, including price controls, distribution controls, and the large-scale rationing of many commodities. Also introduced were systems of import controls and capital issues controls, and a rudimentary system of industrial licensing, all aimed at constraining inflation and conserving scarce foreign exchange. Most of these controls outlived the war and formed the basis of the future planning apparatus.

The goals of planning in independent India

In 1947, agriculture still accounted for more than 50 percent of the national income, whereas manufacturing industries accounted for only 12.3 percent. In the industrial sector, production was heavily oriented toward consumer goods;

7. On the influences of the Great Depression and the Soviet Union on the emergence of a socialist movement in colonial India, see Frankel (1978).

industries such as cotton textiles, jute textiles, and vegetable oil contributed 62 percent of the total industrial output. The iron and steel and engineering industries contributed a meager 11.5 percent to industrial output (Tomlinson 1979, 33), while a capital goods sector was virtually nonexistent (Morris 1983, 642). In view of this structure of production, India was primarily an exporter of agricultural commodities and light-manufactured consumer goods, while her imports, in contrast, consisted largely of capital goods, industrial inputs, and manufactured consumer goods (Chaudhuri 1983; Roy 2006).

The supporters of planning believed that the nation's dependence on imported capital goods was the chief obstacle in the path of its economic progress. Consider, for example, the following passage from P. C. Mahalanobis, the architect of the Second Five Year Plan:

Why do we then import machinery? Because we have not started factories to fabricate heavy machinery needed for the production of steel, cement, etc. ... [O]nce we do this, and establish a heavy machine building industry we shall be able to use our own iron ore and with our own hands produce steel; and then use the steel to produce more machinery. ... [O]ur dependence on foreign supplies will be greatly reduced. *The main obstacle to rapid industrialization thus removed*, we shall be able to increase production and employment quickly. (Mahalanobis 1961, 48, emphasis added)

An immediate goal of planning, therefore, was to diversify India's production base and to industrialize the nation rapidly. But this process of indigenization was not to be restricted to the capital and intermediate goods industries. Instead, the plan was to gradually utilize the tools and machines produced domestically to step up the domestic production of agricultural and industrial consumer goods in the future. Consumer goods that were being imported would in due course be produced at home, and the state would discourage exports of agricultural commodities and consumer goods. Instead, the supply of these goods was to be reserved for the home market.

Thus, the Indian planners were motivated primarily by the ideology of economic nationalism: a mix of central economic planning at home combined with autarkic tendencies in the realm of foreign trade.⁸ The aim was to increase national output by inducing home production of consumer, intermediate, and capital goods.

8. On economic nationalism, see Heilperin (2010/1949).

The planning apparatus

After independence in 1947, the newly empowered Indian government continued to add to the controls and regulations that it had inherited from the colonial government, and it enshrined many of these inherited powers of control into law. The Planning Commission, instituted in 1950 with Prime Minister Jawaharlal Nehru at its helm, had responsibility for drafting the document that formed the entire planning system's cornerstone, namely, the Five Year Plan. The initial Five Year Plan and its successors each contained a detailed list of the investment expenditures to be incurred by the public and private sectors and the sectoral allocation of these investments. Linked to these expenditures on various projects was a list of targets to be achieved by various industries.

The Industrial Policy Resolutions (IPRs) of 1948 and 1956 divided industries into three broad categories. The first category included industries in which either the state would have a total monopoly or only the state could undertake any new investment. Existing private firms in these industries could continue to operate and expand, but no new private firms could enter. The second category included industries in which the state would gradually establish new units, while permitting new private firms to enter as well. The third category contained the industries that would be the private sector's responsibility. The state, however, could enter these industries if it wished to do so.

Political constraints stopped the government from nationalizing all industry. Instead, it chose to control and regulate the private sector to ensure that private production and investment conformed to the priorities listed in the Five Year Plan. Indeed, as noted by Jagdish Bhagwati and Padma Desai (1970, 231), private-sector investment was "directed by the state, by physical controls operated primarily through an exhaustive licensing system combined with a detailed setting of 'targets' by the Planning Commission."

Key to the system of control was the 1951 Industries (Development and Regulation) Act, which instituted the highly restrictive industrial licensing regime requiring all private industrial undertakings to register with the central government. Several other laws along the same lines were instituted rapidly. The 1955 Essential Commodities Act gave the central government the authority to control the production, distribution, and pricing of commodities that it deemed "essential." The Companies Act of 1956 constituted "one of the most detailed and stringent codes of business legislation to be found anywhere in the world" (Hanson 1966, 486). The Capital Issues Control Act of 1956 gave the government the power to control the issue of capital by joint-stock companies. Also, a vast apparatus of import and export controls was carried over from pre-independence days.

The liberal opponents of planning: 1950–1975

The period from 1950 to 1975 witnessed significant and articulate opposition to planning, from the economist B. R. Shenoy within Indian academia and from the emergence of a broader movement opposed to planning in the civil society. This was a time when, within India and all over the world, intellectuals and politicians were convinced that centralized resource allocation was the way forward. Within academia in India, Shenoy kept the liberal flame alight. In politics and civil society, there were a handful of others.

B. R. Shenoy

Described as “a hero and a saint” by Peter Bauer (1998, 1), B. R. Shenoy almost singlehandedly spearheaded the academic intellectual resistance to the juggernaut of planning and interventionism. His was a lonely mission; at the time of his death in 1978, he was perhaps “the only liberal economist between Athens and Tokyo” (S. Shenoy 2003, 2). But it was precisely this courageous resistance to the *zeitgeist* and the unflinching faith in his own ideas that drew such admiration from Bauer. Shenoy was a heroic figure because he “publicly resisted fashionable fads and fancies, however influentially canvassed and widely accepted,” and he was saintly because “he remained unmoved, even serene, in the face of neglect, disparagement, even abuse” (Bauer 1998, 1).

Shenoy’s criticism of Indian planning began with his famous “Note of Dissent” (Shenoy 1955) from the draft of the Second Five Year Plan. One of twenty economists on the government advisory panel, he was the sole dissenter (Bauer 1998, 1). His views also cut against those of international luminaries such as Oscar Lange, Nicholas Kaldor, Joan Robinson, Gunnar Myrdal, and Ragnar Frisch, who were all enthusiastic supporters of the Indian experiment with planning (*ibid.*, 2). Moreover, Shenoy’s dissidence miffed and angered those in power at home. According to Shenoy’s daughter, Nehru “got very upset” (S. Shenoy 2003, 2) over Shenoy’s criticism of what was to become the signature document of Indian planning.

Shenoy followed his “Dissent” with a string of works that attacked the Indian experiment with planning (e.g., Shenoy 1958; 1963; 1968; 1974).⁹ Unlike other contemporary critics, such as P. N. Vakil and P. R. Brahmanand, Shenoy did not merely criticize specific goals of the plans. Shenoy’s criticism was radical; he op-

9. See Balakrishnan (2011) and Prakash (2013) for brief overviews of Shenoy’s economic thought.

posed the idea of central planning, root and branch, and the rising tide of statist control.¹⁰

The fundamental weakness of a planned economy, according to Shenoy, is “a divorce between production and consumer needs” (1966, 3), in sharp contrast to a market-based economy, where consumers reign supreme. On the consumer sovereignty that characterizes a free market, Shenoy wrote:

Ordinarily, in free societies, production would get adjusted to meet the changing needs of consumers, this adjustment being effected by the pricing system. Prices of commodities in larger demand would rise and entrepreneurs would increase the output of such commodities under the inducement of higher returns on the capital invested, which higher prices would bring. (Shenoy 1966, 2–3)

Under the regime of centralized planning then prevailing in India, however, “production is directed, or indirectly controlled, by the Planning Commission.” Constrained and hobbled by the controls wielded by the planning authorities, “entrepreneurs have not been free to orient production to satisfy consumer demands” (*ibid.*).

In a world where there is a divergence between production and consumer preferences, “we can no longer depend on the statistics of national product for a measure of overall economic progress,” where the latter term means “a rise in the level of living of the masses” (Shenoy 1966, 4). Planning in India had been characterized by significant increases in the production of various capital goods; the heavy and basic industries had apparently flourished since independence. Yet these significant investments had failed to flow into consumer goods. Instead, they had given rise to “idle production capabilities and idle stocks,” activities that, while they do “drive up the curve of economic development in the same way as [...] effective capital formation and increased consumption,” nevertheless do not “add to the well-being of the people” (*ibid.*, 7). Indeed, such production had led to a scenario where, in the midst of towering dams and rising factories, “the masses of the people” were “ill clad and underfed.” Shenoy concluded that the spectacle was not economic development, but “show-window economic activity and at best sectoral development” (*ibid.*, 2).

10. In this radical opposition, Shenoy was highly influenced by F. A. Hayek and other economists working in the Austrian tradition. Shenoy was a graduate student at the London School of Economics when Hayek delivered the lectures that formed the basis of *Prices and Production* (Hayek 1931). Shenoy was so smitten with the Austrian tradition that, according to his daughter, “after studying Austrian theory, he said he was immunized against every other framework” (S. Shenoy 2003, 2).

Shenoy determined that taking a look at the “consumer goods content of the national product” would provide a much better picture of economic well-being (1966, 4). The statistics showed that planning had not significantly increased the per capita availability of food. The per capita availability of cereals had averaged 13.9 ounces per day for the period 1958–1965, which was more or less on par with the figures for the period 1931–1938, which stood at 14.2 ounces per day—and this despite much higher imports of cereals in the 1958–1965 period (Shenoy 1966, 8). Shenoy notes also that the output of other mass consumer goods such as cotton cloth, matches, and soap witnessed only modest increases from 1951 to 1965 (*ibid.*, 8, 16).¹¹

Moreover, much of whatever increase in national income there had been had “accrued to a thin upper crust of the privileged sections of the people” (Shenoy 1966, 7). Thus, the output of consumer goods used by the comparatively well-off sections of society, “a fraction of the population,” rose sharply and at a much higher pace than the mass consumer goods. The output of electric lamps, for instance, increased 3.9 times, that of electric fans rose by a multiple of 6.4, radios by a multiple of 9.5, and rayon yarn by a multiple of 34. All these goods, however, were largely “curios to the masses” (*ibid.*, 16).

What, then, was the remedy? According to Shenoy, a rapid lift in the “precarious standard of living of the common man” could be achieved only by bringing an end to “the policies of economic interventionism” (1966, 20). “A decisive shift from interventionism—misplaced ‘planning’—to the free market and the free pricing system is the first basic reform which the Indian economic situation urgently calls for” (*ibid.*, 23). Production and the allocation of resources should be left to private entrepreneurs, with the consumer being in “supreme charge of affairs,” acting “through the shopping referendum” (*ibid.*, 20–21). Liberal arrangements would better ensure that resources were allocated, not according to the whims and dictates of those in power, but according to the preferences of consumers. And it would also imply an end to the “queer bundle of economic oddities of rising incomes, food shortages and declining per capita availability of cloth; mounting foreign aid and mounting investments; shift of resources from sectors where the output is phenomenal to sectors where it is meagre; mounting unemployment; continued mass poverty and growing opulence of the few; and intractable balance of payments deficits with inability to meet the amortisation payments on external debt” (*ibid.*, 21). “It takes a Planning Commission to produce these oddities,” Shenoy quipped.

