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I thank co-editors Garett Jones, George Selgin, and Larry White for their fine work, and Bruce Benson and Fred Foldvary, who are now co-editors emeriti. The managing editor Jason Briggeman not only continues to do an astounding job in improving every piece we publish, by copy-editing, fact-checking, and ensuring accuracy throughout every reference and virtually every detail, but also in advising on refashioning papers in structure and substance, and on what to select for publication. Jason’s excellence and commitment to the project is crucial to whatever success it enjoys.

We are grateful to Jane Shaw Stroup, who has helped greatly with many manuscripts, in particular many of the pieces (twelve, and counting) for the symposium “Classical Liberalism in Econ, by Country.” We also thank Kurt Schuler, for his guidance and ideas. We are grateful to web virtuoso John Stephens for continuing to fine-tune the superb website and document-production system that he created, and to Ryan Daza, Eric Hammer, and Erik Matson for occasional service to the journal.

For friendship and vital sponsorship over the past two years, we are grateful to donors. From the start of EJW, the project has enjoyed faithful and generous support from the Earhart Foundation, which has now come to the end of its mission. Like many others, EJW will always remember and be grateful for Earhart’s friendship and beneficence. For support we also thank the Charles G. Koch Foundation, Gerry Ohrstrom, and the John William Pope Foundation. I am very grateful to Rich and Mary Fink and the Fink family, for the generous Mercatus Center JIN chair (“JIN” for three of the family’s beloved), which I hold and that helps to support EJW.

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for a symposium on economists on the welfare state and the regulatory state, in particular Claire Morgan for facilitating the collaboration and organizing an event at Mercatus in connection with the symposium.

We are grateful to our authors, for generously contributing their creativity, craftsmanship, and industriousness, as well as for their patience and cooperation in our editorial process.

The “Classical Liberalism in Econ, by Country” authors should be thanked in particular for their courage in standing up for liberal causes, often under professional and ideological adversity, some under conditions of personal danger to themselves and their family.

We thank the following individuals for generously providing intellectual accountability to EJW:

Referees during 2014–15

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<td>Robert Ciborowski</td>
<td>University of Białystok</td>
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<td>John Cochrane</td>
<td>Hoover Institution, Stanford University</td>
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<td>William Coleman</td>
<td>Australian National University</td>
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<td>Dragan Ilé</td>
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Other individuals who published commentary on EJW material in EJW, published 2014–15

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<td>Olav Bjerkholt</td>
<td>University of Oslo</td>
<td>(article link)</td>
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<tr>
<td>Ib E. Eriksen</td>
<td>University of Agder</td>
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<tr>
<td>Robert Kadar</td>
<td>Evolution Institute</td>
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<tr>
<td>Steve Roth</td>
<td>Independent researcher</td>
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<tr>
<td>Arild Sæther</td>
<td>University of Agder</td>
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<td>Lawrence H. White</td>
<td>George Mason University</td>
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<tr>
<td>David Sloan Wilson</td>
<td>State University of New York at Binghamton</td>
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Does real gross domestic product (GDP) have an autoregressive unit root or is it trend stationary, perhaps with very occasional trend breaks? If real GDP has an autoregressive unit root, then at least a portion of each time period’s shock to real GDP is permanent. Booms and recessions therefore permanently change the future path of real GDP. But if real GDP is trend stationary, (almost all) shocks to real GDP are transitory, and real GDP (almost always) reverts to an already existing trend.  

Here I present evidence that, despite the findings or implications of some recent papers and blog entries, the hypothesis of a unit root in U.S. real GDP after World War II cannot be rejected, once the issues of individual and multiple-test size distortion are dealt with. But are the implied permanent shocks important relative to transitory shocks? They are, according to an unobserved components model and a vector error correction model (VECM) proposed by John Cochrane (1994). Moreover, permanent shocks have strong effects according to impulse response analysis of the Cochrane VECM. Finally, models with unit roots forecast better over the postwar period than trend stationary models. This is particularly true for forecasts of recoveries from seven postwar recessions, and Cochrane’s VECM, with its specific identification of permanent and transitory shocks, performs best.
overall. Thus, by every measure the unit root has “oomph,” as Stephen Ziliak and Deirdre McCloskey would say. 3

**Background**

In a landmark paper, Charles Nelson and Charles Plosser (1982) argued against the then-prevailing assumption (noted by Stock and Watson 1999) of trend stationarity for U.S. real GDP. Nelson and Plosser showed that the unit root could not be rejected in favor of trend stationarity. Their claim has led to a large number of papers examining the issue with a variety of tests, specifications, data periods, and countries. For U.S. real GDP, James Stock and Mark Watson (1999) judged that the unit root testing literature supported Nelson and Plosser’s (1982) conclusion. More recently, Spencer Krane (2011) concluded that the Blue Chip Consensus real GDP forecasts have important permanent components. Sinchan Mitra and Tara Sinclair (2012) stated that “fluctuations in [U.S. real GDP] are primarily due to permanent movements.” But other papers since Stock and Watson’s (1999) judgment have claimed that the unit root can be rejected (see, e.g., Ben-David, Lumsdaine, and Papell 2003; Papell and Prodan 2004; Vougas 2007; Beechey and Österholm 2008; Cook 2008; Shelley and Wallace 2011).

In recent years, the unit root-GDP issue has made lively appearances in economics blogs. Greg Mankiw (2009a) argued that the likely presence of a unit root cast doubt on the incoming Obama administration’s 2009 forecast of strong recovery (Council of Economic Advisers 2009). Brad DeLong (2009) and Paul Krugman (2009) immediately disputed Mankiw’s invocation of a unit root as cause for pessimism, arguing that the shocks that generated the 2008–09 recession were transitory, although Krugman allowed that shocks could occasionally be permanent (Cushman 2012; 2013). In commenting on the Mankiw-DeLong-Krugman controversy, Menzie Chinn (2009) ran an econometric test that rejected the unit root. Stephen Gordon (2009), responding in turn to “DeLong-Krugman-Mankiw-Chinn,” said: “There’s little evidence that we should be operating under the unit-root hypothesis during recessions. Or during expansions, come to that.” He provocatively followed this with: “The world would be a better place if…the whole unit root literature never existed.”

Cochrane (2012) wrote that “the economy has quite reliably returned to the trend line after recessions,” providing a GDP graph with a trend line fitted over 1967–2007. This claim seems to support the trend stationarity hypothesis. But Cochrane has believed for some time that GDP has a unit root (Cochrane 1994; 3. See Ziliak and McCloskey 2008; McCloskey and Ziliak 2012.)
The Cochrane (2012) graph may be a dramatic illustration of the blog entry’s title (“Just How Bad Is the Economy?”) and reflect a belief that shocks causing recessions were mostly transitory prior to 2007. Cochrane’s blog entry cited John Taylor (2012), who wrote (citing in turn Bordo and Haubrich 2012) that “deep recessions have always been followed by strong rather than weak recoveries.” Similarly, Marcus Nunes (2013) presented a graph that looks like a linear trend stationary model with a break in 2008 from a one-time shock that is permanent and transitory in roughly equal proportions. Nevertheless, although Taylor’s presentation and certainly Nunes’s are suggestive of the trend stationary hypothesis, Taylor and Nunes did not mention unit roots or stationarity, and so it is not clear what, if anything, they may have believed about the issue. Meanwhile, William Easterly (2012) wrote, facetiously, that the unit root question could be a factor in the 2012 U.S. presidential election, because a unit root in output could be seen as relieving President Obama of blame for the weak recovery. Scott Sumner (2014) pointed out that Mankiw’s (2009a; 2009b) unit root-based skepticism about recovery by 2013 had been confirmed.4

Quite recently, Roger Farmer (2015) applied a unit root test to U.S. real GDP 1955:2–2014:1. The result was a clear failure to reject the unit root. Farmer concluded: “There is no evidence that the economy is self-correcting.”5 Arnold Kling (2015) used Farmer’s result to argue that “the concept of potential GDP can have no objective basis.” In contrast, John Taylor (2015) reprinted a graph (from Taylor 2014) showing a linear trend based on the 2001–2007 GDP growth rate that extends through 2024, a trend which he argued could be reached if certain policies are followed. This looks like trend stationarity. Finally, Larry Summers (2015) wrote that for “over 100 recessions [in] industrial countries over the last 50 years…in the vast majority of cases output never returns to previous trends” (referring to Blanchard, Cerutti, and Summers 2015). This implies a unit root.

Thus, seventeen years after Stock and Watson’s (1999) judgment about GDP and unit roots, the issue remains controversial.

4. Sumner (2014) was, however, incorrect that the presence of a unit root would imply no “bounceback” after a recession. A variable with a unit root process can also have a stationary component, which means that a recession can have been partly caused by a transitory shock—see Cochrane’s (2015b) graph.
5. Farmer used the wrong critical value (I noted this in a comment to the blog entry, which he graciously acknowledged), but correcting the mistake actually strengthens his conclusion. He also ran a KPSS test, which resoundingly rejected the null of trend stationarity.
A summary of what I do and find

I start by analyzing whether the recent unit root rejections in the academic literature (and one in a blog), when combined with earlier rejections, are numerous or strong enough to overturn the 1999 Stock-Watson assessment in favor of unit roots in postwar real GDP. I implement corrections for two problems that cast doubt on the various existing rejections of the unit root in real GDP:

1. Size distortion in individual unit root tests: the tendency of a test to reject at rates exceeding the stated significance level when the null is actually true. The distortion results from the pre-testing for lag order and from the magnitude of the lag parameters, and has seldom been addressed in papers that reject the unit root in real GDP.

2. The multiple-test problem: what to decide when some tests reject but others do not, while maintaining the stated significance level. This has not been addressed in any papers on the GDP/unit root question.

For problem (1), I use bootstrapped distributions to get size-adjusted $p$-values for individual tests. For problem (2), I use the bootstrapped distributions to get several variations of size-adjusted joint $p$-values for various sets of unit root tests. The most comprehensive joint $p$-values show no rejections at the 0.05 level, and hardly any at the 0.10 level. I thus conclude that the unit root null cannot be rejected.

I then turn to the question of the economic importance of the unit root. The question matters because the unit root could be dominated by a transitory component, rendering its statistical significance economically unimportant. I therefore compute indicators of the relative importance of permanent shocks using an unobserved components approach, as in Krane (2011) and Mitra and Sinclair (2012), and the vector error correction approach of Cochrane (1994). The estimates of permanent shocks are economically significant.

Finally, I examine how allowing for unit roots would have affected forecasts of real GDP in the postwar period. Lawrence Christiano and Martin Eichenbaum (1990) and Cochrane (1991a; 1991b) pointed out that a unit root process could be very closely approximated by a stationary process. Nevertheless, I find that specifying a unit root usually does improve forecasts, particularly after recessions. The advantage is most consistent using Cochrane’s (1994) VECM that separately identifies both transitory and permanent shocks.
The unit root test literature on postwar U.S. real GDP, and its interpretation

Table 1 lists papers over the last 31 years that have applied unit root tests to postwar U.S. real GDP.\textsuperscript{6} The null hypothesis in these papers is that a unit root is present. I am unaware of any papers in peer-reviewed journals focusing on U.S. real GDP for which trend stationarity is the null.\textsuperscript{7} This is consistent with a sentiment, attributed to Bennett McCallum, that “it seems strange that anything could be trend stationary” (see McCallum 1991).

In indicating the unit root rejections in Table 1, I have corrected two erroneous interpretations by Vougas (2007). He reported that his PT and LP-CC test values rejected the unit root, but he apparently misinterpreted the tests’ rejection regions; the two results are not rejections. See Appendix 1 for details. I use the correct interpretation for the two tests because I don’t want my assessment of the prevalence of unit root rejections affected by this problem.

In Table 1 there are 33 test results reported, and 12 (36 percent) reject the unit root at the 0.05 level.\textsuperscript{8} The table also presents the state of affairs regarding several issues that could affect test outcome or validity:

1. Data period: Tests with more data will, ceteris paribus, have more power.
2. Trend specification: A simple linear trend (under alternative hypothesis of stationarity) has been the most common specification, but some tests have specified trends with breaks to allow for infrequent permanent shocks. Other tests have specified nonlinear trends to allow for gradual evolutions in growth rates. If stationarity is the case and real GDP has a breaking or nonlinear trend, then a test that correctly specifies the trend will tend to have more power, although estimating the extra trend parameters tends to offset the power gain.

\textsuperscript{6} I do not include the few papers that have tested for a unit root in U.S. per capita real GDP (e.g., Stock and Watson 1986; Cheung and Chinn 1997), only in real GDP itself, the more common approach. The table contains standard journal articles with two exceptions, Chinn (2009) and Farmer (2015), which are blog entries. One might not want to include work found in blogs because blogs are not vetted for their econometrics as refereed journal articles normally are. But in this case I include the blog entries as an illustration of the continued interest in applying unit root tests to GDP, and because Chinn and Farmer are highly respected scholars.

\textsuperscript{7} Cheung and Chinn (1997) test the null of trend stationarity in postwar \textit{per capita} real GNP. Chinn (2009) and Farmer (2015) apply the KPSS test in their blogs.