11. Manish (2011; 2013; 2014) presents, along the lines suggested by Shenoy, a more detailed analysis of Indian economic development under central planning.

In his later years, B. R. Shenoy was joined in criticizing central planning and extolling free markets by his daughter, Sudha Shenoy. The younger Shenoy wrote a remarkable pamphlet for the Institute of Economic Affairs in 1971, in which she presented her father's case against planning in detail and also tackled various objections raised by the supporters of planning. Nevertheless, in India in the 1940s and 1950s, no one in academic circles other than Shenoy fought against statism and central planning. There was, however, a growing liberal movement in politics and civil society.

C. Rajagopalachari

Chakravarti Rajagopalachari (1878–1972) was the most important figure in liberalism in post-colonial India. Popularly known as Rajaji, he was a towering figure along with Gandhi, Nehru, and Jinnah in the independence movement. He was Governor General of India—the only Indian to ever hold the position—from June 1948 to January 1950, during the drafting of the Constitution of India. Rajaji was part of Nehru's cabinet immediately after Sardar Patel's death, but he resigned in 1951 in part over strong objections to the government's preference for Soviet-style planning.

In 1952 Rajaji entered politics in Madras, and his chief target for opposition was the Communist Party of India. As Chief Minister of Madras, one of his first executive orders was abolishing price controls on food grains, controls that had been introduced as a temporary wartime measure in 1938. The opposition predicted food shortage and starvation, but instead Madras witnessed an increase in supply of food grains and a fall in price. After the tenure as Chief Minister of Madras, Rajaji resigned in 1954, intent on retiring from politics. In 1955 he received the Bharat Ratna, the highest Indian civilian award.

As the government's planning efforts increased in both size and scope, no politician of stature was willing to oppose Nehru's policies. Minoo Masani, another liberal politician (who is further discussed below), implored many leaders to head the opposition against Nehru and his brand of socialism. When no one stepped up to the task, Rajaji came out of retirement and became the face of political dissent. In 1959, he formed the Swatantra ("Freedom") Party to provide opposition to Congress. Its founders formulated 21 principles emphasizing a goal of protecting individual liberty and limiting government.¹² With Swatantra, as Khasa Subba Rao put it, Rajaji aimed at saving individuals from "the soul-crushing oppression of the Leviathan State disguised in Socialistic raiment" (quoted in P. Vaman Rao 2001, 146).

12. See "Statement of Principles of the Swatantra Party," *Economic Weekly*, July 1959, page 894.

In addition to a strong political opposition, Rajaji also provided a strong intellectual opposition to socialism. In 1956 he started *Swarajya*, an English-language weekly magazine, for which he wrote a weekly column discussing current economic and social policy in the context of individual freedom and economic liberty. He is credited with labeling Nehruvian socialism as a “permit–quota–license raj,” a new kind of oppression following on the heels of the British Raj. Rajaji’s weekly columns informed the public of infringements on property rights, expanding controls on prices and quantities, the backwardness of India’s agricultural policy, and rule uncertainty arising from frequent amendment of the Constitution.¹³

Minoos Masani

Another founding member of the Swatantra Party was Minoos Rustom (Minoos) Masani. Masani’s intellectual trajectory was quite different from Rajaji’s. Like Jawaharlal Nehru and V. K. Krishna Menon, Masani was a student of Harold Laski at the London School of Economics, where he studied law. In 1927, he went to Moscow for the tenth anniversary celebration of the Bolshevik revolution, and he returned an ardent fan of the Soviet communists (Masani 1936).

In 1928, Masani joined the Congress Socialist Party within the Indian National Congress Party. He was close to other socialists in the independence movement like Jayaprakash Narayan, Ram Manohar Lohia, Ashok Mehta, Achyut Patwardhan, and Yusuf Meherally. But during the late 1930s, largely because of Stalin’s totalitarianism, Masani started questioning Communist ideas.

Masani’s movement specifically to liberalism began with conversations and debates with Mahatma Gandhi.

Two fundamentals I accepted from Gandhi’s thought—first, that the end does not justify the means, and that no decent social order can evolve through the use of force or fraud; and that in the second half of the twentieth century, the omnivorous state is in danger of becoming the biggest single threat to human liberty. No school or thought or system of government offends against these two beliefs as violently as totalitarian socialism. (Masani 1956, 36)

By 1940, Masani was very critical of socialism, communism, and Marxism. He wrote a detailed critique, *Socialism Reconsidered* (1944). He attacked the methods used by communists and socialists, like abolition of private property, as never leading to an equal society. Though critical of socialist methods, Masani supported ideals of a “free” and “equal” society. In the 1940s, he began to formulate ideas

13. For a representative collection of these ideas, see Rajagopalachari (1961).

on a mixed economy. In 1952, Masani founded *Freedom First—The Liberal Monthly*, where he often criticized policies of the incumbent government. And in 1965, along with B. R. Shenoy, Khushwant Singh, and other writers, Masani founded the Indian Liberal Group (ILG), an organization that put forward criticism of government policy, especially on matters of free speech.¹⁴

Masani was a member of the Indian Legislative Assembly, which, after independence, became the Constituent Assembly of India. He was a Member of Parliament from 1957 to 1971, initially as an independent, and later as a member of Swatantra Party. In parliamentary debates as well as through his writing in popular outlets and *Swarajya* magazine, he opposed socialist policies, especially the more aggressive forms of socialism pursued by Indira Gandhi. Some of his famous contributions to parliamentary debates took place during 1967–1970 in the Lok Sabha, when Gandhi attempted a spate of nationalizations, and Masani provided economic and moral arguments against them.

In 1971, Indira Gandhi's command-and-control socialism, armed with her *Garibi Hatao desh bachavo* slogan ("Abolish poverty, rescue the country"), helped the Indian National Congress Party win by large margins, and every opposition party, including the Swatantra Party, faced huge electoral losses. Masani took personal responsibility for the political and intellectual loss of liberal ideas and retired from active politics in 1971. He continued to actively write and edit *Freedom First*. During the Emergency declared by Gandhi, lasting 21 months from 1975 to 1977, *Freedom First* was subjected to censorship. Rather than submit, the magazine shut down for six months while Masani fought censorship in court. Except for that brief period during the Emergency, *Freedom First* has been in print for over 60 years and has printed 540 issues. Masani continued to engage with liberals and debate with socialists, outside the realm of active politics, until his death in 1998 at the age of 93.

Khasa Subba Rao

In addition to the political movement started by the Swatantra Party, popular publications were crucial to advancing liberal ideas. Khasa Subba Rao was perhaps the most important intellectual figure in presenting the liberal critique of socialist policies. Subba Rao was a writer, journalist, and editor. He started his career with the newspaper *Swarajya*, and he worked at smaller publications like *Free Press Journal* and *Liberty*. He joined *The Indian Express*, then gaining popularity as a national daily,

14. ILG underwent a revival in the year 2000 with a new organizational constitution and call for membership from the youth of India ([link](#)).

and was involved in reporting and writing about the freedom struggle, even facing imprisonment during the Quit India movement.

In 1946, Subba Rao started his own weekly publication called *Swatantra*, a venture that lasted ten years. Important leaders like Rajaji contributed to *Swatantra* during this time. In 1956, Subba Rao launched a new weekly, *Swarajya* magazine. This magazine had much greater readership and more success, even after Subba Rao's death in 1961.¹⁵ With the closure of *Swarajya* in 1978, the Indian liberal movement lost its megaphone and voice, and liberals were sidelined.

A. D. Shroff

Ardeshir Darabshaw Shroff (1899–1965) advanced liberalism within the world of business. An astute student, he went to the London School of Economics to study finance. He too was exposed to the Fabianism of Laski, Shaw, and the Webbs, but he did not take to socialism. He returned to India to work as a stockbroker. Shroff quickly climbed business circles in Mumbai. The 1930s witnessed the rise of a new wave of socialists in India with Nehru at the crest. Shroff strongly believed in private enterprise, but was appointed in 1938 as a member of the Planning Committee of the Indian National Congress. Along with a number of leading industrialists, Shroff contributed to the “Bombay Plan,” which recommended a middle path instead of full state socialism (Thakurdas 1945).

Post-independence, Shroff continued to be prominent in business circles in Mumbai but also chaired several important government committees, notably ones on banking and finance. In the 1950s, Nehru's vision for socialism and more controls in every aspect of the economy became apparent, leading up to a nationalization of many sectors. Shroff felt that the only way to combat statism was to educate citizens on the importance of private enterprise in ordering society. In 1956, he started the Forum of Free Enterprise, mainly as an education and outreach organization. Shroff wanted to distance the Forum from politics and focus on educational outreach. The Forum actively published booklets on policy issues and free enterprise into the 1970s, and then sporadically until 2010. The Forum published critical analysis of the government's Five Year Plans and of every budget. Nani Palkhivala, a senior lawyer and supporter of the Forum (and who is discussed below), gave a speech analyzing the Central Budget every year using the outreach platform of the Forum. Shroff wrote several pamphlets between 1956 and 1965, developing two parallel critiques of socialist planning in India. The first was that its outcomes were inefficient: that scarce resources would be more efficiently

15. Subba Rao was well eulogized (Ranganathan 1961) in *The Indian Libertarian*, a fortnightly journal first published in 1957 by R. B. Lotvala and edited by Kusum R. Lotvala.

developed and directed in the private sector. The second was that the means used to implement socialism—government control of the means of production—chipped away at constitutional principles.¹⁶

Nani Palkhivala

An exceptional figure associated with the classical liberal movement, but with an important identity outside of the movement, was Nani A. Palkhivala (1920–2002). Best known as senior advocate at the Supreme Court of India, Palkhivala had a towering reputation during his active decades. Palkhivala authored one of the earliest and most comprehensive interpretation and critiques of Indian tax law. Palkhivala wrote *The Law and Practice of Income Tax* in 1950, which remains a canonical legal text (10th ed., Datar et al. 2013). He was the lead counsel in several cases that have shaped the Indian Constitution and the Indian Supreme Court. Palkhivala was an advocate of free markets, especially in challenging socialist legislation in court and in defending limited, responsible government (see Palkhivala 1984b). After the Second Five Year Plan was announced, Palkhivala began efforts to decode the tax law for the public. For many years thereafter he gave a post-budget lecture on tax law, aimed at the layman. Palkhivala had such a gift that these annual lectures gained immense popularity. In later years, the lecture was held in the Brabourne cricket stadium and would be attended by lawyers, judges, tax experts, accountants, journalists, and thousands of individuals attempting to understand how the budget and taxes affected their daily lives.

Palkhivala was a critic as well as an interpreter of tax law in India. In his first lecture for the Forum of Free Enterprise, in 1957, he characterized the wealth tax as expropriationist. In 1965, Palkhivala gave a notable talk in Madras with the title “The Ideology of Taxation” (Palkhivala 1984a). He criticized the Indian tax system for its uncertainty, unpredictability, complexity, arbitrary provisions, and excess burdens—each aspect a violation of one of five cardinal rules for taxation.

The Constitution of India was frequently amended during 1950–1978, the peak era of socialism, to accommodate policies to salvage the Five Year Plans. Such constitutional amendments enabled the planners to retroactively give effect to plan objectives after instances where the Indian judiciary had struck down a policy for violating constitutional principles. The amendments were substantive infringements on individual rights and important aspects of liberal governance

16. In one such pamphlet, Shroff described the political state of affairs in India: “With a characteristic schizophrenia, both totalitarian and democratic Socialists, have talked one way and acted another. While they accept Freedom and Democracy in theory, in actual practice Socialist pattern is being identified with ‘an all-powerful State, with heavy-handed bureaucracy, and regimentation’” (1956, 12).

like federalism and separation of powers (see Rajagopalan 2015). Palkhivala (1974) described this amendment process as the systematic defiling and defacing of the Indian Constitution.

As a senior advocate in the Indian Supreme Court, Palkhivala argued some of the most important cases affecting the constitution and the rule of law in India. In one case, he argued against bank nationalization. Another case concerned the Twenty-Fourth Amendment, which gave Parliament supremacy in amending the Constitution. Palkhivala challenged the constitutional validity of the amendment (among others) in the Supreme Court. Palkhivala was lead counsel in one of the most important cases in Indian history, *Kesavananda Bharati v. State of Kerala* (1973) on the question of the amendability of the Constitution.

Throughout Indira Gandhi's tenure as Prime Minister, Palkhivala was a mainstay in important cases, which often were a matter of socialist abuse of constitutional rules. After Gandhi's declaration of the Emergency,¹⁷ Parliament attempted to rewrite the Constitution with the Forty-Second Amendment to remove all binding constitutional constraints. Palkhivala again argued successfully, in the landmark case *Minerva Mills Ltd. v. Union of India* (1980), that Parliament's power to amend the Constitution was limited.

Situated abroad: Jagdish Bhagwati and T. N. Srinivasan

We have seen that statism dominated Indian economic thought after independence. The liberal, anti-planning movement described above had, by the mid-1970s, very little to show for itself in terms of policy reform. From 1975 and the Emergency, the years under Indira Gandhi were characterized by the almost complete disappearance of liberal ideas within India. But opposition to statism in India came from figures at institutions abroad.¹⁸

17. Indira Gandhi's power was threatened due to a series of events beginning with the 1971 election. Raj Narain, a politician who lost to Gandhi in the 1971 Parliamentary election, filed a petition alleging that she had won the election through corrupt practices and had used government officials and official machinery in her campaign. On June 12, 1975, the Allahabad High Court found Gandhi guilty and her election to Parliament was declared null and void. While her appeal was pending in the Supreme Court and she was under pressure to resign, Gandhi issued an Ordinance on June 25, 1975, declaring a state of internal emergency in India. This declaration allowed the Prime Minister to suspend elections and civil liberties. Gandhi ruled by decree for the next three years.

18. Not all Indian economists trained abroad opposed statist policies. An important figure is Amartya Sen, recipient of the Nobel Prize in Economics in 1998 and perhaps India's most famous economist. In his early years, Sen explicitly advocated socialism as a viable alternative to capitalism (see Sen 1959). However in

By the mid-1960s, the inefficiency, poor growth results, and corruption of the heavily interventionist system could no longer be ignored and covered up, and a new generation of liberal researchers examined the evidence. Jagdish Bhagwati was the most prominent of the young economists to criticize the poor results of the system's protectionism, central industrial planning, and the associated 'permit-quota-license raj.'

By his own account, Bhagwati first began to experience an "intellectual conversion" around 1962 in favor of free trade and against the protectionist policy of import substitution (Bhagwati 2001). In reviewing Bhagwati's 1966 book *The Economics of Underdeveloped Countries*, P. T. Bauer (1971, 525–526) detected in it the standard views that "state control of the direction and composition of economic activity is indispensable for development" and that "foreign aid is essential" for rapid development. But in 1969, Bhagwati reviewed a book by B. R. Shenoy, giving Shenoy credit for being "among the few economists to notice and condemn the inefficiency of the import control regime and the wastefulness of the detailed control of industrial licensing and production, when in fact it was fashionable and personally rewarding to do otherwise" (Bhagwati 1969, 636). Bhagwati did however remain dismissive toward Shenoy's "strong ideology of the Friedmannite variety" and "his antipathy to planning *per se*" (ibid., 635, 636).¹⁹ Bhagwati still favored a "form of planning where key, efficient decisions are taken in selected areas and the rest is left largely to the market" (ibid., 637).

Bhagwati's empirical critique of the detailed planning and licensing regime, especially in books co-authored with his wife Padma Desai (1970) and with T. N. Srinivasan (1975), was influential in persuading many younger Indian economists to turn from dirigisme toward liberalization.²⁰ Deepak Lal (2008) writes that these works "marked the beginning of the end of the planning syndrome that had held Indian economists in thrall for nearly a century."²¹ Bhagwati has noted that, by the

later years, though Sen remains politically aligned with leftist policies in India, his focus has shifted away from socialism (Briggeman 2013).

19. In an interview decades later, Bhagwati remarked: "When I first came back from Oxford, we all were supporters of the [import-substitution] policy. ... I don't know anyone whom we respected who was against import substitution in those days. B. R. Shenoy was a vocal opponent but we (wrongly) put him down as a libertarian and an ideologue" (Bhagwati 2001; parentheses around "wrongly" as in original).

20. Another liberal economist of the time worthy of mention is V. K. Ramaswami, co-author with Bhagwati of a well known theoretical paper defending free trade (1963).

21. Indeed, in the words of economist Deena Khatkhate (1994, 1098), "The pioneering work of Bhagwati and Desai in the late 1960s (Bhagwati and Desai 1970) provided the first intellectually coherent analytic framework for assessing Indian planning and industrialization strategies." And she goes on to note that Bhagwati "is regarded widely as the intellectual forerunner, the theoretician, of the ongoing reforms (of the early 1990s). The Finance Minister [Manmohan Singh], spearheading the reforms, has declared that India's misfortune was to wait so long to implement what Bhagwati had urged with clarity and foresight two decades earlier" (Khatkhate 1994, 1099).

time Congress Party leader Rajiv Gandhi sought deregulatory advice in the 1980s, he was able to talk to “a lot of people like myself who were keen on reforms” (Bhagwati 2001).

Bhagwati moved to MIT in 1968 and later to Columbia, and Srinivasan relocated to Yale in 1980. Yet they became important and enthusiastic supporters of India’s liberalizations. One critic of “neoliberal” reform in India offers this assessment of their importance:

Among the large number of eminent Indian émigré economists, Jagdish Bhagwati and T. N. Srinivasan have been prominent and forceful in their defence of the liberalizing reforms. Bhagwati in, for example, his Radhakrishnan Lectures...published as *India in Transition: Freeing the Economy* (Bhagwati 1993); Srinivasan in, for example, Srinivasan (1991a, 1991b, 1993); and the two together, in deadly combination, in...*India’s Economic Reforms*, [which] was commissioned for the Ministry of Finance by Manmohan Singh (Bhagwati and Srinivasan 1993)... In it, they congratulate the Rao government on the boldness of its reforms and urge it ‘to extend them boldly in several new directions,’ with all speed. (Byres 2014, 45 n.6)

Bhagwati and Srinivasan were joined in their push for reforms, especially after the turn of the century, by Arvind Panagariya. In his influential book *India: The Emerging Giant*, Panagariya (2008) extends the Bhagwati and Srinivasan critique of the failures of Indian planning and lays out a roadmap for reforms in different sectors of the economy. Especially liberal is his call for greater freedom in the realm of foreign trade as well as the removal of controls over many sectors of the domestic economy, controls that were untouched by the wave of reforms of the early 1990s.

Some of these ideas have influenced Indian policymakers. Panagariya is now the Vice Chairman of NITI (National Institution for Transforming India), which was set up recently by the Narendra Modi government to replace the Planning Commission. Another important policy appointment is that of Raghuram Rajan as the Governor of the Reserve Bank of India. Rajan, from University of Chicago’s Booth School of Business, is influenced by Friedrich Hayek and Milton Friedman. Rajan wants to create more competition in the financial sector by giving licenses to new banks, allowing foreign banks to expand faster, and privatizing state-owned banks; he is skeptical about the rationality of Indian investors, but also about unintended consequences arising from regulation (*Economist* 2013a; 2013b). “I’m a believer in free markets, but I’m not a believer in laissez-faire. There is a distinction,” Rajan says (quoted in Einhorn and Krishnan 2013).

Since 1991: The re-emergence of a liberal movement

After 1991 India witnessed a revival of the liberal movement. While liberals within the Indian academy remain scarce, there has been a re-emergence of a broader movement influenced by liberal ideas, especially in the English-language business press and in policy circles.

An important figure in this revival is Parth Shah, an Austrian school economist, and head of the Center for Civil Society (CCS) a liberal think tank in New Delhi. CCS has led the new liberal movement in India mainly through outreach programs for students and advocacy to promote greater individual choice. CCS often attracts hundreds of applicants for its CCS Academy educational programs. The seminars introduce Indian students to the ideas of Adam Smith, Hayek, and Friedman. CCS has also made significant efforts to reignite popular interest in the Indian classical liberal tradition by making works in this tradition publicly available via the website IndianLiberals.in ([link](#)).

Also associated with CCS, but an independent businessman and scholar, is Gurcharan Das, an advocate for a strong liberal state in India. He has authored several books arguing the perverse and unintended consequences of the large Indian regulatory state. Another scholar at CCS, an economist, author, and columnist, was the late Sauvik Chakraverti. In his columns, he was a fierce critic of the Indian state, specifically with respect to regulation affecting livelihood. He won the International Policy Network's Bastiat Prize for Journalism in 2002.

Another liberal institution is the Liberty Institute in New Delhi, founded by Barun Mitra, with the goal of increasing the understanding of principles such as individual rights, rule of law, limited government, and the free enterprise system. Ayn Rand and Julian Simon are important influences on the efforts of Liberty Institute.

Since 2005 there has been an increase in the number of outlets for liberal writers. An important addition came in 2007 when the *Hindustan Times* and the *Wall Street Journal* collaborated to start a new business daily called *Mint*. The newspaper and its editorial team have an explicitly liberal tilt. In the opening editorial for the daily, its current executive editor Niranjana Rajadhyaksha laid out a manifesto, stating that "The editorial pages of this newspaper will have three central themes: free people, free economies and free societies" (Rajadhyaksha 2007).