\textsuperscript{8} If we count the two erroneous Vougas (2007) rejections, the proportion rises to 42 percent.
3. The adjustment process: The KSS test, applied three times, features nonlinear adjustment. With traditional, so-called ‘linear’ adjustment specified in a test, then—under stationarity and in the absence of further shocks—a constant fraction of the deviation from the long-run trend is assumed to be eliminated in each time period. The more recent KSS approach is to specify ‘nonlinear’ adjustment in unit root tests. With nonlinear adjustment, the fraction of the deviation from trend that is eliminated is assumed larger when the variable is far from the trend than when it is close. The motivation to model real GDP this way, as given by Meredith Beechey and Pär Österholm (2008), is that the central bank would be likely to respond disproportionately more strongly to significant inflationary booms and recessions than to small fluctuations. If, under stationarity, adjustment is indeed nonlinear and the test’s specification of the nonlinear adjustment is reasonably accurate, then the test could have higher power.

4. Sampling distributions: Christian Murray and Charles Nelson (2000) emphasized that unit root tests were likely to suffer from size distortion: excessive rejections under the null, because of data heterogeneity and data-based lag selection. The lag selection issue is that unit root tests often require an autoregressive lag order choice, which is usually based on the same data as used for the test itself. G. William Schwert (1989) and Glenn Rudebusch (1993) discussed another problem: the effect of specific serial correlation parameter values of relevant sign and/or sufficient magnitude. Murray and Nelson’s (2000) response was, in addition to using only postwar data, to employ data-based sampling distributions—bootstrapping—and to include the lag choice decision process in the bootstrapping. Schwert (1989), Rudebusch (1993), and Eric Zivot and Donald Andrews (1992) had also previously used data-based sampling distributions to address size distortion.

In Table 1, the reported unit root rejections tend to be associated with more recent papers having longer data sets (10 of the 12 test rejections are in papers published after 2000), with specifications including breaking or nonlinear trends, and/or with specifications with nonlinear adjustment to trend. However, with just one exception the rejections also come from sampling distributions that are not data-based. So, do the rejections reflect higher power from longer data sets and better trend or adjustment specifications, or do the rejections just reflect size distortion from using non-data-based distributions?
TABLE 1. Various papers and their unit root conclusions

<table>
<thead>
<tr>
<th>Paper</th>
<th>Unit root test</th>
<th>Time period</th>
<th>Trend</th>
<th>Data-based p-values?</th>
<th>Reject unit root at 0.05 level?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock and Watson (1986)</td>
<td>ADF, Zα</td>
<td>1950:1–1984:4</td>
<td>Linear</td>
<td>No</td>
<td>No (2)</td>
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<tr>
<td>Evans (1989)</td>
<td>ADF</td>
<td>1951:1–1985:4</td>
<td>Linear</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Perron (1989)</td>
<td>ADF-break</td>
<td>1947:1–1986:3</td>
<td>1 slope change</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>Zivot and Andrews (1992)</td>
<td>ADF-break</td>
<td>1947:1–1986:3</td>
<td>1 slope change</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>Duggal et al. (1999)</td>
<td>ADF-exp</td>
<td>1960–1989</td>
<td>Exponential</td>
<td>No</td>
<td>Yes</td>
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<td>Vougas (2007)</td>
<td>ZA-C</td>
<td>1947:1–2004:4</td>
<td>1 slope and level change</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>Cook (2008)</td>
<td>ADF, DF-GLS</td>
<td>1955:1–2004:1</td>
<td>Linear</td>
<td>No</td>
<td>No (2)</td>
</tr>
<tr>
<td>Cook (2008)</td>
<td>KSS*</td>
<td>1955:1–2004:1</td>
<td>Linear</td>
<td>No</td>
<td>Yes</td>
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<td>Beechey and Osterholm (2008)</td>
<td>ADF, DF-GLS</td>
<td>1947:1–2005:2</td>
<td>Linear</td>
<td>No</td>
<td>No (2)</td>
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<tr>
<td>Beechey and Osterholm (2008)</td>
<td>KSS*</td>
<td>1947:1–2005:2</td>
<td>Linear</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>Shelley and Wallace (2011)</td>
<td>KSS*</td>
<td>1947:1–2005:2; 2009:3</td>
<td>Linear</td>
<td>Yes</td>
<td>Yes (1); No (1)</td>
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<tr>
<td>Farmer (2015)</td>
<td>ADF</td>
<td>1955:2–2014:1</td>
<td>Linear</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

*Unlike the other unit root tests in the table, the KSS test specifies nonlinear rather than linear adjustment to trend under the trend stationary alternative hypothesis.

Test definitions and sources:
ADF = augmented Dickey-Fuller test with linear or quadratic trend (Ouliaris et al. 1989)
ADF-exp = ADF test with exponential trend (Duggal et al. 1999)
ADF-break = ADF test of residuals of the regression of y on a trend with a slope change at a known date (Perron 1989)
DF-GLS = modified ADF test of Elliott et al. (1996) with linear or quadratic trend
KSS = Kapetanios et al. (2003) test with linear trend
LNV-B, LNV-C = Leybourne et al. (1998) test, models B and C
LP-CC = Lumsdaine and Papell (1997) test, model CC
PP-Zt = Phillips and Perron (1988) Zt test with a linear trend
PT = Point optimal test of Elliott et al. (1996) with linear trend
SP = Schmidt and Phillips (1992) tau test with linear trend or quadratic trend
Zα = Phillips (1987) Zα test modified with assumed trend
ZA-B, ZA-C = Zivot and Andrews (1992) models B and C
There is another issue, however, for which the table does not present evidence. Is the rejection by 36 percent of tests, as in Table 1, sufficiently strong evidence against the unit root for an overall rejection? When a null is true and many tests are applied either by one researcher or by many, getting at least one rejection becomes increasingly likely. The overall significance of results such as in Table 1 is thus unknown without further work. The problem is a version of the classic multiple test problem, which is the problem of getting correct significance levels when there are many tests using a single sample (see on this Romano et al. 2010).

Suppose 10 tests of the unit root null are applied to a data set (as in Vougas 2007). If, under the null, the 10 tests are uncorrelated with each other, then we will observe one or more rejections not 5 percent of the time, the nominal level of significance, but 40 percent of the time (from the binomial distribution). And when we get rejections, there will be two or more 21 percent of the time. But the unit root test results are hardly uncorrelated because they are applied to the same data set.

For a concrete example, suppose the correlation for each test pair (with 10 tests, there are 45 pairs) under the null is 0.80 and the individual test statistics happen to be standard normal. Then the probability of getting one or more rejections falls to 16 percent, but this still exceeds 5 percent. Moreover, if we get any rejections in this case, there will now be two or more about 40 percent of the time. And there will be four rejections (approximately the proportion in Table 1) or more 33 percent of the time. Overall, under the null, observing more than one rejection among 10 tests with a probability significantly exceeding the stated 5 percent significance level is quite likely.\(^9\)

**Unit root tests with the above issues addressed**

I apply a large number of previously used unit root tests and variations, 42 tests in all. The same estimation period is used for all, so different conclusions from the tests do not reflect different time periods.\(^10\) To account for individual-test size distortion, I employ a bootstrap approach using five data-generating processes (DGPs). To account for the multiple test problem, for each DGP I compute joint \(p\)-values in four ways for all 42 tests and several subsets. And then I compute overall joint \(p\)-values of the four joint \(p\)-values for the various subsets. Finally, because results differ among the DGPs, I try several ways of weighting the DGPs’ joint \(p\)-values to yield an overall \(p\)-value for each group of tests using each \(p\)-value method.

\(^{9}\) Under independence, the probabilities can be calculated using the binomial distribution. For the correlated case, the probabilities are estimated with 40,000 replications assuming a multivariate normal distribution for the test statistics.

\(^{10}\) Generally, TSP 5.1 is used for econometric computations in the paper. Exceptions are noted below.
Data set

The data sets in most papers in Table 1 start in 1947:1 (or not too long thereafter) and end shortly before the paper was written, and I could follow this pattern. But Gary Shelley and Frederick Wallace (2011) find no rejections, contrary to Beechey and Österholm (2008), when the data are extended to include the 2008–2009 recession. Farmer’s (2015) data also includes the recession, and he reports non-rejection. This could reflect a permanent shock to a generally trend stationary real GDP. Such a break adds a challenge to the rejection of the unit root (supposing it should be rejected) that earlier papers did not face. But I do not want my critique to be influenced by this problem. Therefore, my data set starts in 1947:1 and ends not with the most recent data available to me, but in 2007:3, just before the recession’s start in 2007:4.  

The unit root tests

I employ all the tests and trend specifications in Table 1, but with a few changes. Regarding trends, I omit one and add one. The omitted trend is the exponential trend of Vijaya Duggal, Cynthia Saltzman, and Lawrence Klein (1999), who included the term \( \exp(t\Phi) \) as the (only) deterministic term in an ADF test. But the estimated trend curvature and the unit root test result are then dependent on setting the initial date for \( t \) equal to 1. An exponential trend without this defect is used by Robert Barro and Xavier Sala-i-Martin (1992), but there is no unit root test with this trend. For postwar U.S. real GDP, however, the Barro and Sala-i-Martin (1992) exponential trend and the quadratic trend are almost identical, so the unit root tests with a quadratic trend approximate the Barro and Sala-i-Martin trend.  

The trend I add has two slope changes without level changes. This extends the Zivot and Andrews (1992) one-slope-change model B to the two-slope-change case and is therefore like the Robin Lumsdaine and David Papell (1997) model CC but with no level changes. I label the result ZA-LP. Thus, we now have one- and two-slope-change tests both with level changes and without them.

The additional adjustments to the Table 1 tests are the following. First, instead of Stock and Watson’s (1986) inclusion of an assumed trend in Peter Phillips’s (1987) \( Z_\alpha \) test, I follow Phillips and Pierre Perron’s (1988) inclusion of an estimated trend. I label the latter version PP-\( Z_\alpha \). The second adjustment is to substitute the superior DF-GLS test for the regular ADF test in the case of the quadratic...
trend, and the third is to substitute the modified feasible point optimal test (MPT) from Serena Ng and Pierre Perron (2001) for the unmodified version (PT) of Graham Elliott, Thomas Rothenberg, and James Stock (1996). Next, I do not use Perron’s (1989) known-breakpoint approach, only the Zivot and Andrews (1992) estimated-breakpoint version, ZA-B. And, because the unit root rejections in Table 1 for the three KSS applications with a simple linear trend suggest relevance for nonlinear adjustment, I add tests with KSS nonlinear adjustment for all other trend specifications.

To adjust for serial correlation, the tests in Table 1 almost always use autoregressive lags. The most common method for lag order choice is the AIC, followed by the BIC and the Ng and Perron (1995) recursive test-down. Steven Cook (2008) simply employs the same lag order every time. Consistent with accounting for many test procedures, I try both the AIC (or the Ng and Perron 2001 modification, MAIC) and BIC for all autoregressive cases. But time is limited so I omit the test-down and fixed-lag approaches. The exceptions in Table 1 to using autoregressive lags are the nonparametric approaches in the Zα, PP-Zα, and PP-Zt tests and in Vougas’s (2007) implementation of the PT test. I use the standard PP-Zα and PP-Zt tests but, because I replace the PT test with the MPT test, I follow Ng and Perron’s (2001) use of autoregressive lags for the MPT test. And I use the MAIC for the DF-GLS and MPT tests as in Ng and Perron (2001).

In choosing the lag, the maximum considered is usually 14, from \( \text{maxlag} = \text{Int}[12(T/100)^{0.25}] \) (Schwert 1989) where \( T = 243 \), the sample size. The exceptions are the tests from Peter Schmidt and Peter Phillips (1992). With linear trend, \( \text{maxlag} = 14 \) gives lag order 1, not 2 as in Vougas (2007), and then the unit root is not rejected, unlike in Vougas (2007). Perhaps he used a smaller \( \text{maxlag} \). With \( \text{maxlag} = 12 \), I get his result. I do not want my critique of unit root rejections to be affected by this minor distinction, and so for the Schmidt-Phillips tests I set \( \text{maxlag} = 12 \).

**Bootstrapping and exact p-value procedure for the individual tests**

I compute individual test \( p \)-values using a wild bootstrap that adjusts for size distortion from the specific lag coefficients in DGPs and heteroskedasticity from the Great Moderation, viz., the reduction in real GDP variance from 1984 onwards.

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13. Cushman (2002) is the first I know of to include a quadratic trend in the DF-GLS test.
14. The KSS test first detrends the data with OLS, then applies a Dickey-Fuller-like test with nonlinear adjustment. One can apply this procedure to any form of trend.
15. The difference in lag order and unit root test result from the \text{maxlag} choice is the same whether I use my data period or his. I am able to exactly replicate his results with his data period and vintage of real GDP data from the February 2005 BEA release, which is consistent with when he likely worked on the paper.
(see Kim and Nelson 1999; Stock and Watson 2002). Plausible DGP equations must first be determined. Under the null they are first-difference models with a constant. In the unit root tests, the AIC, MAIC, and BIC almost always choose one or two lags, so AR(1) and AR(2) first-difference models are my first two DGPs.