The Internet is giving a voice to a number of liberals from different corners of the country through blogs and other channels. One of the first blogs to be

explicit about its author's libertarian leanings is *India Uncut*, authored by Amit Varma.²² Abheek Bhattacharya at the *Wall Street Journal Asia* argues that the revival in the liberal movement in India is a consequence of the increase in the size of the market:

The burgeoning classical liberal movement is feeding off India's economic growth. ... These new-age commentators are riding the wave of another effect of India's liberalization, a boom in technology and communications. More media outlets, eager to outdo competitors, are listening to diverse opinions. The Internet is often the delivery system. (Bhattacharya 2008)

The paucity of liberalism in the Indian academy: Towards an explanation

Economic research on current policy affects perceptions, which affect the persistence of such policies. If most economists seem to think that government planning improves economic performance, a regime of government planning will in all likelihood persist longer than if the economists, instead, consistently criticize state activism.²³ Consequently government officials have an interest in the content of research by economists.

Authoritarian regimes in the world have at times exercised direct and explicit control over the professoriate. The Soviet Union under Stalin purged several academic disciplines in the 1930s. Notoriously, the Soviets established the bogus theories of Trofim Lysenko as official state doctrine in the fields of biology and agronomy. Economics was tightly controlled as well (see, e.g., Katsenelinboigen 1979). Direct control remains in place in some nations today. But India, of course, was never the Soviet Union. Its universities were established on the British model, and they inherited a tradition of academic freedom. Shenoy, whose criticism of planning greatly upset Nehru himself, was not even dismissed from his position, let alone sent to a gulag.

Nevertheless, throughout the era of central planning as well as during the years of economic reform, the liberal philosophy had a very minimal presence in the halls of Indian academia. Almost all the academics who hailed from India and were influenced by liberal ideas have pursued their careers and their research in

22. Varma, also an author and columnist at newspapers like *Mint* and *Hindu Business Line*, received the 2007 Bastiat Prize for Journalism.

23. For evidence of instances where the research of economists appears to have altered the trajectory of policy in the United States, see Derthick and Quirk (1985) and Leighton and Lopez (2013, Chapter 6).

universities abroad. This section seeks to outline a possible explanation for this dearth of liberal academics in India.

The means by which economists fund their research will significantly affect the content of the research. As Richard E. Wagner (2012) argues, an economics profession composed of self-financing hobbyists will engage in systematically different research than will a body of professionals paid by others. Institutions of higher education jointly produce research and instruction, using revenues derived from instruction (*viz.*, tuition and government appropriations) to pay faculty salaries. Basic research in economics largely originates from the academy.²⁴ Control over universities can provide a large measure of control over economic research.

The dominance of public universities in India created a channel for government influence, if indirect, on the economic profession. The colonial government established India's first three universities in 1857, modeled on the university system of London, in the cities of Kolkata, Mumbai, and Chennai (Carnoy and Dossani 2011, 5). Through the course of the second half of the nineteenth and early twentieth centuries, other public universities were established in Punjab (1882), Allahabad (1887), Banaras (1915), Patna (1917), Aligarh (1920) and Dacca (1920) (Naik 1963, 4). These universities were largely under the control of the provincial governments, although the central government also had the authority to intervene in their affairs. India has a number of nominally private colleges offering specialized training in fields like economics, business, and law, but all are affiliated with public universities with control over course curricula, examinations, and awarding of degrees.

The extent of government involvement in higher education increased with national independence and the onset of planning. The newly created state governments replaced their provincial counterparts and now exercised control over the public universities. Control was increased via the establishment of many public colleges. Moreover, the state governments "controlled the university's budget and funding, approved senior staff appointments, staff salaries and tuition fees," and they influenced academic policy through their "membership of the university's senate" (Carnoy and Dossani 2011, 11). Meanwhile, the central government also increased its influence over higher education via the establishment of the University Grants Commission (UGC) in 1956 and the proposal and enforcement of national standards for university education.

The dominance of public universities in India kept the employment prospects for critics of planning minimal. Moreover, the intellectual fascination with central planning that had gradually gripped the hearts and minds of the political and

24. Almost all of the winners of the Nobel Prize in economics held traditional academic positions when they won the prize.

intellectual elite in India readily provided a “basic unity of purpose” and created a siege-like mentality in the quest to rapidly industrialize the economy (*First Five Year Plan*, ch. 1). There was thus no need to engage in outright coercion since dissenting would make an intellectual exceedingly unpopular and accordingly limit their career prospects. For instance, Peter Bauer once asked a senior officer of the economics section of the British High Commission in India if he or his colleagues were in contact with B. R. Shenoy, and was told that people on the Commission “were too busy to have time for acknowledged madmen” (Bauer 1998, 3).

Other mechanisms of influence in the academy were in operation in India as well. Wagner (2012) emphasizes the lure of a seat at the table of power as another influence on economists and the views they espouse. The lure of power, and the validation of the powerful, affects economists both at an individual and professional level. Economic theories supportive of a role for government management of the economy—counseled by economists, of course—can create a seat at the table for economists, boosting the profession’s standing, influence, and well being.

In the case of India, most members of the economics profession at the time of independence strongly supported central planning (Byres 1998). This was true of prominent economists at all the key intellectual centers for economics such as Bombay University, the Indian Statistical Institute, the Gokhale Institute of Politics and Economics, and the Delhi School of Economics, and in the seventies the Jawaharlal Nehru University. Daniel Klein and Charlotta Stern (2009) discuss how groupthink in academia can become locked in and then expand its domain. Academic disciplines are disproportionately influenced by those departments at the top of the disciplinary pyramid, which produce a large number of new Ph.D.-degree holders. The dearth of liberals among India’s economics professoriate may be partially explained by the statist bias of graduate training, which then swept through the entire professorate as students from these institutions secured faculty positions. Once established, the planning bias persists through normal decision-making in hiring (Klein and Stern 2009). Exclusion of the liberal perspective contributed further to a lack of exposure and awareness of alternatives, leading many to believe in state planning because ‘all reasonable people’ do.

Conclusion

There are three interesting trends in the liberal movement in India post-independence. First, the socialist movement and planning apparatus was so aggressive and dominant that it became a target that defined the liberal movement, small and marginalized as it was. As socialist fervor was lost post-Emergency, the

target of liberal opposition lost focus, and the liberal movement itself declined. Second, there are few liberals in the Indian academy, and in the 1980s and 1990s, much of the academic critique emerged from Indians educated and working outside India. Since around 2005 the liberal movement in India has been nested primarily within politics and civil society. And finally—now that India has liberalized—the technology, communication media, number of outlets, voices, and opinions have created a new liberal wave within civil society. In the future, the Indian liberal movement will likely have many voices.

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Classical Liberalism in Guatemala

Andrés Marroquín¹ and Fritz Thomas²

[LINK TO ABSTRACT](#)

Classical liberalism in Guatemala today is very young, budding in the late 1950s and early 1960s, in the wake of the Cuba-inspired insurrections in Central America. In Guatemala, liberalism gathered steam over the next two decades. It began with a small group—it could have gathered in a broom closet—that opposed the tariff, state-owned companies, and price controls. Gradually, classical liberalism appealed to the business community and elites in Guatemala because it offered an intellectual viewpoint in opposition to creeping socialism.

In this young tradition three individuals stand out: Manuel Ayau, Giancarlo Ibarguen, and Armando de la Torre. Today there are three institutions—a university and two think tanks—heavily influenced by these men: Universidad Francisco Marroquín (UFM), the Center for Economic and Social Studies (CEES), and the Center for National Economic Research (CIEN).

Our purpose in this article is to describe and comment on the state of classical liberal thinking in Guatemala, not only in the economics profession and academia, but in the atmosphere of ideas generally, and to a lesser extent, in political and policy action. We interpret classical liberalism as a philosophy or worldview that values individual liberty, freedom of religion, speech, assembly, and free markets. We associate classical liberalism with the ideas of thinkers such as John Locke, Adam Smith, Frédéric Bastiat, Frank Knight, Milton Friedman, Ludwig von Mises, and Friedrich Hayek. In line with practice outside the United States and

1. Universidad Francisco Marroquín, Guatemala City 01010, Guatemala. (Corresponding author.) We benefited from numerous conversations with Carlos Sabino, Hugo Maul, Raquel Zelaya, Edgar Ortiz, Carroll Ríos de Rodríguez, Glenn Cox, and Giancarlo Ibarguen. We also appreciate comments and suggestions by Jane Shaw. All errors are ours.

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Canada, we will use the term “liberalism” for the most part, rather than classical liberalism.

We conducted several in-depth interviews with influential thinkers in the country, liberal and non-liberal. In this text we draw on these interviews where cited, and in an appendix we further identify the interviewees.

The nineteenth century: No strong tradition of liberalism

The political culture that was transplanted from Spain to Latin America in general and Guatemala in particular was of a very different kind from that which evolved in England or the United States (Andreski 1966, 23–27, 241–244, 279; Cox 2015). The economy in pre-independence Guatemala was based on mercantilist policies that protected the interest of the commercial elites. The interests of the Crown and of the elites were effectively merged. After independence, the elites kept those privileges.³

At the time of Guatemala’s independence in 1821 the country had some influential liberal thinkers, including Jose Cecilio del Valle (1780–1834) and Mariano Galvez (1790–1862). Indeed, del Valle was quite familiar with the work of Locke, Smith, and David Hume, and he corresponded with Jeremy Bentham. The liberalism of del Valle and Galvez, however, was different from classical liberalism, or at least was very limited in its extent. Their thinking centered upon mitigating mercantilism and advancing the separation of church and state.

After 1821, in post-independence Guatemala, the level of protectionism was high and there were barriers to trade with other countries, even close neighbors. There were only a few ports and multiple taxes, including the *alcabala*—a tax on sales and an important source of income for the Spanish Crown. The Catholic Church had great power in land possession—what was called *manos muertas* (“dead hands”)—and the Church managed schools and education in general, which gave it tremendous cultural and political power.

The early liberals reacted against these circumstances (Sabino 2015). Indeed, the 19th century is characterized by an intellectual confrontation between conservatives, in favor of the status quo, and these early liberals, basically anti-clerical, opposing tariffs, and favoring more inclusive voting rights and representation.

3. Note that this explanation, a historical legacy of mercantilism, is akin to the historical institutional analysis by economists such as Acemoglu and Robinson (2012; 2001) and Sokoloff and Engerman (2000).

The early liberals spread their ideas through newspapers and pamphlets. There was not a firm philosophical tradition expressed through treatises and books discussing and dealing with the ideas of individual liberty. Rather, as noted by Carroll Ríos de Rodríguez (2015), “There is not a historical figure in Guatemala equivalent to what [Juan Bautista] Alberdi was in Argentina.”⁴

The “liberals,” as they were in fact called then (as opposed to conservatives), came to political power in 1871 with Justo Rufino Barrios in what is known as the *Reforma Liberal*. They confiscated church lands and attempted to diversify the agrarian economy by promoting coffee on large plantations with secure property rights, promoting public and private secular education, and at the same time growing the bureaucracy and the role of government (Sabino 2015).

Manuel Ayau and the Center for Economic and Social Studies

In the second half of the twentieth century, liberalism found a leader in Guatemala in the figure of Manuel Ayau (1925–2010)—known as “Muso” to his family, friends, and community. In the late 1950s, he led a small group of businessmen concerned with poverty and social problems in Guatemala. They met regularly to discuss and share books. It was a daunting task because, according to Ayau, they did not understand what the liberal economics books said. They navigated these books with dictionary in hand. It sometimes took them days to understand just a few pages. And they began with Mises’s *Human Action*, “a hard book to start with” (Ayau 2006).

This group felt that intellectual discourse in Guatemala had become increasingly socialist and that liberalism and the market economy lacked a voice. They

4. Ríos de Rodríguez (2015) added, “We could argue that Francisco Marroquín was that figure, but we would have to look deeply and carefully into his life to find a connection (*tendríamos que ‘hilar muy fino’*).” Whereas Alberdi made possible a liberal constitution for Argentina, Marroquín was less theoretical; he fought for the rights of indigenous people and a limit on government power. Marroquín was born in Santander, Spain, in 1499 and came to the Americas in 1527. His first destination was Mexico, and in 1530 he traveled to Guatemala with the conqueror Pedro de Alvarado. Alvarado and Marroquín were polar opposites in personality. Francisco Pérez de Antón (1999, 6) describes Alvarado as a ruthless, authoritarian captain and an old caudillo, and Marroquín as a humanist, humanitarian, theologian, and above all an idealist driven by a sense of mission. Marroquín left ecclesiastical positions of high influence first in Spain and then in Mexico to become a “simple priest in an unknown and isolated territory” (*ibid.*). Marroquín was elected governor of the province after the destruction of the central city of Santiago in 1541 and moved the capital to what today is the city of Antigua. Among other contributions, Marroquín founded the first hospital and willed his money and land for the foundation of Santo Tomas College, which later became Universidad de San Carlos, the current state university (Juarros 1826, 127, 131ff.; Aguado de Seidner 1990).

started with a clear mission: to study and disseminate the ethical, economic, and legal principles of a free society. Thomas (2004, 14) indicates that the founders' ideas were directly linked to the Austrian school of economics. They “discovered” the Foundation for Economic Education (FEE) and traveled to New York to a seminar, where they felt “at home,” and they returned to Guatemala bursting with ideas, books and contacts. At FEE they met great liberal economists like Hayek and Friedman. These experiences led to the founding of the Center for Economic and Social Studies (CEES) in 1959. At that time, Ayau was perceived in the country as a man of the far right who did not know what he was talking about (Ayau 2006).

In 1964, invited by CEES, Mises and Hans Sennholz traveled to Guatemala to lecture and conduct a seminar. Hayek did the same in 1965 and 1968, as did Israel Kirzner in 1966, followed by Ludwig Erhard, Dean Russell, Henry Hazlitt, and others.

In the 1960s Ayau and the CEES group grew close to, and were deeply influenced by, the Mont Pèlerin Society, Liberty Fund, the Institute for Economic Affairs, and of course FEE. Ayau established a close and long-lasting friendship with Friedman. These relationships and influences formed the liberal intellectual backbone of CEES and, later, Universidad Francisco Marroquín. Donald Boudreaux has described the early work of CEES:

CEES embarked on an ambitious program of translating into Spanish classic works of economics, political philosophy, and law that were not then available in Spanish—works such as Mises's *Theory and History* and Frédéric Bastiat's *The Law*. And not only translating and distributing them, but also reading and studying them. ... [Ayau] and his CEES associates studied and discussed the works of Mill, Mises, and Hayek, among others. In this way they became impressively self-taught in the social sciences. (Boudreaux 2005, 17)

Ayau and Universidad Francisco Marroquín

CEES was a stepping stone to Universidad Francisco Marroquín (UFM), founded in 1971. Ayau was the university's first rector—almost, as he said, “by default.” Ayau and his friends invited several prominent lawyers to be UFM's first rector, but all declined, not wanting to be associated with “bizarre ideas” (Ayau 1992; 2006).

In the beginning CEES and UFM were responses to the perceived threat of communism in the context of the international Cold War and the ‘armed internal conflict’ in Guatemala. This was a protracted leftist guerrilla insurrection initiated by disgruntled young army officers, who were inspired and supported by the Cuban

Revolution and Fidel Castro. The guerrilla war started in the early 1960s and ended in 1996 with the signing of peace accords.

To say the least, the war and its effects on the civilian population remain a contentious issue in Guatemalan society, and we do not have space here to treat the matter at length. While the communist-inspired guerrillas laid down their arms, a political conflict continues. Suffice it to say that Ayau's vision was to create an intellectual defense against communism and socialism, a defense based on individual liberty, open markets, and strong protection of property rights. UFM was a means to achieve this vision, by educating the intellectual and business elites in the principles of a free society. Ayau believed that, as socialism had been successful by influencing the brilliant minds at the London School of Economics, liberalism could influence smart people in Guatemala. He looked at the Fabian Society as a fruitful model (Ayau 2006).

Founding UFM was a risky endeavor. Ian Vásquez (2010) writes: "In the early days, Muso [that is, Ayau] gave graduation speeches wearing a bullet proof vest under his toga. In the 1980s, he would sometimes wear disguises when traveling in public and took extra security measures at home."

For Ayau to be the first rector of UFM was an effective strategic move since it gave potential donors, mostly friends from the business community, confidence in the project. Ayau appointed himself as a professor of economics, teaching an introductory course called "Basic Economic Postulates," because, in his own words, "nobody else would have appointed me, as economists at the time did not believe in those [liberal] theories." Ayau admitted that he and the founding members of UFM did not know a lot about economics, but they knew that freedom was the source of prosperity (Ayau 2006).

UFM started with forty students and one classroom and professors such as Eduardo Suger, Jesús Amurrio, and Salvador Aguado, who were regarded as among the best in the country (Ayau 2006). Joseph Keckeissen (1925–2011), who studied under Mises at New York University, was another prominent economics professor who influenced and educated many of the first generations of students and was instrumental in designing the curriculum at UFM.

UFM today distinguishes itself by teaching all its students the fundamentals of liberalism. Students in all academic programs, including law, medicine, architecture, and of course business and economics, are required to take classes in the ethics of liberty, the market process, and the ideas of Mises and Hayek. The School of Economics, in particular, is heavy on Austrian economics and public choice, while also teaching some mainstream economics. Thomas (2004) argues that UFM has a palpable "Austrian temperament."

Ayau had a multifaceted personality. He was an entrepreneur, intellectual, and politician—a congressman from 1970–1974. Ayau founded and promoted

BVN, the Guatemalan stock exchange. His many skills and sense of purpose allowed him to transmit a vision of liberalism and inspire business and intellectual leaders in the country. He wrote over two thousand articles and op-eds in national newspapers and several books, among them *The Lost Decade* (1989); a principles textbook, *The Market Process* (1993); and *Not a Zero Sum Game* (2005). His death in 2010 left a huge vacuum in the liberal firmament in Guatemala, one deeply felt by many liberals in the country.

Besides Ayau, two other names associated with UFM were frequently mentioned in our interviews as influential liberals in Guatemala: Giancarlo Ibarguen and Armando de la Torre. Ibarguen was the rector of UFM from 2003 to 2013. He is a businessman and an academic and was influential in the telecommunications reform that was liberal in origin (and that we describe below). Ibarguen's leadership influence at UFM has been profound. He fostered several innovations such as the formation of the Michael Polanyi College and the systematic use of the Socratic method at UFM. Ibarguen also enhanced the international profile of UFM, and he has brought several liberal intellectuals to visit and teach there. He also promoted the translation of important books into Spanish to disseminate liberal ideas in Latin America, and he helped found the Explorations of Liberty program that organizes colloquia for Latin American intellectuals.⁵

Armando de la Torre, a philosopher and former Jesuit, is a professor at UFM who helped introduced public choice into the curriculum at the university. De la Torre started the school of political sciences at UFM. He is a regular writer of op-eds at a national daily. He has worked behind the scenes to promote liberal values among important groups in the country, such as the military. De la Torre's influence as a teacher was recently attested when a group of his students founded a political party. He is an intellectual referent for many liberals in the country.⁶

Academia

Here we present our general perception of the degree of congeniality toward liberalism in universities in Guatemala. The impression is based on our interviews and our long experience and current knowledge of our small country.

5. The program is sponsored by the Liberty Fund and is led by Lucy Martínez-Mont, a former dean of the economics school at UFM.

6. It goes beyond the scope of this article to describe the work of many influential liberals in Guatemala. A few of the many who stand out are Lucy Martínez-Mont (who directs several Liberty Fund colloquia every year), Eduardo Mayora (a former dean of the UFM law school) and Angel Roncero (a founder of what is now Universidad de Occidente).

In Guatemala there are fourteen registered universities in operation, thirteen private and one public. About half of the students attend the single public university, San Carlos (Marroquín 2015, 23). Six universities have a religious association.

Universidad Francisco Marroquín is fairly small. Over 300,000 Guatemalans are currently enrolled at a university, and of these only a little over 1 percent attend UFM (Marroquín 2015, 23). Another small university, Universidad de Occidente, is also perceived as congenial toward liberal ideas, and some of its leaders have worked at UFM.

Several larger private universities, including Galileo, Mariano Galvez, Del Valle, and Universidad del Istmo, do not have a clear profile when it comes to an economic philosophy or ideological outlook.

From our interviews, we received the impression that Universidad Rafael Landívar, a large private university, is less liberal. Universidad de San Carlos, the public university, has been traditionally perceived as a left-wing university, especially in its social sciences departments. Yet at several inter-university seminars organized by UFM's Public Choice Center (CADEP),⁷ the reception of liberal ideas by students and faculty has been friendlier at Universidad de San Carlos than at Landívar.⁸

Think tanks

The think tank landscape in Guatemala is quite diverse. Several think tanks are linked to universities, mainly because their researchers are professors or because there is philosophical affinity. CEES is directly related to Universidad Francisco Marroquín, and CIEN (Center of National Economic Studies)⁹ is indirectly linked to UFM. ASIES (Association of Research and Social Studies)¹⁰ is linked to Universidad Rafael Landívar. IPNUSAC (Institute of National Problems)¹¹ is connected to Universidad de San Carlos. FLACSO (Latin American Institute of Social Sciences)¹² and ICEFI (Central American Institute of Fiscal Studies)¹³ are

7. *Centro para el Análisis de las Decisiones Públicas.*

8. Carroll Ríos de Rodríguez (2015) remarks: "I thought that the main threats to liberalism came from FLACSO or even ICEFI, but at [Universidad Rafael] Landívar, and the centers affiliated to it, there is more radical thinking. Of course Landívar is a large university, but they have moved towards the left. In CADEP [inter-university] seminars we have seen that the strongest opposition to liberalism comes from Landívar. In San Carlos we have found pleasant surprises."