Next, I apply “sequential elimination of regressors” (Brüggemann and Lütkepohl 2001) to the autoregressive 14-lag first-difference model (AR(14)). The procedure is similar to general-to-specific modeling in David Hendry and Hans-Martin Krolzig (2001). The full model is estimated, and then the lag with the t-ratio closest to zero is dropped. The equation is re-estimated and once again the lag with the t-ratio closest to zero is dropped. This continues until all remaining lags have a t-ratio that in absolute value exceeds a given value. The result (using either 1.96 or 1.65) has nonzero coefficients at lags 1, 5, and 12. This gives my third DGP, designated as AR(12-3).\footnote{Brüggemann and Lütkepohl (2001) also propose the alternative that in each round one removes the lag that gives the greatest improvement in an information criterion like the AIC or BIC until no more improvement is possible. In the present case, the AIC leads to the same model already determined by the t-statistic approach. The BIC additionally eliminates the fifth lag.}

A different general-to-specific approach is Ng and Perron’s (1995) test-down approach. I apply it to the DF-GLS test with a linear and then a quadratic trend, starting with the AR(14) specification. For both trends, the choice is an AR(12). Thus, an AR(12) first-difference model becomes my next DGP. It is also one of the two DGPs used by Murray and Nelson (2000). Their other was the AR(1).

John Campbell and Greg Mankiw (1987) extensively used first-difference autoregressive, moving-average models (ARMAs) to analyze unit roots in real GDP. More recently, James Morley, Nelson, and Zivot (2003) proposed an ARMA(2,2) for the first differences of U.S. real GDP. The ARMA(2,2) is thus my final DGP.\footnote{The exact maximum likelihood option in TSP 5.1 is used to estimate all ARMAs in this paper.}

The wild bootstrap is from Silvia Gonçalves and Lutz Kilian (2004) and Herman Bierens (2011). Random errors are applied to the estimated DGP equation to recursively build data sets. The error for each time period is a random normal error with a mean of zero and standard deviation equal to the absolute value of the model’s error for the given time period.\footnote{There is no evidence for non-normality once a simple model of heteroskedasticity is allowed for. Divide the residuals from each DGP’s estimated regression into two parts defined by one of Stock and Watson’s (2002) estimated variance break points of 1983:2. The Jarque-Bera normality test gives a result nowhere near rejection for either time period for any of the five DGPs. Note that the wild bootstrap does not impose a specific breakpoint, consistent with uncertainty over the exact date and allowing that other patterns of heteroskedasticity are present.} The actual values of real GDP are used to initialize each simulated data set, and 5,000 sets are created for each DGP. The unit root tests are applied to the same sequence of simulated data sets so that the
joint $p$-value computations can account for the simulated correlations among the test statistics. The two-break tests (LP-CC, ZA-LP, and their KSS versions) take such a long time to compute that I use only the first 2,500 data sets for them. Each test chooses its lag order in every replication, just as with the actual data. This gives Papell (1997) and Murray and Nelson’s (2000) “exact $p$-values.”

Results for individual tests

The total number of tests is 42. Table 2 presents the results for 21 tests. The 21 tests omitted from the table generally consist of the same tests but with the lag order determined by the alternative information criterion. The exception is the PP-Zα test as the alternative to the PP-Z$t$ test. The alternative lag-choice criterion (usually the BIC) almost always gives $p$-values less significant (thus, the omitted tests are not more favorable towards rejecting the unit root). Table 2 also gives $p$-values based on published critical values that are either asymptotic or adjusted only for sample size. The comparison of exact $p$-values with those from published critical values shows the size distortion from using such critical values.

Where one of my tests repeats one in Table 1, my test statistic is similar in value to that in the cited paper. Therefore, differences in my conclusions probably don’t reflect the difference in sample periods. In Table 2, the bootstrapped $p$-values usually show lower statistical significance than do the $p$-values from published critical values. For example, the number of 0.05 rejections from the ten Vougas (2007) tests falls from six to one, two, or three, depending on the DGP.

Overall, my size-adjusted results show a rejection rate far less than the 36 percent rate in Table 1, at most 5 of 21 tests (24 percent). The importance of accounting for size distortion in individual tests is thus confirmed. Nevertheless, rejections do remain after bootstrapping. Are the remaining rejections sufficiently strong or numerous for an overall unit root rejection? Joint $p$-values provide an answer.
### TABLE 2. Individual tests: statistics, and tabular and bootstrapped p-values

<table>
<thead>
<tr>
<th>Test</th>
<th>Criterion</th>
<th>Trend</th>
<th>Group</th>
<th>Test statistic</th>
<th>Lag order</th>
<th>Non-boot p-value</th>
<th>AR(1)</th>
<th>AR(2)</th>
<th>AR(12-3)</th>
<th>AR(12)</th>
<th>ARMA</th>
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<tr>
<td>ADF</td>
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<td>−2.79</td>
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<td>0.20</td>
<td>0.34</td>
<td>0.33</td>
<td>0.43</td>
<td>0.33</td>
<td>0.37</td>
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<td>&gt; 0.10</td>
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<td>0.23</td>
<td>0.34</td>
<td>0.31</td>
<td>0.23</td>
</tr>
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<td>−3.14</td>
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<td><strong>0.040</strong></td>
<td>0.055</td>
<td>0.054</td>
<td>0.14</td>
<td>0.092</td>
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<td>MPT</td>
<td>MAIC</td>
<td>Linear</td>
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<td>&gt; 0.10</td>
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<td>0.23</td>
<td>0.31</td>
<td>0.29</td>
<td>0.19</td>
</tr>
<tr>
<td>DF-GLS</td>
<td>MAIC</td>
<td>Quadratic</td>
<td>A</td>
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<td>1</td>
<td><strong>0.029</strong></td>
<td><strong>0.017</strong></td>
<td><strong>0.013</strong></td>
<td>0.072</td>
<td><strong>0.040</strong></td>
<td><strong>0.031</strong></td>
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<tr>
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<td>AIC</td>
<td>Quadratic</td>
<td>A</td>
<td>−4.12</td>
<td>2</td>
<td>&lt; <strong>0.010</strong></td>
<td><strong>0.024</strong></td>
<td><strong>0.023</strong></td>
<td>0.089</td>
<td><strong>0.050</strong></td>
<td>0.072</td>
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<td>1 slope &amp; level change</td>
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<td>−5.68</td>
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<td>0.065</td>
<td>0.24</td>
<td>0.37</td>
<td>0.44</td>
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<td>A</td>
<td>−5.27</td>
<td>2</td>
<td>&lt; <strong>0.010</strong></td>
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<td><strong>0.034</strong></td>
<td>0.11</td>
<td>0.078</td>
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<td>2</td>
<td><strong>0.014</strong></td>
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<tr>
<td>LP-CC</td>
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<td>2 slope &amp; level changes</td>
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<td>−6.20</td>
<td>2</td>
<td>&gt; 0.100</td>
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<td>0.37</td>
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<td>B</td>
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<td>0.057</td>
<td>0.068</td>
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<td>C</td>
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<tr>
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<td>C</td>
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<td><strong>0.022</strong></td>
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<td>D</td>
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<td>0.24</td>
<td>0.24</td>
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<td>0.28</td>
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<tr>
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<td><strong>0.033</strong></td>
<td><strong>0.032</strong></td>
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<td>D</td>
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<td>0.48</td>
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<td>2</td>
<td>0.12</td>
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<td>0.062</td>
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<tr>
<td>KSS-ZA-LP</td>
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<td>2 slope changes</td>
<td>D</td>
<td>−6.52</td>
<td>2</td>
<td>0.39</td>
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<td>KSS-LP-CC</td>
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<td>0.76</td>
<td>0.56</td>
<td>0.59</td>
<td>0.59</td>
<td>0.70</td>
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</tbody>
</table>

**Notes:** The MPT test was computed using Gauss code from Serena Ng. p-values of 0.100 or less are given to 3 decimal places, and values of 0.050 or less are in boldface italics. The PP-Zt lag order is the order in the nonparametric correction. Non-bootstrapped p-value sources: ADF, PP-Zt: MacKinnon (1994); DF-GLS (linear), MPT: Elliott et al. (1996, Table 1); DF-GLS (quad): Harvey et al. (2011, n.3); KSS: Kapetanios et al. (2003, Table 1); LNV: Leybourne et al. (1998, Table 1); LP-CC: Lumsdaine and Papell (1997, Table 3); SP: Schmidt and Phillips (1992, Tables 1A and 1B); ZA-B, ZA-C: Zivot and Andrews (1992, Tables 3A and 4A).
Joint $p$-values

I first compute joint $p$-values for the complete set of 42 tests. Is this an excessive number? If we knew some of the tests had little power, then it would be good to omit them. Failure to reject when using a joint $p$-value would not be very persuasive if the joint $p$-value was partly computed from useless tests. One might also argue for the omission of tests whose results are very highly correlated with other tests. Such tests would add little new evidence. To avoid cherry picking, the decision to omit a test would have to be done based on information exogenous to the data and before running the test and seeing the result. In any event, all the test types, trends, adjustments, and lag selection techniques in my 42 tests have been judged potentially useful and powerful by various authors in the past. Also, my joint $p$-value procedures take account of the correlations among the tests. I see no sound basis to omit any of the tests.

Nevertheless, as a sensitivity check I do look at the following subsets of tests composed of the groups identified in Table 1: A, A+B, A+B+C, and A+B+C+D.\(^{19}\) Subset A contains the tests (with my modifications) that Vougas (2007) used. Subset A+B adds the KSS nonlinear adjustment test with linear trend and thus contains all tests applied to the real GDP-unit root question in the last 10 years (with my modifications). Subset A+B+C contains all the trends, adjustment specifications, and test types ever appearing in the real GDP-unit root literature (with my modifications), with one lag choice method for each. Finally, subset A+B+C+D adds the two-slope-change test and the nonlinear adjustment, KSS-type tests for all the trends beyond the simple linear one, with one lag choice method for each.

The literature contains several approaches to joint $p$-value computation, but it does not tell us which is best. To see whether my results are robust to different methods, I try four. Each involves a comparison of how unusual the actual bootstrapped $p$-values for the tests of interest are compared with the joint distribution of their simulated $p$-values for a given DGP. For a given set of tests, the joint distribution of $p$-values reflects the correlations among the test statistics. I briefly describe the four joint methods here. Details are given in Appendix 2.

The first method is a bootstrapped version of the “improved Bonferroni procedure” of R. J. Simes (1986), which gives a joint $p$-value based on the actual

\(^{19}\) Of course, even my list of 42 tests omits many possible tests. There are other lag specification methods and an endless array of possible trend specifications, and no doubt additional unit root test approaches yet to be invented. I am implicitly assuming that as these possibilities increase in number, they become increasingly redundant and not remarkably more powerful.
p-values adjusted according to their number and rank in terms of size. The next two methods compute how unusual, relative to the bootstrapped distribution, are the actual number of individual rejections, i.e., the number of small-enough p-values (Cushman 2008). The two methods are differentiated by their use of the 0.05 or 0.10 level to determine rejection. The fourth method determines how unusual relative to the bootstrapped distribution are the specific p-values themselves (Cushman and Michael 2011). There are several other techniques that I do not use (Ayat and Burrige 2000; Harvey et al. 2009; Hanck 2012) because they only apply to two tests.

I should provide evidence that the joint procedures I employ do work, in the sense of having good size and power properties. Existing evidence on the joint procedure properties is meager. Simes (1986) shows that his improved Bonferroni procedure has good size properties and better power than the standard Bonferroni method in the case of 10 tests, particularly when the test statistics are correlated. There is not any evidence concerning the counting methods I used in Cushman (2008). Nils Michael and I (2011) found good size properties for our approach as applied to six tests, but we did not examine power.

Given this shortage of evidence and the centrality of the joint approaches to my critique, I conducted a Monte Carlo examination of size and power of the unbootstrapped and bootstrapped Simes procedure, the 0.10 and 0.05 counting methods, and the Cushman-Michael procedure. The details are in Appendix 3. All the approaches have good size and power. The unbootstrapped and bootstrapped Simes p-values are very highly correlated (r ≥ 0.990) for every data-generating process, and so including just one is reasonable.

Table 3 gives the results for the four joint procedures for the various subsets of tests using the various DGPs. If one includes all 42 tests and uses the 0.05 level for rejection, the unit root is not rejected for any combination of DGP and joint p-value approach. But what if the significance level is relaxed to 0.10 or certain smaller test groups are considered more appropriate? Then unit root rejection remains possible. It depends on how we resolve the varying conclusions from the joint approaches, and on which DGPs are more plausible.

Let us first consider the issue of varying joint p-value conclusions. We are back to a multiple test problem. Given my conclusion that the four joint approaches are all reasonable, then a joint approach can be applied to the joint tests. I therefore apply the unbootstrapped Simes procedure to the joint tests.20 The resulting p-values are labeled “Simes Joint” in Table 3. Only one is significant at the

20. I am not applying any of the bootstrapped joint approaches to the present problem because of the immense amount of time it would require.
0.05 level, for the subset A+B using the AR(2) DGP. However, several more are significant at the 0.10 level, for subsets A and A+B using the AR(1) or AR(2) DGP.

### TABLE 3. Joint p-values

<table>
<thead>
<tr>
<th>Subset</th>
<th>Method</th>
<th>Data generating process</th>
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<th></th>
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<tr>
<td></td>
<td></td>
<td>AR(1)</td>
<td>AR(2)</td>
<td>AR(1:2:3)</td>
<td>ARMA</td>
<td>AR(12)</td>
</tr>
<tr>
<td>A (10 tests)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Simes</td>
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<td>0.091</td>
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<td><strong>0.026</strong></td>
<td>0.26</td>
<td>0.25</td>
<td>0.084</td>
<td>0.13</td>
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<tr>
<td>CM</td>
<td>0.051</td>
<td><strong>0.033</strong></td>
<td>0.19</td>
<td>0.17</td>
<td>0.12</td>
<td>0.11</td>
</tr>
<tr>
<td>Simes Joint</td>
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<td>0.066</td>
<td>0.35</td>
<td>0.26</td>
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<tr>
<td>A+B (11 tests)</td>
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<td></td>
<td></td>
<td></td>
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</tr>
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<td>Simes</td>
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<td>0.086</td>
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<td>0.16</td>
<td>0.28</td>
<td>0.055</td>
<td>0.11</td>
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<td>0.29</td>
<td>0.16</td>
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</tr>
<tr>
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<tr>
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<td>1.00</td>
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<td>0.12</td>
<td>0.15</td>
<td>0.068</td>
<td>0.092</td>
</tr>
<tr>
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<td>0.11</td>
<td>0.24</td>
<td>0.43</td>
<td>0.11</td>
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<td>0.20</td>
<td>0.31</td>
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<td>0.19</td>
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<td>0.44</td>
<td>0.53</td>
<td>0.27</td>
<td>0.30</td>
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</tbody>
</table>

Notes: A p-value of 1.00 means there were no rejections at the 0.05 level for the Count 0.05 test. In such cases I omit the test in computing the average p-value. CM is the method of Cushman and Michael (2011). P-value significance is highlighted as in Table 2.

This brings us to the question of resolving the different results from different DGPs. We could assume that each is equally plausible. If so, multiplying each joint p-value by 1/5 and summing (i.e., computing the mean) generates an overall p-value for a given test group. This reflects the Law of Total Probability. Each individual p-value is the probability of a test statistic at least as extreme as the one observed given the DGP. Thus, the overall probability of a test statistic at least

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21. This reflects the Law of Total Probability. Each individual p-value is the probability of a test statistic at least as extreme as the one observed given the DGP. Thus, the overall probability of a test statistic at least
But are the DGPs equally plausible? The data can be used to generate AIC and BIC weights using methods from Bruce Hansen (2007). Using AIC weights overwhelmingly favors the AR(12-3) model with a weight of 0.997. Using BIC weights almost equally favors the AR(12-3) model, with a weight of 0.932; the AR(1) is second at 0.067. With either the AIC or BIC, the weighted-mean \( p \)-values are essentially the \( p \)-values for the AR(12-3), and there are no rejections at even the 0.10 level.

The economic importance of the permanent shocks

Given the failure to reject the unit root, from here on I assume real GDP has a unit root. I now present several estimates of the unit root’s economic importance—addressing Ziliak and McCloskey’s (2008) desire for “oomph” analysis.

An unobserved components model

The first oomph estimate is from an unobserved components model. Krane (2011) also used such a model. The model gives an estimate of the relative magnitude of permanent shock variance to transitory shock variance. I use the local level model with constant drift in Koopman et al. (2000) and found in their STAMP software (version 6.21), which I use for the estimations. Let \( y \) be real GDP. The model is (with variables in logs):

\[
y_t = \mu_t + \varepsilon_t, \quad \varepsilon \sim \text{NID}(0, \sigma_{\varepsilon}^2) \tag{1a}
\]

\[
\mu_t = d + \mu_{t-1} + \eta_t, \quad \eta \sim \text{NID}(0, \sigma_{\eta}^2) \tag{1b}
\]

where \( \varepsilon \) is the transitory shock and \( \eta \) the permanent shock. The current, long-run level of \( y \) is determined by \( \mu_n \) and the long-run rate of growth is \( d \). The key parameters are the transitory variance \( \sigma_{\varepsilon}^2 \) and permanent variance \( \sigma_{\eta}^2 \). To identify the two variances, Koopman et al. (2000) assume zero contemporaneous correlation between the errors. Serial correlation can be specified with the substitution of \( y_t - \sum_{j=1}^{k} \theta_j y_{t-j} \) for \( y_t \) in equations (1a) and (1b). I use lag order \( k = 3 \), consistent with

---

as extreme as the one observed is the sum of the probabilities conditional on the DGP where each is first multiplied by its probability.
two lags in first differences as is sometimes suggested by the information criteria applied to the unit root tests. The substitution is equivalent to assuming that $\epsilon$ and $\eta$ are autoregressively correlated with identical lag coefficients.

An estimate of the relative importance of the permanent shocks is $s_\epsilon / s_\eta$, permanent to transitory shock standard deviation. The value for the 1947–2007 data is 1.17. This magnitude is, however, quite misleading because of significant small-sample bias. The estimation procedure has a hard time distinguishing partial persistence ($\varrho$) from permanent persistence ($\eta$), and it tends to interpret partial persistence as permanent. To compensate, I have computed bias-adjusted estimates. Details are given in Appendix 4. The mean-bias-adjusted ratio is 0.42. However, the estimate is subject to very large uncertainty (see Appendix 4).

**Evidence from a vector error correction model**

Cochrane (1994) proposed a two-variable vector error correction model (VECM) to identify the permanent and transitory components of real GDP. Non-durable goods consumption plus services consumption gives households’ permanent consumption. According to the permanent income hypothesis, permanent consumption is a random walk and is a constant fraction of permanent income on average. Thus, income (real GDP) and permanent consumption are cointegrated. Changes in permanent consumption reflect consumers’ views of permanent shocks to GDP. Deviations of GDP from the cointegration vector reflect transitory shocks to GDP. With two first-difference lags as employed by Cochrane (1994), the VECM model is:

$$\Delta c_t = a_c + \epsilon_t (c_{t-1} - y_{t-1}) + \sum_{i=1}^{2} (b_{c,1,i} \Delta c_{t-i} + b_{c,2,i} \Delta c_{t-i}) + \epsilon_{c,t}$$  \hspace{1cm} (2a)$$

$$\Delta y_t = a_y + \epsilon_t (c_{t-1} - y_{t-1}) + \sum_{i=1}^{2} (b_{y,1,i} \Delta c_{t-i} + b_{y,2,i} \Delta c_{t-i}) + \epsilon_{y,t}$$  \hspace{1cm} (2b)$$

where $c$ is permanent consumption and $y$ is real GDP. With permanent consumption a random walk, $\epsilon_c = 0$. The constant ratio of permanent consumption to income gives the unitary coefficient on $y_{t-1}$ in the cointegration vector. Actually, consumption in equation (2a) is not a pure random walk because of the presence of the first-difference lag terms. Nevertheless, the $\epsilon_c = 0$ constraint ensures that the permanent shocks can be solely associated with consumption.

22. The value of the ratio is contained in the constant of equation (2b), which also includes the long-run growth rate.

23. The constraint is accepted at the 0.05 level when the VECM is estimated over the 1947–2007 period and for three subperiods defined by consumption break dates of 1969:4 and 1991:4 found by Stock and Watson (2002).
I use the Cochrane VECM model to estimate the relative importance of permanent shocks. But what about possible structural change? Perron (1989) and Perron and Tatsuma Wada (2009) argued that a permanent change in real GDP’s growth rate occurred in 1973. Stock and Watson (2002) found a break in services consumption in 1969 and in nondurables consumption in 1991. There is also the Great Moderation (Kim and Nelson 1999). A VECM that is estimated for the entire data period but ignores such changes might give misleading results. Unfortunately, the dates are not definite and standard VAR/VECM estimation procedures do not allow for variance breaks. Therefore, I employ an alternative method, which is to estimate rolling VECMs. This approach gets estimates that gradually adapt to changing conditions. The rolling estimation periods are 15 years long.

I use impulse response (IR) analysis to measure the importance of the unit root. Suppose some unexpected event, a shock, occurs. An impulse response is the deviation of a variable’s subsequent path from the path it would have followed if no shock had occurred. I wish to compare the effects of permanent shocks with those of transitory shocks. To do so unambiguously, we need a structural model with orthogonal permanent and transitory shocks. But the VECM is a reduced form model and does not reveal the orthogonal shocks. (The structural vector autoregression model can have unlagged terms for \( c \) and \( y \) on the right-hand sides of the equations.) To identify the structural model and shocks, I use the Choleski recursive approach. I assume that shocks to \( y \) contemporaneously affect only \( y \), not \( c \), while shocks to \( c \) contemporaneously affect both \( c \) and \( y \). This follows from the permanent income model’s implication that consumption alone contains the single unit root process. If we were to reverse the Choleski ordering, orthogonal income shocks would have permanent effects, contradicting the model. Under the Choleski ordering I use, permanent shocks in the structural model are the \( \nu \) terms.

24. The first rolling period starts in 1947:4 (allowing three periods for the lags) and ends in 1962:3, the second starts in 1948:1 and ends in 1962:4, and so on, until the last period starts in 1992:4 and ends in 2007:3. As in Cochrane (1994), permanent consumption is measured by the sum of real personal consumption expenditures on nondurable goods and on services (seasonally adjusted). My data is from the BEA, vintage March 27, 2014. Nondurable goods consumption is series DNDGRA3Q086SBEA, an index number series with base year 2009 that starts in 1947. I convert it to 2009 dollars using series PCNDGC96, which is a real dollar series starting in 1999 and perfectly correlated with its index number version over the 1999–2013 period). Services is series PCESVC96, an index number series also starting in 1947 with base year 2009 and converted to 2009 dollars using real dollar series DSERRA3Q086SBEA that also begins in 1999 and is perfectly correlated with its index number version. The series are converted to logs. Real GDP is series GDPC1 of the same vintage. The work in the present section was done more recently than the unit root test work, and I also use the newer vintage because it gives a real consumption series with no linking required to account for base year changes, unlike the data available only a few years earlier.
in the VECM consumption equation (2a). The impulse responses are estimated with JMulti 4.24.

In the IR analysis, the magnitudes of the initiating shocks are the estimated standard deviations of the structural shocks over the estimation period (they are thus of ‘typical’ size). With \( \eta \) the permanent shock and \( \epsilon \) the transitory shock in the structural model, the initiating shocks for the impulse responses are therefore \( s_\eta \) and \( s_\epsilon \). Across all 181 rolling models, \( s_\eta \) has a mean of 0.0041 and \( s_\epsilon \) has a mean of 0.0067. There is noticeable variation in both, illustrated below. The relative importance of the permanent shock, \( s_\eta / s_\epsilon \), has a mean across the 181 rolling periods of 0.64 (much more than the estimate of 0.42 from the unobserved components model applied to the full data period).

Important though the structural shock magnitudes are, IR analysis shows that their relative magnitudes are not very good indicators of subsequent real GDP responses. In what follows, the impact quarter is 0, and the forecast horizons are from 1 to 20 quarters ahead. To indicate relative importance, I report the sizes of the real GDP responses relative to the size of the initial transitory shock. In Figures 1a–1f, solid red solid lines depict permanent shocks or their GDP responses, and blue dashed lines depict transitory shocks or their GDP responses. The horizontal lines give the means across the 181 rolling periods. The dates on the horizontal axes give the starting period of the rolling VECM.

Figure 1a gives the actual shocks. A decline in shock magnitude in the Great Moderation is easily seen. Figures 1b–1f give GDP responses. At horizon 0 (the impact period), the response to the permanent shock averages half the value of the transitory shock. At horizon 1, the response to the smaller permanent shock has already caught up to that from the transitory shock. At horizon 4, the response to the permanent shock is on average 1.7 times the response to the transitory shock and 2.25 times the size of its initiating permanent shock. And at horizon 8, the permanent shock response is over 3 times the response to the transitory shock, and still 2 times the size of its initiating shock. During the Great Moderation, the responses at horizons 4 and 8 to transitory shocks have become relatively more important, but still not equal to those from permanent shocks. Note also that, at longer horizons, the growing relative importance of the permanent shock is increasingly a consequence of the dying away of the effects of the transitory shock.

25. If we don’t impose the permanent income model, then we can relax its error correction zero restriction on consumption adjustment and try both Choleski variable orderings. As a check, I compared the results of these alternative specifications with those of my main model using the full 1947:1 to 2007:3 period. The only significant difference is that, with income first in the ordering, it takes two years instead of less than one for consumption shocks to dominate income shocks in their effects on real GDP. The responses to income shocks continue to largely die away, just taking a bit longer.

26. Note that 0.64 ≠ 0.0041/0.0067: the mean of the ratios is not equal to the ratio of the means.
By horizon 20, the responses are close to their long-run values, with the permanent shock response 1.5 times its initiating shock in all but the early rolling VECMs, and the transitory shock response nearly back to zero. From these results, it would be hard to argue that permanent shocks are unimportant.  

27. To focus on oomph and to minimize graph complexity, I do not include confidence limits in the impulse response figures. Here is a summary of the results from 2,000 replications of an Efron bootstrap for each of the 181 rolling VECMs. Except with some rolling estimation periods for impact period 0, the lower 95 percent limit for GDP response to the permanent shock is always well above zero. The lower 95 percent limit for GDP’s response to the transitory shock is always above zero until horizon 4 for 33 rolling periods, for all 181 rolling periods at horizon 10 and longer. Thus, the responses to permanent shocks are always statistically significant (with a few exceptions in the impact period, and the responses to transitory shocks are statistically significant for 3 quarters after which point they are often not, consistent with the responses nearing their long-run equilibrium value of zero.
These results are similar to those of Cochrane (1994). For instance, the magnitudes of the absolute and relative sizes of shocks and their responses at horizons 0, 4, and 8 are almost the same. Differences likely reflect that Cochrane (1994) did not impose $e_i = 0$ when computing impulse responses, and that he did not compute rolling VECMs. Because he did not impose $e_i = 0$, a small part of Cochrane’s GDP shock is permanent and never dies away. The rolling approach then reveals that transitory shocks become relatively more persistent during the Great Moderation (GDP’s relative responses to transitory shocks become larger at horizons 4 and 8).