9. *Centro de Investigaciones Económicas Nacionales.*

10. *Asociación de Investigación y Estudios Sociales.*

11. *Instituto de Problemas Nacionales.*

12. *Facultad Latinoamericana de Ciencias Sociales.*

13. *Instituto Centroamericano de Estudios Fiscales.*

not directly linked to existing universities. In some cases, a think tank is part of consortiums with different universities. Researchers at think tanks often move to government positions in different ministries, government offices, embassies, and international organizations.

In keeping with the universities with which they are affiliated, CEES and CIEN are liberal think tanks, while ASIES, IPNUSAC, and FLACSO are more statist. At the same time, the think tanks share some goals, such as greater transparency in government, especially in its finances, and the elimination of privileges in some instances. Some of the main areas of difference and tension among think tanks are fiscal and labor market policies. For example, CIEN and CEES are critical of minimum wages and high tax rates, and they promote labor flexibility. Other think tanks, such as ASIES, promote higher taxes.

A short description of each leading think tank follows:

- As discussed above, CEES was founded by Manuel Ayau in 1959, after he came into contact with members of the Foundation for Economic Education in New York. The group he gathered became the nucleus for Universidad Francisco Marroquín. CEES remains a steady beacon of liberal thinking. Some members of the staff at CEES occupy key administrative positions at UFM, where many of them also teach.
- CIEN, like CEES, promotes individual liberty, the rule of law, free markets, and a reserved role for the government. CIEN started in the early 1980s, and it describes itself as a political organization but with no links to political parties. CIEN has promoted important reforms such as the liberalization of the exchange rate and the decentralization of education. Its main audience is policymakers, and its staff has worked closely with several presidents of the country and with the legislature. CIEN staff and members believe that entrepreneurship is an engine of economic growth and as a result they promote a low-tax regime that can increase the incentives to invest and create jobs. They also put emphasis on accountability and transparency. CIEN funds itself through consulting projects. Many of its members write for national newspapers and are university professors.
- ASIES is a progressive think tank that bases its work on ideas of a social market economy (*economía social de mercado*), rooted in a Christian social framework and concern for social justice. At the beginning in the late 1970s, during the years of internal conflict in Guatemala, it focused on building institutions for a democratic transition, such as the Electoral Tribunal and the Citizens Registry. It does research

in education, labor markets, the judiciary, and recently, on entrepreneurship.

- IPNUSAC is an interdisciplinary research center at Universidad de San Carlos, the public university. It is the means through which that university seeks to influence the scientific, institutional, and policy debates on social and political issues in the country.
- ICEFI focuses on equality, public goods, and redistribution, and less so on wealth creation and economic growth. It studies issues such as the “provision of essential public goods for the improvement of productivity” ([link](#)) and emphasizes state-driven, as opposed to market-driven, development. ICEFI is partially funded by the Sweden International Cooperation Agency and other national and international organizations.
- Like ICEFI, FLACSO is not directly linked to a university; in fact, it offers its own master’s and doctoral degrees in social sciences. It also conducts research on issues related to culture and identity, population and development, and what it describes as a thoughtful process around the “neoliberal reform of the State” ([link](#)). We judge ICEFI and FLACSO to be left of center.
- Finally, the G40 is a loose and informal association of economists from different ideological persuasions that builds on the commonalities among think tanks to promote policy changes (Zelaya 2015).

While both CEES and CIEN are liberal think tanks, they have differences. CEES’s associates are professionals and businessmen whose main source of income is not CEES itself; they are donating their time. Some members of CIEN perceive that the influence of CEES has diminished so much that it is irrelevant to the policy debate. Some members of CEES agree but do not feel that it should be otherwise: “CEES is not influential. Its line is ‘pure,’ and its purpose is to provide direction...but CEES is not close to politicians or journalists,” said one affiliate in an interview (Ríos de Rodríguez 2015). CEES’s associates have not been committed to producing research that might influence policy, although some members of CEES also write for national newspapers.

Some policy reforms in a liberal direction

Some important institutional changes based on economic logic and open markets have come directly from liberal activism in Guatemala. Some are more important than others, but it is hard to judge their long-term or relative importance.

The macroeconomy

The constitutional reform of 1993 included an article prohibiting the central bank—Banco de Guatemala—from lending directly to the government. Manuel Ayau lobbied to get this article slipped in quietly, arguing that central bank independence was important to reduce inflation, public deficits, and the risks of the business cycle, and to promote economic stability. Indeed, the reform had positive results in reducing inflation and its volatility. As for the fiscal deficit, Hugo Maul, Lisardo Bolaños, and Jaime Díaz argue that

...during the first half of the 1980s the fiscal deficit reached an average of 4.3 percent of GDP. However, from the time when it was not possible to finance the deficit through monetary policy this variable [the deficit as a percentage of the GDP] is about 1.5 percent of GDP. (Maul, Bolaños, and Díaz 2008, 174, our translation)

That reform, along with freeing the exchange rate (from an overvalued fixed rate to a market-based rate) and interest rates in 1989, contributed greatly to macroeconomic stability.¹⁴

Another important macroeconomic reform was the liberalization of money markets. The 2000 bill on Free Exchange of Foreign Currency (*Ley de Libre Negociación de Divisas*) allowed individuals to hold, trade, and contract in foreign currency. Before that the quetzal was the only legal tender. One of the results of this law was that the local currency had to compete against foreign currencies, which in practice meant a more austere use of monetary policy (Maul, Bolaños, and Díaz 2008).¹⁵

Telecommunications

The Guatemala telecommunications reform of 1996 was liberal and Coasean in nature, as under it spectrum rights are assigned by auction to private parties. The enforcement of these rights by the regulator (*Superintendencia de Telecomunicaciones*) has been relatively effective, in particular for mobile services, although less so for FM frequencies. The reform has expanded the market and benefited consumers. Indeed, the assignment of the spectrum went from a top-down, discretionary, and highly bureaucratic approach to an organized bottom-up scheme based on clear allocation of property rights:

14. Of course the foreign exchange market is not totally free since it is still influenced by the open market operations by the central bank, the sole supplier of quetzales.

15. Legally it is possible to have bank deposits in any currency, but in practice most deposits are in quetzales, U.S. dollars, and Euros.

The *Ley General de Telecomunicaciones*, adopted in November 1996, significantly revamped Guatemala's spectrum policies. The result is perhaps the most liberal spectrum regulatory policy in the world. These are two essential features of this regime. The first is that the law establishes a presumption that radio waves are to be available for the use of those who request them, and for the purposes requested. ... This inverts the standard, top-down administrative allocation process, where high level trade-offs between alternative uses for radio spectrum are made by government regulators.

The second key aspect is that *usufructuary* rights are used, entitling holders to exercise exclusive control over the use of the radio spectrum in question. This includes the right to change spectrum uses over time, and to subdivide and transfer rights, subject only to minimal technical limitations (designed to prevent interference), international agreements to which Guatemala is a signatory, and consistency with the general frequency allocations established by the International Telecommunications Union (ITU) for the Americas. This has the effect of delegating broad discretion to private parties in determining how radio spectrum is used, including the selection of services, technologies, and business models. (Hazlett, Ibarguen, and Leighton 2007, 442)¹⁶

As a result of this successful reform, many have looked to Guatemala as an example of the way in which the spectrum can be liberalized (see, e.g., Wellenius and Neto 2008; see also Ibarguen 2002).

Failures

Here we turn to several areas in which, according to our interviewees, liberals have not been effective in bringing on reform.

Education

Some think liberals should have been more successful in influencing elementary and high school education, including private and public schooling. A related failure is the deep centralization of government-run public education, which is dominated by union interests and populist politics. Manuel Ayau began talking about a voucher system in the early 1980s, an idea that has never gained traction.

16. "In the Guatemalan Civil Code the usufructuary right carries the right to use and enjoy the property of another to the extent that such use and enjoyment does not destroy or diminish its essential substance. Since electromagnetic waves are infinitely reusable and are not 'destroyed or diminished' when employed, these rights are a close approximation of private property rights in radio spectrum" (Hazlett, Ibarguen, and Leighton 2007, 442–443).

There was one small window of success for liberalism. When María del Carmen Aceña of CIEN became Minister of Education during the government of Oscar Berger (2004–2008), she promoted PRONADE (National Community-managed Program for Educational Development).¹⁷ PRONADE's main objectives were to curb union power, align the incentives of teachers and parents, and increase civic and democratic education (see Altschuler and Corrales 2009; 2013). It attempted to reduce the power of the teachers unions by promoting a decentralized system where communities managed schools.

The program grew rapidly and was a temporary success. But Aceña could not do it for long, and with the new government led by UNE (National Union of Hope)¹⁸ she was replaced. One of the first things the new administration did was to re-empower unions and eliminate PRONADE.

From a liberal perspective it is important to ask why programs like PRONADE, whose primary objective was to empower communities in order to expand and improve the quality of education, failed. There are some key reasons. Those who opposed the program raised the bogeyman of privatization, claimed that the reform violated current legislation (the state as the provider of universal and free education), and warned that it would also cause teachers to lose benefits.

ProReforma

During the beginning of the 1980s, Ayau led a group in the task of writing a well researched government plan, essentially a guide on how to liberalize the economy in Guatemala.¹⁹ They offered this plan to any candidate who would take it seriously, and they held a series of meetings and presentations to promote its main ideas. For each issue examined, they used the same format: (1) description of the problem, (2) ideal solution, and (3) politically feasible solution. Some of the main proposals of this document were: privatization of state-owned companies (at a time when government-owned companies were numerous and onerous), liberalization of interest and exchange rates, elimination of price controls and subsidies, elimination of tariffs and export taxes, elimination of progressive income taxation, elimination of the compulsory state social security system, an individual savings account pension system, fiscal decentralization, a voucher system in education, and other actions aimed at reducing government intervention and distortions. Over the next two decades, some reforms were made in directions indicated by the document.

17. *Programa Nacional de Autogestión para el Desarrollo Educativo*.

18. *Unión Nacional de la Esperanza*.

19. Part of the information in this section comes from a presentation by Manuel Ayau (2007).

During the decade of the 2000s, Ayau and a group of friends spearheaded the “ProReforma” effort to revise the Guatemalan constitution in order to strengthen property rights and the rule of law. To make the judiciary and legislature more independent and responsible, they suggested changes in the constitution inspired by Hayek’s distinction between law and legislation and particularly by his concept of *demarchy* (Hayek 1979). At root, ProReforma’s proposals attempted to establish a Senate charged with discovering law and protecting it from short-term, politically inspired, rent-seeking, or populist legislation in the Congress. Despite the fact that the ProReforma petition gathered over 70,000 signatures, more than ten times the legal requirement for a mandatory vote in the legislature calling for a referendum on the proposed reforms, Congress ignored it.

When Ayau died in 2010, the ProReforma movement lost its strength, and it has not reemerged. The ProReforma project exemplifies Ayau’s preoccupation with institutional and constitutional economics, which dates probably to the early 1990s when Ayau was hired by the Cuban American National Foundation to propose a liberal system for a post-Fidel Cuba. Ayau was increasingly disillusioned with economic policy, believing that the main problem was institutional. He thought that the constitutional-legal framework was the key, and that if a country improves its constitutional framework, other things will follow.

Politics

There are a number of liberal voices in the media, including a few prominent op-ed columnists in the largest dailies and radio talk-show hosts. But there are currently no loud, influential liberal voices in politics or government.²⁰ Even though institutions like UFM are successful at placing graduates in the labor market, specifically as entrepreneurs or businessmen in local or multinational companies, few go into politics. UFM emphasizes the positive role of private enterprise, as opposed to government and politics, so most graduates feel more attracted to the former. Liberals, it seems, do not want to work in government. Another reason that UFM graduates are not attracted to enter politics and working in the government is that political parties lack a clear and sustained ideology; also, the state is thought to be captured by corrupt political elites. Manuel Ayau felt frustrated for the little impact UFM had on the political life of the country.

Some liberals feel that at UFM there has been a waning of the urge to promote domestic political change. Some hold the view that recent and current

20. Interestingly, an ASIES associate expressed the view that while liberal thinkers do not engage in political activity or work within the government, non-liberals do—and as a result, policies will not align with a broader liberal agenda (Maul 2015; Zelaya 2015).

UFM leadership is more preoccupied with the international liberal movement than with domestic political and policy dialogue. In the early years there was a sense of urgency, with opponents clearly defined, but this clarity has been diluted. The late 1990s witnessed the privatization of state-owned companies, the elimination of most price controls, and further liberalization of the financial sector, and with these changes came the perception that things were moving in the right—liberal—direction. When A. Portillo came to power in 2000, he embarked on a populist path that came as a reality check for liberals. In 2014, a new political party was established based on sound liberal principles and with a long-term strategic plan.

In a country where populism is rampant and welfare policies and handouts are on the rise, liberals have a hard time articulating a message that might resonate and find a wide constituency. A case in point is probably Ayau himself, who when running as a vice presidential candidate in 1990 was often heard at political rallies uttering: “I will not give you anything!” (*yo no les voy a dar nada!*). Politically, that was suicidal, to say the least (Ríos de Rodríguez 2015).

Comparison to the United States

There are a number of differences between classical liberalism in Guatemala and in the United States. Most importantly, in the United States liberalism is deeply rooted in the history and institutions, whereas in Guatemala it never really took hold. Guatemala did not have equivalents of the Lockean ‘founding fathers’ or the Federalist Papers debate, and this is reflected in how its institutions evolved. For most of its history, Guatemalan politics and government have been dominated by the *caudillo*—strongman—model (see Andreski 1966, 241–244). By contrast, the United States from its birth established open institutions that, despite many setbacks, have survived to this day. Another aspect is federalism. There is substantial localized representation and government power in the United States, while Guatemala has a highly centralized government with weak representation at the county, municipal, and state levels.

Alongside a deep yearning and aspiration for democracy—loosely defined and understood as simple majority rule—a class-struggle world view is deeply imbedded in education, the media, and political discourse in Guatemala, at least since the 1950s and 1960s. Perhaps one of the main, unseen, and unsung victories of liberals and liberalism in Guatemala is that it has managed to avoid a much more demagogic, statist path, à la Venezuela or Bolivia.

Guatemala is a mostly poor country with many of the problems and symptoms typical of economic underdevelopment, all of which pose both challenges and opportunities for liberal thinkers and activists. The standout problem in

Guatemala is widespread poverty. Key difficulties are crime and violence, malnutrition, lack of education, underemployment, government corruption and state capture, and a very weak and inefficient justice system, all compounded by slow economic growth. Annual growth in real per capita income has averaged less than 1 percent over the last three decades. It is no wonder that the Guatemalan intelligentsia are in awe of Thomas Piketty (2014) and that politicians are more likely to offer a free lunch than a flat tax. In the same 30 years, roughly 10 percent of the population has migrated, mostly to the United States. It is common to read and hear in the media that the émigrés have fled in search of ‘the American dream.’

Without liberals there is no liberalism: Concluding remarks

Some liberals perceive that important anti-liberal thinking comes from the private sector itself. As one interviewee commented: “There is a rejection of pure classical liberalism, even within groups of business associations, because we tell them that they are mercantilists” (Ríos de Rodríguez 2015). The mercantilist or ‘crony capitalist’ tendency of the private sector is strong in every country, but especially in countries where the historical legacy is like that of Guatemala.

The liberal movement in Guatemala has the usual internal tensions, particularly between moderates and radicals, or bargainers and challengers. Some argue for the reduction of the state to the minimum, while others think that a strong state is necessary in areas such as police and security. In the words of one interviewee:

[Some groups] adopt very radical postures that do not invite dialogue. They argue, for example, that all international cooperation is corruption, or that you are not a true liberal because you are not willing to eliminate the central bank...they take all-or-nothing stances. We do not know how to be a plural community.²¹

Liberal civilization gave the world the idea of ‘the American dream.’ Can there be a ‘Guatemalan dream’? In the current state of affairs, liberals participate actively in the intellectual debate and are highly critical of policies, but perhaps fall short in formulating and selling concrete liberal proposals as solutions to social problems. A radical Objectivist ranting on the radio, saying that government should play no role in education or health, not only does not draw many sympathizers, but fails to articulate feasible policies.

21. Interviewee wishes to remain anonymous.

To be sure, there are some very difficult problems to address, and this requires human and material resources. One sees in the United States institutions such as the Mercatus Center, the Independent Institute, or the Cato Institute, and many other like-minded organizations, where many individuals devote entire careers to the study of policy issues. This kind of activity and commitment takes a lot of resources and leadership; liberalism in Guatemala could use more of both. Daron Acemoglu and James Robinson (2012) underscore the role of critical junctures coinciding with institutional drift as key drivers of opportunity for the development of open, inclusive institutions. A symposium in *Econ Journal Watch* posed the question: “Why is there no Milton Friedman today?”²² We ask the question: Why is there no Manuel Ayau today?

Liberals in Guatemala need to work hard and muster the resources to develop an organizational cluster, broad and deep, properly focused on domestic issues, to impact business, education, policy, and government. Research is important in order to engage in a conversation, beyond deep principles, based on evidence and argumentation leading to the identification and design of practical liberal reforms. For this, liberals need to re-engage the business community and intellectuals, move them out of their post-Cold War comfort zone to work on common purposes, and to make Guatemalans realize that what freedom they have is just one populist election away from being vaporized. Liberals enjoy armchair study and philosophy, but they must also build social and organizational capital, generating actions and proposals that can empower social development and build strong, liberal institutions.

Appendix

List of interviewees:

- Carlos Sabino, historian and professor at UFM.
- Hugo Maul, economist, professor at UFM, and director of a think tank.
- Glenn Cox, historian and professor at UFM.
- Raquel Zelaya, economist, professor at Universidad Rafael Landívar, and director of a think tank.
- Carroll Ríos de Rodríguez, political scientist, professor at UFM, and director of a think tank.

22. See Klein (2013).

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Of Its Own Accord: Adam Smith on the Export-Import Bank

Daniel B. Klein¹

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This article assembles quotations by Adam Smith regarding bounties—subsidies paid to producers for their productions, usually for export. Policies of export subsidization are still with us. One of the agencies involved in export subsidization in the United States, the Export-Import Bank (“Ex-Im”), might, however, be approaching its dissolution. As of August 2015, its charter had closed, and going forward Ex-Im is supposed to limit its activities to managing and winding up its existing deals, not embarking on new ones. But, many lawmakers and interest groups seek to restore Ex-Im to full operation. Recent discourse concerning Ex-Im is examined by an article in the current issue of this journal (de Rugy, Daza, and Klein 2015). The quotations presented here suggest, perhaps, what Smith would say about Ex-Im. The export subsidies that Smith treated were bounties paid directly to exporters, whereas those of Ex-Im principally take the form of subsidized credit. But the form does not much affect most of Smith’s analysis of export subsidization.

In a 1780 letter, Smith (Corr., 251)² writes of “the very violent attack I had made upon the whole commercial system of Great Britain.” In *The Wealth of Nations*, Smith said that the “commercial” (or “mercantile” or, nowadays, mercantilist) policy is notionally based on the idea that “wealth consisted in gold and silver,” possession of which would be augmented by the nation’s “exporting to a greater value than it imported.” “Its two great engines for enriching the country, therefore,

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2. When citing Smith’s works, I follow the Glasgow Edition abbreviations. My page-paragraph notation, such as WN 450.35, means page 450, paragraph 35, of *The Wealth of Nations*. And WN 463–465.24–30 means pages 463 to 465, paragraphs 24 to 30.

were restraints upon importation, and encouragements to exportation” (WN, 450.35). The very idea that wealth consists in gold and silver, Smith explained, is wrongheaded. Gold and silver are “utensils,” like pots and pans: “it would be absurd to have more pots and pans than were necessary for cooking the victuals usually consumed [in a country]. ... [T]o attempt to increase the wealth of any country, either by introducing or by detaining in it an unnecessary quantity of gold and silver, is as absurd as it would be to attempt to increase the good cheer of private families, by obliging them to keep an unnecessary number of kitchen utensils” (WN, 439–440).

The good cheer of private families, or wealth of nations, Smith concludes, is ill served by mercantilist schemes. At the close of Book IV of *The Wealth of Nations*, Smith concludes:

It is thus that every system which endeavours, either, by extraordinary encouragements, to draw towards a particular species of industry a greater share of the capital of the society than what would naturally go to it; or, by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it; is in reality subversive of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labour.

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. (WN, 687.50–51)

Smith allowed exceptions to such maxims, but passages like the foregoing capture Smith’s drift. In *The Wealth of Nations* he uses the expression “of its own accord” (or “of their own accord”) 28 times. Leaving private enterprise to proceed of its own accord was the position that Smith propounded on the matter of bounties.³ “Such

3. On the idea that certain interventions were justifiable because they favored British production of goods necessary for defense, Smith embraces the idea as justifying the Navigation Acts (WN, 463–465.24–30), which favored British ships and crews, not by awarding them bounties but by obstructing and burdening non-British ships and crews. Smith raises the idea of export bounties for British sailcloth and gunpowder

are the liberal principles,” said Dugald Stewart shortly after Smith’s death, “which, according to Mr Smith, ought to direct the commercial policy of nations” (Stewart 1980/1793, 317).