Forecasting contests

The measures of unit root oomph presented so far are computed from within-sample data. Let’s turn to out-of-sample forecasts. I compare the forecasts of 6 models. The first two are the just-analyzed bivariate VECM and a univariate ARMA(2,2) in first differences. These specify both permanent and temporary shocks. They are therefore unit root models. The second two models are a univariate AR(2) in first differences and a bivariate VAR(2) in first differences using real GDP and permanent consumption. These two models (called AR-dif and VAR-dif below) specify all shocks as having permanent effects, although they do allow transitory dynamics. These, too, are unit root models. The final two models are a univariate trend stationary AR(3) model in levels and a bivariate trend stationary VAR(3) model in levels (with real GDP and permanent consumption). In these two models (called AR-tr and VAR-tr below), all shocks are transitory.

The first forecasting experiment applies the rolling regression approach to the six forecasting models to make forecasts at horizons of $h = 1$ to 20. The number of $h$-period-ahead forecasts for each model and horizon is $181 - h$. My measure of forecast accuracy is the square root of the mean squared forecast error, i.e., the standard deviation of the forecast errors where the mean in the standard deviation formula is set to zero. Results for a few key horizons are in Figures 2a and 2b. Each cluster of bars shows the forecast error standard deviations for the six models for one forecast horizon. The vertical axis measures the values of the forecast standard deviations. Figure 2a is computed using all forecasts through 2007:3. Fig-

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28. I have already discussed the way the VECM specifies permanent and transitory shocks. Tsay (2005) shows how various ARMA models are reduced forms of unobserved component models with permanent and transitory shocks.

29. Mean square forecast errors, not standard deviations as I am using, are often employed to reflect the assumption that large errors are disproportionately more costly than small errors. And they assume the disproportionalities are specifically quadratic. The reader can make adjustments if desired. I employ standard deviations so that the differences among them correspond to easy-to-interpret growth rates, not squared growth rates.
Figure 2b shows forecasts from 2007:4 through 2013:4 (for the first time in the paper). The longer-horizon forecasts are dominated by the inability to forecast the Great Recession.

In Figure 2a, the unit root models almost always outperform the linear trend stationary models (in 27 of 32 paired comparisons—four unit root models with two trend stationary models for four horizons). The VECM model always is best. But the margins of victory for the unit root models are not usually large in relative terms. The unit root models win less often in Figure 2b (23 of 32 comparisons), but the VECM model is still best in every case.30

Tables 4a and 4b give the underlying numerical values for Figures 2a and 2b, with the addition of summary measures in the form of the mean forecast standard errors for horizons 1–8 and 9–20. The previous conclusions are supported, with the additional revelation that, for the means, every unit root model beats the trend stationary models for forecasts through 2007:3.

Interest in unit root models and forecasting has often centered on whether or not recoveries from recessions would be robust, involving rebounds. Thus, for the second forecasting contest I use actual postwar recessions. Suppose, in what turns out to be the final quarter of the seven postwar recessions with sufficient data preceding them, a hypothetical econometrician uses the above six models to forecast the recovery. The models are estimated using the 60 quarters of data ending in the last quarter prior to the peak that defines the beginning of recession

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30. If the VECM models are estimated without the error correction constraint, the results are almost identical. In addition, the reader may wonder about the statistical significance of the results in Figures 2a–2b. At this point, my main aim is oomph, but see Appendix 5 for some simulation results that address statistical significance.
according to the BEA. This is to follow a number of economists who, as previously mentioned, implicitly or explicitly drew trend lines based on pre-recession data. 31

| TABLE 4a. Forecast standard errors, from first rolling model through 2007:3 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Horizon | Unit root models | Trend stationary models |
| | VECM | ARMA | AR-dif | VAR-dif | AR-tr | VAR-tr |
| 1 | 0.0072 | 0.0084 | 0.0080 | 0.0075 | 0.0083 | 0.0081 |
| 4 | 0.019 | 0.0195 | 0.022 | 0.020 | 0.012 | 0.026 |
| 8 | 0.031 | 0.036 | 0.035 | 0.033 | 0.035 | 0.043 |
| 20 | 0.0501 | 0.052 | 0.052 | 0.052 | 0.043 | 0.054 |
| 1–8 | 0.020 | 0.023 | 0.023 | 0.021 | 0.015 | 0.027 |
| 9–20 | 0.045 | 0.0466 | 0.0457 | 0.045 | 0.0468 | 0.052 |

| TABLE 4b. Forecast standard errors, 2007:3–2013:4 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Horizon | Unit root models | Trend stationary models |
| | VECM | ARMA | AR-dif | VAR-dif | AR-tr | VAR-tr |
| 1 | 0.0070 | 0.0078 | 0.0078 | 0.0075 | 0.0075 | 0.0080 |
| 4 | 0.025 | 0.029 | 0.029 | 0.029 | 0.026 | 0.034 |
| 8 | 0.049 | 0.053 | 0.052 | 0.060 | 0.051 | 0.070 |
| 20 | 0.095 | 0.101 | 0.103 | 0.123 | 0.115 | 0.160 |
| 1–8 | 0.028 | 0.031 | 0.031 | 0.033 | 0.019 | 0.038 |
| 9–20 | 0.119 | 0.128 | 0.126 | 0.162 | 0.134 | 0.202 |

Note: I sometimes increase decimal accuracy beyond three places to allow distinction of slight differences in magnitude, but this is not to imply that such differences are necessarily of statistical or economic significance.

The results are presented graphically in Figures 3a–3g. The figures include 20 forecast periods after the end of the recession and six quarters prior. In two cases, the 1969:4–1970:4 and 1980:1–1980:3 recessions, the next recession starts before 20 quarters have elapsed. In these cases, vertical lines indicate the middle of the peak quarter that defines the beginning of the next recession. All values are detrended with a simple OLS linear trend from the same 60-quarter forecast period used for the forecasting models. The horizontal zero line corresponds to this trend.

31. My results will not be precisely what the hypothetical econometrician would have obtained in real time because I am using 2014 vintage data, not the data available at the time of the forecasts. In addition, several of the modeling techniques had not been invented at the time of the earlier recessions. Finally, since real-time econometricians would not know the ending period of the recession until sometime later, my approach gives the trend stationary models an advantage in that, if there is going to be a return to a former trend line, it should be most accurately measured starting at the end of the recession.
Fig. 3a. After the 1969:4–1970:4 recession

Fig. 3b. After the 1973:4–1975:1 recession

Fig. 3c. After the 1980:1–1980:3 recession

Fig. 3d. After the 1981:3–1982:4 recession

Fig. 3e. After the 1990:3–1991:1 recession

Fig. 3f. After the 2001:1–2001:4 recession

Fig. 3g. After the 2007:4–2009:2 recession

Which forecasting models manage these diverse situations best? Consider the two linear trend stationary models (AR-tr and VAR-tr) versus the two first difference models (AR-dif and VAR-dif). The linear trend stationary models do better when GDP heads back to the prior trend. This is not surprising as these models always assume reversion to trend. The first difference models do better when there is no significant return to the former trend, again unsurprising as these models assume shocks are permanent. The first difference models somewhat outperform the trend stationary models in the ambiguous case of recession 6. But what about the ARMA and VECM models? The graphs suggest that the ARMA model is a sort of compromise, consistent with its forecasts estimating any recent shock to be a typical blend of permanence and transience. The VECM provides a better compromise, doing reasonably well after every recession, which can be attributed to its explicit, and apparently often successful, identification of recent permanent versus transitory shocks. Thus, unless you know what kind of shock caused the recession, the VECM seems to be the best choice.

The impressions from looking at Figure 3 are sharpened by examining the forecast error standard deviations. I compute them for the six models and seven recessions using the same 20 post-recession quarters as in Figure 3, except for the two recessions where another recession intervenes in less than 20 quarters. In those cases, the final forecast error quarter is that of the peak defining the beginning of the next recession. The results are in Figure 4.33 For example, as it appeared from the graphs, after recessions 2, 5, 6, and 7, the trend stationary models generally do much worse than the models specifying unit roots. The trend stationary models do well after recessions 1, 3, and 4. The VECM model, although frequently not the best, always does fairly well with no huge mistakes as sometimes occur with the other models.

32. Regarding the VECM’s success in forecasting no recovery from the last recession, Cochrane (2015c) remarked: “It’s interesting that consumers seem to have seen the doldrums coming that all the professional forecasters did not.”
33. The forecast error bars from the linear trend stationary models for the final recession are so large that I have truncated the height of the graph to maintain reasonably visible differences among the other forecast error bars.
I obtain overall conclusions from the Figure 4 results by computing averages of each model’s forecast error standard deviations across the recessions. They are in Table 5. The first row gives the arithmetic means of the seven forecast error standard deviations for each model. The second row gives the means with forecast error standard deviations weighted by the number of forecast periods used to compute them (fewer for the two recessions whose recoveries were cut short by another recession). The mean standard deviations for the AR-tr and VAR-tr models are strongly influenced by very large forecast error standard deviations for the final recession. To see what difference the last recession makes, the third and fourth rows omit the last recession.

<table>
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<th>Type of average</th>
<th>Unit root models</th>
<th>Trend stationary models</th>
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<td></td>
<td>VECM</td>
<td>ARMA</td>
</tr>
<tr>
<td>Mean</td>
<td>0.014</td>
<td>0.020</td>
</tr>
<tr>
<td>Weighted mean</td>
<td>0.015</td>
<td>0.024</td>
</tr>
<tr>
<td>Mean without last recession</td>
<td>0.014</td>
<td>0.021</td>
</tr>
<tr>
<td>Weighted mean without last recession</td>
<td>0.016</td>
<td>0.027</td>
</tr>
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</table>

The first two rows of Table 5 support the conclusion from Figures 3a–3g and Figure 4 that the unit root models allowing for both permanent and transitory shocks, VECM and ARMA, do best on average. In fact, the VECM does much better than any of the other models. After the VECM and ARMA, the unit root
models explicitly specifying only permanent shocks, AR-dif and VAR-dif, are next best. The linear trend models are worst. Accordingly, concluding that GDP is trend stationary, or that unit roots don’t matter, is likely to lead to the worst forecasts, on average. Meanwhile, if the 2007:4–2009:2 recession is omitted, perhaps because one believes it was an extraordinary event, the tidy pattern just described is somewhat muted. In rows 3 and 4, the ARMA is now only the approximate equal of the AR-tr. The VECM model, however, continues to be substantially better than the other models.

The above results suggest that:

1. Models specifying only one kind of shock only do well when that kind of shock dominates. The modest advantage on average of the AR-dif and VAR-dif models over the AR-tr and VAR-tr models thus reflects a history where the causes of recessions have been dominated by permanent shocks a bit more often than by transitory shocks.
2. The ARMA and VECM outperform the other models because they allow both kinds of shocks. However, the multivariate approach of the VECM is significantly better than the ARMA approach because, unlike the univariate ARMA model, a multivariate approach has the potential to separately identify the two kinds of shocks.
3. The advantage of a multivariate model disappears entirely if it is misspecified as trend stationary. In the tables, the VAR-tr model is generally the worst of all.

Final remarks

I have first provided evidence that, despite a significant literature to the contrary, the null hypothesis of a unit root in U.S. real GDP in postwar real GDP cannot be rejected. The key innovation is to account for the multiple test problem. Nevertheless, failure to reject is not a strong result, and it may well be that lack of power still hobbles the unit root testing approach despite all the data now available. It is also surprising that a large literature testing the trend stationarity null did not arise, although those tests may also lack sufficient power. Regardless, the difficulty of discerning between nearly equivalent null and alternative hypotheses in the unit root context has long been understood (see discussion by Stock 1990).

The second component of my approach shows that, if a unit root in GDP is specified, then estimates of its importance using postwar data are of notable economic magnitude. Although the sizes of permanent shocks estimated by both
the unobserved components model and the VECM average roughly half those of the estimated transitory shocks, the estimated subsequent impact of the permanent shocks is much larger in impulse responses.

Equally if not more convincing, the best forecasting model by far, Cochrane’s (1994) VECM, specifies a unit root. But that is not the sole reason for the VECM’s success. It allows not only permanent but also transitory shocks, and its multivariate approach allows them to be separately identified. The first-difference ARMA also specifies a unit root and a transitory component, and it also tends to outperform the other models. But its forecasts are, overall, inferior to the VECM’s. This reflects its inability to separately identify permanent and transitory shocks. Nevertheless, Campbell and Mankiw’s (1987) early application of first-difference ARMA for real GDP is important because of its recognition of the necessity of specifying a unit root (permanent shocks) and transitory shocks. The necessity is echoed in the results the present paper, with the addition of the importance of a multivariate approach (which goes back to Cochrane 1994) to specifically distinguish permanent from transitory shocks.


For the PT test, Vougas (2007) reports a value of 8.166 and says it’s a rejection, perhaps because it is greater than the 0.05 and 0.10 critical values of 5.66 and 6.86 in Elliott et al. (1996). But the test is lower tailed, and so 8.166 does not reject. For the LP-CC test, Vougas (2007) reports a test statistic of −6.250. The 0.05 and 0.10 critical values from Table 3 of Lumsdaine and Papell (1997) are −6.82 and −6.49. This test is also lower-tailed, so −6.250 does not reject.