Smith explains why bounties are usually given only for exports:

[I]t is not the interest of merchants and manufacturers, the great inventors of all these expedients, that the home market should be overstocked with their goods, an event which a bounty upon production might sometimes occasion. A bounty upon exportation, by enabling them to send abroad the surplus part, and to keep up the price of what remains in the home market, effectually prevents this. Of all the expedients of the mercantile system, accordingly, it is the one of which they are the fondest. (WN, 517.25)

Smith suggests that Britain’s export bounty on a good had the effect of shunting some portion of the supply of that good to foreign markets, driving up the price faced by the British consumer:

The corn bounty, it is to be observed, as well as every other bounty upon exportation, imposes two different taxes upon the people; first, the tax which they are obliged to contribute, in order to pay the bounty; and secondly, the tax which arises from the advanced price of the commodity in the home market, and which, as the whole body of the people are purchasers of corn, must, in this particular commodity, be paid by the whole body of the people. (WN, 508.8)

Some of Smith’s analysis makes specific claims about effects and incidences of bounties, claims criticized by David Ricardo⁴ and others. But Smith also argues with looser, more robust claims. Supposing that a bounty were necessary to make it worthwhile for a merchant to produce the goods subsidized, then, Smith says, “if the bounty did not repay to the merchant what he would otherwise lose upon the price of his goods, his own interest would soon oblige him to employ his stock in another way” (WN, 505–506.3). “The effect of bounties, like that of all the other expedients of the mercantile system, can only be to force the trade of a country into

(WN, 522–523.36–37), as well as internal bounties on the inland transport of coal (WN, 874.12). Although Smith respectfully acknowledges the defense argument for specific bounties, he by no means says that such an argument provides sufficient justification, but rather seems, even in the cases of sailcloth, gunpowder, and inland transport of coal, to lean against bounties. So, in an age of sea power and perpetual conflict, Smith endorsed Britain’s obstructing and burdening of non-British ships and crews, but his opposition to awarding bounties is really quite entire.

4. See Ricardo’s *Principles* chapter 22, “Bounties on Exportation, and Prohibitions of Importation” (Ricardo 2004/1817, esp. pp. 307–318).

a channel much less advantageous than that in which it would naturally run of its own accord” (WN, 506.3).

In comparing alternative arrangements, Smith considered what Ronald Coase (1960, 44) calls “the total effect,” including the political, moral, and cultural effects. He drew a contrast between, on the one hand, the endeavor to regulate the industry and commerce of a great country “upon the same model as the departments of a publick office,” bestowing “upon certain branches of industry extraordinary privileges” and laying “others under as extraordinary restraints,” and, on the other hand, “allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice” (WN, 664.3). The broader background to *The Wealth of Nations* is *The Theory of Moral Sentiments*, which subtly illuminates moral and cultural advantages of the liberal plan.

Market failure was an integral part of Smith’s political economy, but no less so was government failure. Smith treated the two impartially. Government privileges, such as bounties, require a conference between the government and the private parties who enjoy such privileges, for only the latter have some local knowledge of the local situation: “What is the species of domestick industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him” (WN, 456.10). Smith warned that creating and organizing interest groups, for example “to give such bounties to favourite manufactures” (WN, 523.37), works to create “a conspiracy against the public” (WN, 145.27). “[I]hough the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary” (ibid.).

Smith held that “in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer” (WN, 660.49). But he pointed out that “the producer” was really *certain privileged producers*: “In the mercantile regulations, ...the interest of our manufacturers have been most peculiarly attended to; and the interest...of some other sets of producers, has been sacrificed to it” (WN, 662.54). He emphasized that intervention on behalf of “industry” is intervention on behalf of *particular complexes of industry*, a point that applies to the Export-Import Bank: “It is the industry which is carried on for the benefit of the rich and the powerful, that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent, is too often neglected, or oppressed” (WN, 644.4).

Intervention and privilege creates and empowers interest groups, but it also breeds a political culture of delusion and hubris:

The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it. (WN, 456.10)

When social affairs are governmentalized, politics becomes central, and the players organize themselves into factions, as is plain in battles over the Export-Import Bank. The governmentalization of social affairs draws all players into factional politics, impelling each player to become a “party-man.” This is a moral tragedy for society at large:

A true party-man hates and despises candour; and, in reality, there is no vice which could so effectually disqualify him for the trade of a party-man as that single virtue. The real, revered, and impartial spectator, therefore, is, upon no occasion, at a greater distance than amidst the violence and rage of contending parties. To them, it may be said, that such a spectator scarce exists any where in the universe. Even to the great Judge of the universe, they impute all their own prejudices, and often view that Divine Being as animated by all their own vindictive and implacable passions. Of all the corrupters of moral sentiments, therefore, faction and fanaticism have always been by far the greatest. (TMS, 155–156.43)

Government privileges are inherently corrupting, for every member of society “has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it” (TMS, 234.17). “That bounties upon exportation have been abused to many fraudulent purposes, is very well known” (WN, 517.25):

The bounties which are sometimes given upon the exportation of home produce and manufactures...have given occasion to many frauds, and to a species of smuggling more destructive of the publick revenue than any other. In order to obtain the bounty or drawback,⁵ the goods, it is well known, are sometimes shipped and sent to sea; but soon afterwards clandestinely relanded in some other part of the country. The defalcation of the revenue of customs occasioned by bounties and drawbacks, of which a great part are obtained fraudulently, is very great. (WN, 882.28)

Smith explained that certain kinds of fraudulence flatter foolish pride:

5. A drawback is repayment, in whole or only in part, of duties that the exporter had previously paid on inputs.

Heavy duties being imposed upon almost all goods imported, our merchant importers smuggle as much, and make entry of as little as they can. Our merchant exporters, on the contrary, make entry of more than they export; sometimes out of vanity, and to pass for great dealers in goods which pay no duty; and sometimes to gain a bounty or a drawback. Our exports, in consequence of these different frauds, appear upon the customhouse books greatly to overbalance our imports; to the unspeakable comfort of those politicians who measure the national prosperity by what they call the balance of trade. (WN, 883.29)

In 1778 Smith became a customs commissioner, enhancing his knowledge of the frauds and mischief, and leading to additions for the 1784 (third edition) of *The Wealth of Nations*. Among the additions were, as stated by Ian Simpson Ross, “analysis of the ill-advised attempt to promote the herring fishery through the bounty system” and “similar exposure of the bad effects of the corn bounty” (Ross 2010, 379). “It is difficult,” Ross says, not “to see the message about the detrimental effect of most economic legislation intensified in the third edition” (ibid.). Amid the new material, Smith explained that bounties are not always paid according to amount produced: “the bounty to the white herring fishery is a tonnage bounty; and is proportioned to the burden of the ship, not to her diligence or success in the fishery; and it has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty” (WN, 520.32).

In his “Conclusion on the Mercantile System,” Smith offers the following one-sentence paragraph: “It is unnecessary, I imagine, to observe, how contrary such regulations are to the boasted liberty of the subject, of which we affect to be so very jealous; but which, in this case, is so plainly sacrificed to the futile interests of our merchants and manufacturers” (WN, 660.47).

Every intervention, such as an export bounty, Smith said, “introduces some degree of real disorder into the constitution of the state, which it will be difficult afterwards to cure without occasioning another disorder” (WN, 472.44). “[I]n what manner the natural system of perfect liberty and justice ought gradually to be restored, we must leave to the wisdom of future statesmen and legislators to determine” (WN, 606.44). Here Smith suggests a distinction between, on the one hand, enlightened political economy, “considered as a branch of the science of a statesman or legislator” (WN, 428), which, in Smith’s view, authorizes the maxims of the liberal plan, and, on the other hand, the art of enlightened politics, where the practicality and repercussions of a reform are often in doubt and one must take care not to make the best the enemy of the good. The art of judging particular reform tactics, Smith suggested, “does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly

called a statesman or politician, whose councils are directed by the momentary fluctuation of affairs” (WN, 468.39). Smith is not necessarily sneering at “that insidious and crafty animal,” for he would, I believe, apply that appellation also to enlightened politicians, of which he knew many. Smith makes the distinction to clarify that his own discourse is concerned with the former realm of thought (the science of a legislator), not the latter (the art of enlightened politics). “Some general, and even systematical, idea of the perfection of policy and law, may no doubt be necessary for directing the views of the statesman. But to insist upon establishing, and upon establishing all at once, and in spite of all opposition, every thing which that idea may seem to require, must often be the highest degree of arrogance” (TMS, 234.18).

However, in the discussion in *The Wealth of Nations*, Smith nonetheless proceeds to dip into the art of enlightened politics. He emphasizes (e.g., at 472.44) that since interventions create disorders that, thereafter, are very hard to correct or undo, do not fall into them in the first place! But, given that such disorders enmesh the statesman, Smith seems to suggest that the art of enlightened politics will, nonetheless, focus on quite radical liberalization (WN, 468–472).

Moreover, on our subject of export subsidies, we have Smith’s own private advice to an insidious and crafty animal of very great eminence, William Eden.⁶ In a letter dated 3 January 1780, amidst war with France and Spain and the American conflict, Smith advises Eden on “very obvious methods” by which Britain’s fiscal situation can be improved “without laying any new burthen upon the people:”

The first is a repeal of all bounties upon exportation. These in Scotland and England together amount to about £300,000 a year; exclusive of the Bounty upon Corn which in some years has amounted to a sum equal to all the other bounties. It will probably amount to a very considerable sum this year. When we cannot find taxes to carry on a defensive war; our Merchants ought not to complain if we refuse to tax ourselves any longer in order to support a few feeble and languishing branches of their commerce. (Corr., 245)

6. Regarding Eden’s political eminence, I quote from the biographical note provided by Ernest C. Mossner and Ian Simpson Ross, editors of Smith’s correspondence: “William Eden (1744–1814), M.P. 1774–93;... Lord of Trade 1776–82; Commissioner for Conciliation with America 1778–9; Secretary to Lord Lieutenant of Ireland 1780–2; envoy to France on special commercial mission 1785–8; Ambassador to Spain 1788–9, and to the United Provinces 1789–93; President of the Board of Trade 1806–7; cr. Baron Auckland 1789. In France Eden negotiated a commercial treaty named after himself, whose provisions were based on the arguments advanced in WN IV.iii.c.12 that France would provide a better market than the American colonies. The chief beneficiaries, as Smith had predicted, proved to be British industry and the French vineyards” (Corr., 239 n.1).

Even in the realm of practical politics, Smith called for “repeal of all bounties upon exportation.” Indeed, at the time of the letter Smith was a customs commissioner, and hence was himself a sort of statesman, an insidious and crafty animal.

Incidentally, in the letter to Eden, Smith says the following about prohibitions on imported goods:

Prohibitions do not prevent the importation of the prohibited goods. They are bought everywhere, in the fair way of trade, by people who are not in the least aware that they are buying them. About a week after I was made a Commissioner of the Customs, upon looking over the list of prohibited goods, (which is hung up in every Customhouse and which is well worth your considering) and upon examining my own wearing apparel, I found, to my great astonishment, that I had scarce a stock, a cravat, a pair of ruffles, or a pocket handkerchief which was not prohibited to be worn or used in Great Britain. I wished to set an example and burnt them all. I will not advise you to examine either your own or Mrs. Edens apparel or household furniture, least you be brought into a scrape of the same kind. (Corr., 245–246)

Smith saw that effecting better policy required better politics, which required improvement in wisdom and virtue. All levels of the moral project find integration in his thought. “[W]hat civil policy can be so ruinous and destructive,” he asked, “as the vices of men? The fatal effects of bad government arise from nothing, but that it does not sufficiently guard against the mischiefs which human wickedness gives occasion to” (TMS, 187.1). Of such mischiefs, many of the most awful, Smith taught, find empowerment in departures from the liberal plan.

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