Appendix 2. Methods to calculate joint p-values

All the joint p-value approaches I use involve comparing the actual bootstrapped p-values for the n tests in the subset of interest with the bootstrapped joint p-value distribution for the n tests. Therefore, the first step is to get the bootstrapped joint p-value distribution. This is formed from the first 2,500 replications per data-generating process (2,500, not 5,000, because each subset of tests involves at least one test with only the first 2,500 replications available). The 2,500 × n matrix of simulated test statistics is then converted into a corresponding matrix of p-values. First, I replace each simulated statistic with its rank (r) in its own
distribution. Small rank values correspond to small test statistic values (all tests are lower-tailed). Then, the \( p \)-value of a given simulated test statistic equals \( r/2500 - 1/5000 \). Because all tests are applied to the same sequence of data sets, the \( p \)-value matrix reflects the estimated correlations among the test statistics.

Let us begin with the improved Bonferroni method of Simes (1986). Simes considers the general case where the \( p \)-values correspond to different null hypotheses. My implementation is a special case where the nulls are all the same. Let \( P_j \) (where \( j = 1, \ldots, n \)) be the ordered \( p \)-values (bootstrapped in my application) from \( n \) tests applied to the actual data. Let \( a \) be the significance level. Simes then compares the \( p \)-values with an adjusted significance level; the \( j \)th null is rejected for any \( P_j \leq ja/n \). However, I prefer to adjust the \( p \)-value rather than the significance level. Therefore, I compute adjusted \( p \)-values: \( P_j^A = nP_j \). Since the nulls are all the same in my implementation, the only \( p \)-value that matters is the smallest one. Therefore my Simes \( p \)-value is the minimum of the \( P_j^A \) values. I refer to this as an “unbootstrapped” joint \( p \)-value, although it is derived from bootstrapped individual \( p \)-values, because it is not computed with respect to a bootstrapped distribution of Simes \( p \)-values. The unbootstrapped Simes \( p \)-value could be compared with the significance level, \( a \), but I go one step further and get a bootstrapped value. To do so, I compute the Simes \( p \)-value for every row of the simulated \( p \)-value matrix, which gives a bootstrapped Simes \( p \)-value distribution. The bootstrapped Simes \( p \)-value is the fraction of the simulated Simes \( p \)-values less than or equal to the actual, unbootstrapped Simes \( p \)-value.\(^{34}\) In Table 3, the “Simes” values are bootstrapped, while the “Joint Simes” values are not.

For the two counting methods (Cushman 2008), I first count the number of \( p \)-values less than 0.05 and less than 0.10 (i.e., I count the number of rejections for the two significance levels) using the actual data. For each significance level in turn, I then find the number of simulated \( p \)-values less than 0.05 and 0.10 in each row of the simulated \( p \)-value matrix. The bootstrapped joint \( p \)-values are then the fraction of the 2,500 rows for which the number of simulated rejections is greater than or equal to the number of actual rejections using 0.05 and 0.10.

The Cushman and Michael (2011) method is most easily explained by example. Suppose we were interested in the subset consisting of just the first four tests in Table 1. The actual \( p \)-values using the first 2,500 replications and the AR(1) DGP are 0.332, 0.237, 0.051, and 0.234.\(^{35}\) Therefore, we have one rejection at the 0.051 level, two at the 0.234 level, three at the 0.237 level, and four at the 0.332 level.

\(^{34}\) The classic Bonferroni method adjusts the significance level to \( a/n \), or multiply the \( p \)-values by \( n \). None of my \( p \)-values would be remotely significant according to this approach.

\(^{35}\) The reader may notice that these are slightly different from those in Table 1. This is because the \( p \)-values in Table 1 come from 5000 replications where available.
We then use the bootstrapped joint $p$-value distribution to find that, with $k$ the number of rejections, $P(k \geq 1)$ at the 0.051 level equals 0.107, $P(k \geq 2)$ at the 0.234 level equals 0.263, $P(k \geq 3)$ at the 0.237 level equals 0.172, and $P(k \geq 4)$ at the 0.332 level equals 0.145. We focus on the smallest probability, 0.107, which is for $k \geq 1$ in this case. The value of 0.107 is (almost) significant at the 0.10 level. But we need to take into account that we have computed four such probabilities. That is, how unlikely is it to find a $P(k \geq i) = 0.107$ for one or more values of $i$? To answer this, the next step is to compute the probability that any one or more of the four rejection outcomes ($k \geq i, i = 1$ to 4) could have occurred with the probability of the most significant one, that is, with a probability of 0.107. To do this, we first determine what individual significance level gives a probability of 0.107 for each $P(k \geq i), i = 1$ to 4. We already have that $P(k \geq 1)$ at the 0.051 level equals 0.107. We go on to find that $P(k \geq 2)$ at the 0.094 level, $P(k \geq 3)$ at the 0.161 level, and $P(k \geq 4)$ at the 0.271 level all equal 0.107. The proportion of the 2,500 replications in which one or more of the four outcomes occur turns out to be 0.173, which is the Cushman-Michael joint $p$-value.

Appendix 3. Monte Carlo analysis of the size and power of the joint $p$-value approaches

I analyze joint-test $p$-value performance under a unit root process and several trend stationary processes. The data-generating process (DGP) in each case is based on the actual real gross domestic product (GDP) data. I start with 400 simulated data sets that play the role of “actual” data sets. To each I apply five unit root tests: DF-GLS-MAIC with linear and quadratic trend, the ADF-AIC with linear trend, and the SP-AIC with linear and quadratic trend. I bootstrap the individual and joint $p$-values just as I did with the actual data set. However, the time involved for the bootstrapping, which is particularly long because it must be repeated for 400 simulated actual data sets, requires me to use far less than the 2,500 or 5,000 replications applied to the real data set. I therefore perform 400 replications of the individual tests to get the joint $p$-values for each of the 400 simulated actual data sets.

The unit root DGP is an AR(1) first-difference model, and the 400 simulated actual data sets are the first 400 for this DGP used in the bootstrapping of the tests in the main text. Next, there are four trend stationary DGPs. They are based on estimated OLS trends from the actual real GDP data, first a linear trend and then

36. For each value of $i$, this requires applying a trial-and-error, iterative search to the joint $p$-value matrix.
a quadratic trend. An AR(2) model is then estimated for the two sets of residuals, and 400 new sets of residuals are then simulated. These are added to the previously estimated trends to get 400 sets of simulated actual data. I thus end up with (1) a linear trend model using the linear trend and linear trend residuals, (2) a linear trend model using the linear trend and quadratic trend residuals, (3) a quadratic trend model using the quadratic trend and linear trend residuals, and (4) a quadratic trend model using the quadratic trend and quadratic trend residuals. The reason for the various mixtures of trends and residuals is that the quadratic trend residuals are much smaller than the linear trend residuals. Thus, I am able to separate the effects on power of trends and residuals.

Table A3 shows the proportion of joint p-values from the five DGPs that exceed 0.05 and 0.10 among the 400 ‘actual’ data sets for each DGP. For the unit root DGP the results estimate the sizes of the joint tests, and for other DGPs the results estimate the powers. The results give no firm evidence that the joint tests suffer from significant size distortion, as none of the proportions are very far from the nominal values of 0.05 or 0.10. I also judge that power is reasonable in most cases. The exception is that all the joint approaches have trouble with a nonlinear trend with the large residuals from the linear trend model. The differences among the joint approaches do not seem sufficiently large to draw any strong conclusion that one is generally superior to any other. A possible exception is the power disadvantage for the ‘count 0.10 rejections’ method under quadratic trends.

<table>
<thead>
<tr>
<th>Data generating procedure</th>
<th>Simes NB</th>
<th>Simes 0.05</th>
<th>Simes 0.038</th>
<th>Count 0.05</th>
<th>Count 0.038</th>
<th>Count 0.10</th>
<th>CM 0.05</th>
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</thead>
<tbody>
<tr>
<td>Unit root</td>
<td>0.05</td>
<td>0.050</td>
<td>0.058</td>
<td>0.038</td>
<td>0.038</td>
<td>0.050</td>
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<tr>
<td>Linear trend with linear trend residuals</td>
<td>0.05 power</td>
<td>0.218</td>
<td>0.240</td>
<td>0.205</td>
<td>0.225</td>
<td>0.263</td>
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<tr>
<td>Quadratic trend with linear trend residuals</td>
<td>0.05 power</td>
<td>0.105</td>
<td>0.120</td>
<td>0.015</td>
<td>0.013</td>
<td>0.090</td>
<td></td>
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<tr>
<td>Linear trend with quadratic trend residuals</td>
<td>0.05 power</td>
<td>0.730</td>
<td>0.755</td>
<td>0.708</td>
<td>0.735</td>
<td>0.770</td>
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<td>0.05 power</td>
<td>0.478</td>
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<td>0.088</td>
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<td>Unit root</td>
<td>0.10</td>
<td>0.090</td>
<td>0.108</td>
<td>0.065</td>
<td>0.063</td>
<td>0.100</td>
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<tr>
<td>Linear trend with linear trend residuals</td>
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<td>0.415</td>
<td>0.295</td>
<td>0.340</td>
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<tr>
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<td>0.10 power</td>
<td>0.173</td>
<td>0.205</td>
<td>0.123</td>
<td>0.040</td>
<td>0.165</td>
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<td>0.853</td>
<td>0.883</td>
<td>0.828</td>
<td>0.845</td>
<td>0.880</td>
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<td>Quadratic trend with quadratic trend residuals</td>
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<td>0.618</td>
<td>0.673</td>
<td>0.538</td>
<td>0.208</td>
<td>0.620</td>
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</tbody>
</table>

*Note:* “Simes NB” is the Simes approach, not bootstrapped. “CM” is the Cushman-Michael approach.
Appendix 4. Unobserved components estimates adjusted for mean bias

The variance and lag parameter estimates from STAMP are: $\sigma^2_\eta = 3.62 \times 10^{-5}$; $\sigma^2_e = 2.66 \times 10^{-5}$; $r_1 = 0.65$; $r_2 = 0.03$; $r_3 = -0.17$ (where $r_j$ are the estimated lag $j$ serial correlation parameters). Suppose we repeatedly simulate the model of equations (1a) and (1b) including the substitution for serial correlation, and use a DGP with random, independent, heteroskedastic errors (heteroskedasticity estimated from the data as with the unit root tests), and the above variance and lag parameter estimates. With 50 simulations, the means of the distributions of estimated parameters in the replications are mostly quite different from the above results from the actual data: $\sigma^2_\eta = 6.33 \times 10^{-5}$; $\sigma^2_e = 1.01 \times 10^{-5}$; $r_1 = 0.45$; $r_2 = 0.07$; $r_3 = -0.15$. This strongly hints that the initial estimates are biased. The process generating the data’s results apparently has a much smaller permanent component, a much larger transitory component, and a larger autoregressive first order lag coefficient.

To get unbiased estimates, I employ an iterative process as follows (based on Rudebusch 1992). After a set of simulations, re-simulate the model after adjusting each DGP parameter by a fraction of the distance between the desired distributional mean (the parameter estimate from the actual data) and the mean of the simulated distribution using the current DGP’s parameter values. Repeat until the means of the latest DGP parameter estimates are all very close to the estimates from the actual data set (“convergence”). The DGP parameters of the final set of simulations are the unbiased estimates.

For example, the permanent variance component for the first iteration’s DGP is $[3.62 + 0.5 \times (3.62 - 6.33)] \times 10^{-5} = 2.26 \times 10^{-5}$. The mean of the permanent component variance from this DGP is $4.98 \times 10^{-5}$, which is closer than before to the desired value of $3.62 \times 10^{-5}$. For the second iteration’s DGP, the permanent component variance is set to $[2.26 + 0.5 \times (3.62 - 4.98)] \times 10^{-5} = 1.58 \times 10^{-5}$. Convergence for all five parameters occurs with the seventh iteration, where convergence is defined as the mean of the iteration’s simulated variance values being within 5 percent of the estimates from the actual data, and the mean of the iteration’s simulated lag parameter values being within 0.02 of the estimates from the actual data. There are 1,200 replications in the final, convergence-achieving set of simulations. In the earlier iterations, the fractional adjustment is 0.5 and in the later ones 0.25. The final DGP variances and lag parameters are: $\sigma^2_\eta = 8.36 \times 10^{-6}$; $\sigma^2_e = 4.71 \times 10^{-5}$; $r_1 = 0.94$; $r_2 = -0.05$; $r_3 = -0.18$. 
The final iteration’s distributions for the 1,200 replications show very high variability for the variances. Thus, the ratios of permanent to transitory standard deviations also have very high variability. The 5th to the 95th percentile range for the permanent to transitory standard deviation ratio is 0.16 to an ‘indefinitely large’ number (i.e., the denominator of the ratio is zero).

Appendix 5. Simulation evidence for the out-of-sample forecast contest of Figure 2

Let us postulate a world where real GDP evolves over its 1947:1–2007:3 period according to the VECM of section 6b, with two breaks. The first break occurs in 1970:2, which is the upper 67 percent confidence limit for the break in services consumption in Stock and Watson (2002), and which could be considered a compromise between their point estimate of the break (1969:4) and Perron and Wada’s (2009) real GDP trend break date of 1973:1. The second break occurs in 1991:4, which is Stock and Watson’s (2002) break date for nondurable goods consumption. Now let us simulate the model of this world using random residuals drawn from normal distributions with moving three-period covariance matrices (a wild bootstrap to account for contemporaneous correlation and heteroskedasticity including the Great Moderation). Replicate this world and time period 1,000 times, each time performing the forecasting contest with 181 forecasts for each of the six models. Then compute the proportion of times each model that allows for a unit root (four models) has a lower forecast standard deviation than a trend stationary model (two models). The results for horizons 4 and 8:

- VECM < AR-tr = 0.91, 0.80
- VECM < VAR-tr = 0.88, 0.74
- ARMA < AR-tr = 0.82, 0.83
- ARMA < VAR-tr = 0.74, 0.69
- AR-dif < AR-tr = 0.93, 0.87
- AR-dif < VAR-tr = 0.86, 0.74
- VAR-dif < AR-tr = 0.96, 0.93
- VAR-dif < VAR-tr = 0.93, 0.82

The models specifying unit roots usually beat the models that don’t.
Appendix 6. Data and code

The data and programs used in this research are contained in two files available for download. The first file (1.3 MB, .zip) includes the documentation and contains everything except for five large TSP databanks with bootstrapped data sets, which are in the second file (44 MB, .zip).

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The Left Orientation of Industrial Relations

Mitchell Langbert

In this article I document something that will not surprise anyone. I show that the field known as industrial relations (IR) leans overwhelmingly to the political left. I investigate the voter registration and political contributions of IR researchers, showing overwhelming Democratic Party favor and a tendency toward left ideology. Also, I analyze the content of four field periodicals.

Why bother? One reason is that students, parents, taxpayers, policymakers, and citizens, all influenced by academics, need to know that practically all academic fields in the United States are preponderantly left oriented. My investigation of IR serves to inform such interested parties.

Daniel Klein and Charlotta Stern (2009b) discuss the left orientation in academia in terms of groupthink. The term groupthink is pejorative, presupposing that the thinking that predominates within the group is defective. The puzzle is, first, how defective thinking comes to dominate, and second, how it resists correction and extends its domination. Klein and Stern do not address the first issue, how

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1. Brooklyn College, City University of New York, Brooklyn, NY 11210.
2. Surveys, voter registration studies, and political contribution studies have illuminated the ideological profile of faculty and researchers. Klein and Stern (2009a) offer an overview of survey and voter-registration findings. They suggest that, as of 2009, an overall Democratic-to-Republican ratio of about 8:1 is probably safe for all humanities and social science faculty (excluding two-year colleges). Economics is a standout, with a ratio more like 3:1. So, if one were to think of non-economics faculty, the ratio may be more like 9:1 or 10:1. Meanwhile, more recently Hurtado et al. (2012) report that the faculty profile has shifted even further to the left (see Jaschik 2012). Recommended studies of the leftward tilt in academia include Klein and Stern 2005; Rothman, Kelly-Woessner, and Woessner 2011; Yancey 2011; and Shields and Dunn 2016.
groupthink comes to dominate. They do, however, explain two mechanisms by which it resists correction and extends its domination.

One mechanism is the decision-making procedure in university departments. The departmental procedure is based on majoritarianism and a feeling of consensus—a tendency to promote one who thinks as we do. The other mechanism is the structure of prestige and validation throughout the discipline: Departments are ranked nationwide, even worldwide, with departments at schools such as Harvard at the apex. Every discipline and field has its own all-inclusive pyramid. At the top, the most prestigious departments produce the most new Ph.D.s, and they place their graduates as high as they can within the pyramid. The graduates take over the journals and organizations of the discipline; thereafter, they create self-validating systems. Once the top departments develop a pattern of groupthink, the two mechanisms—the pyramid of disciplinary prestige and majoritarianism in the individual department—combine to lock in their thinking throughout the pyramid.

The Klein-Stern groupthink story is not an iron logic producing lockstep uniformity in political orientation, but it does zero in on central structural features and mechanisms that help to explain the imperviousness of left dominance to opposing viewpoints. By discussing the field of industrial relations, I illustrate structural forces and mechanisms that characterize virtually all academic disciplines and subfields.

Also, my own professional involvement in IR moves me to write this article. For decades I have worked in, or at least around, IR. For decades I have coped with the field’s groupthink, often feeling embattled. I hope that this article makes IR researchers more self-aware about their own habitus and more open to discussion about the issue of left dominance in IR.

Uniformity is dangerous. Katherine Phillips (2014), for example, describes a behavioral experiment in which groups of Democrats and groups of Republicans were told that their work would be reviewed by members of the opposite party, and the quality of decisions made in the context of the experiment improved. For the field of social psychology, the dangers of uniformity and the benefits of diversity are richly explored in a high-profile conversation recently published in Behavioral and Brain Sciences. The lead article is authored by José Duarte, Jarret Crawford, Charlotta Stern, Jonathan Haidt, Lee Jussim, and Philip Tetlock (2015) and is published with follow-up commentary by 33 important people in that field and a reply by the original authors. That project is a model for IR and other fields to

3. For striking evidence of just how dominant the top ten to twenty departments and schools are, see on political science Oprisko 2012; on sociology Burris 2004; on economics Klein 2005; on law Katz et al. 2011; and on numerous fields Terviö 2011.
emulate. The present article is a gesture toward such candid and open discussion for the field of IR.

I like the people who like me, and the people who like me are like me

Before turning to IR, it is worth reminding the reader that professors and researchers are human beings, and they behave like human beings. A principal interest of every human being is to be validated, morally and socially, especially by those with whom one lives or works. One wants to be esteemed as one esteems oneself, or even more. We are naturally inclined to like those who like us, and those who like us generally are like us. It is no accident that the word *like* means, as a verb, to value or to favor and, as an adjective, similar or alike; moreover, the word *kind* shows a similar duality of meanings.4

The literature on group dynamics, group behavior, value homophily, and social conformity shows that the people whom we tend to like are people who like us and are like us. Recent research supports Adam Smith’s idea that one person’s approval of another is intimately and always connected to likeness between their sentiments, or sympathy (Smith 1790, 13, 323–325). For instance, Karen Gift and Thomas Gift (2015) conduct an experiment in which they send 1,200 resumes indicating a private sector job applicant’s party affiliation to employers in a predominantly conservative county and in a predominantly social democratic county. In the conservative county overt Republicans received 39.2% more callbacks than did overt Democrats, while in the social democratic county overt Democrats received 31.3% more callbacks than did overt Republicans. Shanto Iyengar and Sean Westwood (2015), using associative tests of affect concerning partisanship and race, find that the effects of party on personal preferences are greater than the effects of race. Data on marriage rates appear supportive of that finding: A poll by the Pew Research Center (2015) indicates that interracial marriages are now 12 percent of all marriages, while Iyengar and Westwood (2015) state that interparty marriages are only nine percent of the total.

Diana Mutz writes that the workplace is, by far, “the social context in which political conversation across lines of difference most often takes place” (2006, 55). In academia, the exclusion of non-left people may limit the extent to which academics themselves ever interact sympathetically with those with whom they disagree. As a result, their own skills (e.g., respectful communication toward oth-

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4. See, e.g., the entries in Douglas Harper’s Online Etymology Dictionary for “like” (link) and “kind” (link).
ers) may degenerate. Students may increasingly lack models as to how respectful deliberation can occur because there is little disagreement among their professors.\(^5\)

Among the most important dimensions of shared values or sentiments are criteria for status. Studying a late 1930s Italian-American street gang, for example, William Whyte (1993) explains that a significant way to elite status was success at bowling. An academic department, field, or discipline is a group, a sort of community, and the same principles apply. In academia, publications, citations, honors, and so on serve the function that bowling played in the street gang. But these validation systems themselves are influenced by value homophily. In *Organizational Culture and Leadership*, Edgar Schein observes:

> As members of different occupations, we are aware that being a doctor, lawyer, engineer, accountant or manager involves not only technical skills but also adopting certain values and norms that define our occupation. If we violate some of these norms, we can be thrown out of the occupation. (Schein 1992, 8)

Developing a social psychological model of how individuals rise in status in a group, Michael Hogg (2001a; 2001b) notes that ordinary group members have preconceptions about how to become elite members. Individuals rise in a group hierarchy through ingroup and outgroup prototypes that result in “stereotypical homogenization.” Prototypes maximize both similarities within ingroups and differences from outgroups, and they are often polarizing. Hogg writes:

> The social identity analysis of categorization processes suggests that group cohesion or solidarity is not only attraction among group members, but also attitudinal and behavioral consensus, ethnocentrism, ingroup favoritism and intergroup differentiation, and so forth—the entire range of effects of categorization-based depersonalization. (Hogg 2001b, 65)

A related model is discussed in textbooks on managerial skills: Conformity to group norms and to broader organizational cultures confers legitimacy, which in turn leads to ascension in organizational hierarchies (Whetten and Cameron 2016, 236).

In the groupthink model, the ideological character of the top of the pyramid is particularly impervious to ideological challenge or diversity. It has long been found that the more elite the university, the more consistently left-leaning is the faculty, and that continues to prove true. The IR voter registration and political contributions evidence provided in this paper bears out the theme of ‘even more

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left at the top.’ Also, like the study of the American Economic Association by William McEachern (2006), which shows rising Democratic Party support as we ascend from members, to authors, to editors, to officers of the AEA, this paper finds ascending leftward lopsidedness at the IR periodicals. 6

Defenders of academia, who do not regard political leftism as defective or wrongheaded, will claim that academia upholds unbiased standards, rewards impartial research, and so on. Critics like me will say that such claims do not escape the problem of self-validation, that the ‘good’ journals are themselves expressive of and conformant to the particular editors who control them, and the editors are, with few exceptions, left academics themselves. Those of us who believe that political leftism is wrongheaded will say that it is groupthink and self-validation all the way down.

Industrial relations: A bit of history

One might offer explanations for the pervasiveness of left-oriented political thinking. Here I note factors particular to its pervasiveness in IR. The field has direct lineage to the German historical school of economics led by Karl Gustav Adolf Knies and Gustav von Schmoller. Schmoller was particularly known for his support for labor unions and government activism in Germany, advancing reforms such as collective bargaining, minimum wages, and social insurance. Knies and Schmoller influenced Richard T. Ely, founder of the American Economic Association, who in turn trained John R. Commons, arguably the founder of the industrial relations field. The field of IR grew out of interests and ideologies favoring the New Deal in the United States, much of which was compatible with Schmoller’s program. Bruce Kaufman says of the field’s institutionalist economists and the leadership of the field: “The prevailing ideology has been supportive of the New Deal system of collective bargaining and protective labor legislation” (1993, 193).

Kaufman (1993, 88–90) notes that institutionalist professor Richard Lester’s (1946) article rejecting marginalism led to rebukes by Fritz Machlup (1946) and George Stigler (1947). The institutionalists disagreed with mainstream, neoclassical economists about the minimum wage and regulation, and so, led by Lester, Clark Kerr, and Arthur Ross, they founded in 1947 the Industrial Relations Research

6. In their landmark book *The Divided Academy*, Ladd and Lipset (1975, 91) wrote: “Faculty at the elite, cosmopolitan, research-oriented schools are significantly more liberal-left than are their colleagues at lesser institutions. The relatively liberal subcultures prevailing at the major institutions pull their faculty members in a liberal-left direction.” For more recent evidence, see Rothman et al. 2011, 88.
Association (IRRA), later known as the Labor and Employment Relations Association (LERA). The field’s leading journal, *Industrial and Labor Relations Review*, was launched at Cornell University, also in 1947. The Cornell industrial relations school had been founded in 1945. In 1961 Ross led the founding of a second journal, *Industrial Relations: A Journal of Economy and Society*, which is based at Berkeley’s Institute for Research on Labor and Employment (Ross 2012/1961). Kaufman notes that from the field’s beginning a key element of IR has been “the promulgation of progressive public policy” (1993, 187).

One might wonder how the field of ‘industrial relations’ is distinguished from, or relates to, sister fields such as labor economics, human resources, or management. The distinctions are subtle and somewhat blurry, but nonetheless IR functions as a community and a research program. Without question, ideological bent is a factor in the social construction of IR. The name ‘industrial relations’ gives focus to the relations between parties in industry, and the parties that IR researchers have primarily in mind are unions and employers. Kaufman has described the industrial relations field as having originally been formed to integrate the study of unions, human resource management, and labor markets, adding: “By the late 1960s, however, the perceived domain of industrial relations had narrowed to the study of unions and collective bargaining and, of secondary importance, the employment problems of special groups in the work force (e.g., minority workers, the aged)” (1993, 191).

The College of Business Administration of California State University, Long Beach, provides “Academic Journal Classifications” (link) that rank the top ten human resource journals in this order:

1. *Human Resource Management*
2. *Personnel Psychology*
3. *Industrial and Labor Relations Review*
4. *Journal of Vocational Behavior*
5. *British Journal of Industrial Relations*
6. *Industrial Relations*
7. *International Journal of Selection and Assessment*
8. *Journal of Labor Economics*
9. *Journal of Labor Research*

IR today: A personal testimony

As a participant-observer of many years, I feel that I know the genuine character of the field of IR. I offer a couple of anecdotes, simply to illustrate that character.

When I first joined the now-defunct industrial relations Ph.D. program at the Columbia University Business School in 1986, I was under the impression that I was going to study human resource management, a subject that I did not think would have any more ideological baggage than did marketing or business strategy. At Columbia Business School, though, a minority of courses, especially one in collective bargaining, adopted an outspoken left-oriented perspective. More importantly, I found the learned society, IRRA (now LERA)—the chief venue in which a doctoral student would make contacts for both publication and career advancement—to be characterized by ideological tendentiousness. For instance, former IRRA president Thomas Kochan titled his 2000 presidential address as “Building a New Social Contract at Work: A Call to Action.” In the address Kochan (2000b) argued that firms ought to have fiduciary duty to multiple stakeholders.

When I next attended a LERA meeting, in 2011, there was overt political talk in many of the presentations. That year, at the unveiling of the Employment Policy Research Network (EPRN), a LERA website, Lisa Lynch, who had been chief economist at the Department of Labor under President Clinton, and Seth Harris, who was then deputy secretary of labor under President Obama, stated that they had worked together on the Obama campaign. Thomas Kochan stated that there is both a power struggle and an ideological struggle in which EPRN aims to participate. Professor Emeritus James Scoville of the University of Minnesota stood up from the floor to say that the website would counteract misinformation in the “mantra” of the “other side.” By “other side,” Scoville was referring to the

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7. Kochan’s presentation specifically characterized it as “A Call to Action for a Renewed IRRA” (Kochan 2000a).
Republican Party. In attending LERA’s meetings I noticed representatives of the labor movement but few if any representatives of opposing viewpoints.

The financial dimension

In examining a random sample of LERA’s 2015 national membership directory (described in more detail below), I find that about 47 percent of LERA’s members are academics, 10 percent work for government (mostly in the Department of Labor), 32 percent work in industry (mostly in fields that depend on a financially viable labor movement), and 10 percent work for labor organizations. Members who work in industry include labor lawyers, labor arbitrators, policy institute employees, and corporate human resource managers of unionized firms. I tried, without success, to obtain a list of organizational donors to both LERA and Cornell University’s School of Industrial and Labor Relations. Despite several emails to both, the most recent list of organizational donors to LERA I could find was from 2002. Appendix 1 lists LERA’s 2002 sustaining members, who paid between $5,000 and $10,000.

Scholars and commentators of diverse ideological viewpoints suggest that academic research is influenced by the markets for intellectual products (see, e.g., Nakhaie and Brym 1999). If governments, lawyers, unions, or businesses sponsor research or create markets for research outputs, then that will tend to prosper academics who fit their interests, and it may lead some others to conform to those interests. If these interests tend to favor government intervention, then a market-based explanation of left orientation will reinforce the groupthink-based and historical explanations.

8. As for the Service Employees International Union (SEIU), I searched LERA’s national membership roster of 916 members, and I found eight representatives of SEIU.

9. A report by LERA on a 2010 meeting of its executive board states: “[O]ur development efforts this year should focus more on asking for Sustaining Sponsorships with a membership component rather than co-sponsorship of the NPF. Gordon Pavy will again work towards sending a letter from the AFL-CIO to its various labor organizations, and pointed out we also need an equivalent letter on the corporate side. It was suggested that perhaps union representatives could ask their management counterparts to become Organizational members/sustaining sponsors as well. Iain Gold will find out if Change to Win could make a small contribution, and he will report back to the board” (LER 2011, 203).
The Journal of Labor Research is different

The Journal of Labor Research (JLR) stands apart from the rest of the IR field. Decades after the founding of LERA and the other journals, in 1980, James T. Bennett, a classical liberal economist at George Mason University who studies not-for-profit organizations, founded JLR as a response to omissions of topics that resulted from the field’s ideological orientation.

Bennett writes in an email:

I went to the Olin Foundation in 1979 seeking funds to start a labor journal that would address issues largely (if not totally) ignored in the extant journals which you mention [Industrial and Labor Relations Review and Industrial Relations], e.g., unions as political organizations, union violence, corporate campaigns, right-to-work, etc. (Bennett 2015a)

Bennett attempted to integrate a wide range of viewpoints into JLR. Bennett often invited unionists and pro-union academics to participate in his journal, but many would refuse his invitations because they were intolerant of his free-market views (Bennett 2004).

In a series of brief articles published upon Bennett’s retirement from JLR, several authors indicate that JLR is more open to diverse viewpoints than are other journals in the field. For example, Kaufman (2008, 2) calls Bennett “a staunch anti-monopolist in the realm of labor scholarship.” JLR book review editor John Delaney, consistent with Bennett’s (2015b) email, writes that he gave many in the IR field a chance to write reviews for the journal, but they refused:

Some people refused to consider writing a book review because they felt that JLR was “anti-union.” Some told me that Jim had an axe to grind and that I was a pawn in some sort of conservative conspiracy. Frankly, I was puzzled. Although I gave these individuals a chance to write reviews of important books on the labor movement or review essays supporting organized labor, they apparently did not believe my description of the review process. (Delaney 2008, 8)

JLR can therefore be viewed as a response to the ideological tendencies in the other publications and LERA.

Despite, or perhaps because of, JLR’s openness to diverse viewpoints, most researchers who work in the field of IR consider JLR to be lower in academic status than the other two journals that I discuss (see the ranking reproduced above). The prestige of the three regular journals that I study in this paper is ranked in the following order:
In their mission statements, none of the three journals nor LERA indicates that they take any ideological position. On LERA’s website (link) it is stated:

The Labor and Employment Relations Association (LERA) is the singular organization in the country where professionals interested in all aspects of labor and employment relations network to share ideas and learn about new developments, issues, and practices in the field. Founded in 1947 as the Industrial Relations Research Association (IRRA), the National LERA provides a unique forum where the views of representatives of labor, management, government and academics, advocates and neutrals are welcome.

The ILRR website at Cornell University (link) says:

Our goal is to publish the best empirical research on the world of work, to advance theory, and to inform policy and practice. We welcome papers that are bold and original, novel theories, innovative research methods, and new approaches to organizational and public policy.

The overview section of IR’s website (link) includes this text:

Corporate restructuring and downsizing, the changing employment relationship in union and nonunion settings, high performance work systems, the demographics of the workplace, and the impact of globalization on national labor markets—these are just some of the major issues covered in Industrial Relations. The journal offers an invaluable international perspective on economic, sociological, psychological, political, historical, and legal developments in labor and employment. It is the only journal in its field with this multidisciplinary focus on the implications of change for business, government and workers.

The “Mission Statement” of JLR\textsuperscript{10} says in part:

The Journal of Labor Research provides an outlet for original research on all aspects of behavior affecting labor market outcomes. The Journal provides a forum for both empirical and theoretical research on labor economics. The journal welcomes submissions on issues relating to labor markets and employ-

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\textsuperscript{10} This statement is found by following the “Aims and Scope” link that appears on the journal homepage (link).
ment relations, including labor demand and supply, personnel economics, unions and collective bargaining, employee participation, dispute resolution, labor market policies, types of employment relationships, the interplay between labor market variables and policy issues in labor economics are published by the *Journal*.

**Participants in the IR field**

To study the ideological orientation of IR quantitatively, I assembled from several sources a data set of participants in the IR discourse. I included all authors of all articles published in the LERA annual meeting proceedings or in one of the three IR journals during the five years 2009 to 2013. I also included all editors and members of the editorial boards of the three journals. I further included all officers of LERA, plus a sample of 200 individuals selected at random from the population of national LERA members as of 2015 (the complete population numbering 916).

If an individual wrote multiple articles and served as an editor or officer, he or she was included in the data set multiple times. Thus, the same individual might be a LERA officer, an author of one or more articles, and an editor of one or more of the journals, and I counted each person-role separately. In all—including the samples from LERA (proceedings authors, members, and officers), and each of the three journals (authors and editors of *ILRR*, *IR*, and *JLR*)—there are 920 person-roles, deriving from 709 actual persons. I also coded the person-roles as to whether they were affiliated with an academic institution, as opposed to, e.g., government, labor unions, or industry. The person-roles are shown in Table 1.

In the remainder of the paper I provide statistics using varying bases, including the full data set, each of the four sample sources (LERA, *ILRR*, *IR*, and *JLR*), or only the academics in the full data set and in each of the four sample sources, or only the authors of articles published in the four periodicals (the LERA proceedings and the three journals). Recognizing that none of the bases provides an idealized random draw from a well-defined population, and that one may offer this or that objection to the implied weights my sampling procedure places on the various sources, I nevertheless push on.

11. I used this particular five-year time frame because at the time I developed the sample the 2014 LERA proceedings had not been posted. Also, I assumed that this five-year sample period would reasonably reflect recent decades of industrial relations research and that any ideological differences between the sample and the population of published researchers between 2000 and today would be effectively random.  
12. To do so, I used a random number table to select pages in the 2015 online membership directory; then, again using the random number table, I selected an individual from the randomly selected page, repeating this process 200 times (when I obtained a repeat name, I redrew new random numbers).  
13. As the sociologist Marion Levy dryly noted, “Only God can make a random selection.”
TABLE 1. My sample of U.S. person-roles in the IR field, 2009–2013

<table>
<thead>
<tr>
<th>Source</th>
<th>Authors</th>
<th>Editors</th>
<th>Members</th>
<th>Officers</th>
<th>Total</th>
<th>Academics</th>
<th>Academics with voter-registration data available</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILRR</td>
<td>160</td>
<td>45</td>
<td>N/A</td>
<td>N/A</td>
<td>205</td>
<td>185</td>
<td>126</td>
</tr>
<tr>
<td>IR</td>
<td>183</td>
<td>42</td>
<td>N/A</td>
<td>N/A</td>
<td>225</td>
<td>205</td>
<td>145</td>
</tr>
<tr>
<td>JLR</td>
<td>119</td>
<td>35</td>
<td>N/A</td>
<td>N/A</td>
<td>154</td>
<td>148</td>
<td>88</td>
</tr>
<tr>
<td>LERA</td>
<td>95</td>
<td>N/A</td>
<td>200</td>
<td>41</td>
<td>336</td>
<td>181</td>
<td>107</td>
</tr>
<tr>
<td>Total</td>
<td>557</td>
<td>122</td>
<td>200</td>
<td>41</td>
<td>920</td>
<td>719</td>
<td>466</td>
</tr>
</tbody>
</table>

Voter registration data

I investigate the voter registration of the 920 U.S.-based IR person-roles. VoterListsOnline.com maintains a database of political affiliations called Aristotle. For each registered voter in 30 states, Aristotle lists a file containing voter registration information for residents. Puerto Rico and twenty states do not permit the release of voter registration information, so such data are not in Aristotle. My voter registration data, therefore, is based on only the 30 states included in Aristotle; fortunately, the important states of California and New York are among those thirty. The data are imperfect; errors could include inaccurately spelled names, identical names, and the individual’s having moved (resulting in a different state of residence). It is possible that the match I made for an IR individual and a name in Aristotle was mistaken, but I took pains to avoid such errors.

Figure 1 and Table 1 show voter registration of academic person-roles in IR by sample source. I focus on academics because I here mean to engage in particular the groupthink interpretation of social processes in academia. In the figure, and elsewhere in this paper (aside from Table 2), “Democratic” actually includes two minor left parties, and “Republican” actually includes the Libertarian Party (the numbers for these three minor parties are small, as shown in Table 2 below). For the 30 states for which there are data, the Democratic-to-Republican ratio for aca-

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14. The unavailability of voter registration data from these 20 states likely introduces some bias to the results of this paper. While the bias is not necessarily proportional to the differences at the population level, I did look at results of the 2012 U.S. election, summing up the Democratic and Green votes for President in each state, and also the Republican and Libertarian votes. For the 30 states and D.C. where there is party registration data in Aristotle, the ratio of Democratic and Green votes to Republican and Libertarian votes was 1.16:1, while for all 50 states and D.C. it was 1.07:1. That could suggest a small upward bias in the D:R ratios I report.
The academic person-roles in IR is 10.0:1 (230 to 23),\textsuperscript{15} with the ratios by sample source being:

- 14.8:1 for *Industrial and Labor Relations Review (ILRR)*
- 13.2:1 for *Industrial Relations (IR)*
- 11.0:1 for LERA
- 3.4:1 for *Journal of Labor Research (JLR)*

The *JLR* stands out from the other periodicals. If one were to treat the other three periodicals, representing ‘mainstream’ IR, and average their three ratios, one gets a Democratic-to-Republican ratio of nearly 13:1. Such a ratio exceeds plausible estimates of that ratio for U.S. humanities and social science faculty (perhaps 10:1, see note 2 above) and far exceeds what seems to be typical of business schools.\textsuperscript{16}

If one looks at unique persons in the data set rather than person-roles, the Democratic-to-Republican ratio is 8.2:1 (148 to 18). The reason it falls is that the Democratic-to-Republican ratio of those who were able to contribute multiple times or in multiple roles—for instance, to publish two papers in five years, or both to hold an editorship and publish a paper—is 11.8:1 (47 to 4).

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\textsuperscript{15} Among all U.S. person-roles in the IR field—that is, when including nonacademics—the Democratic-to-Republican ratio is 8.4:1 (310 to 37).

\textsuperscript{16} In a voter-registration study of 11 California schools, based on 2004 data, Cardiff and Klein (2005, 246) find a Democratic-to-Republican ratio of 1.3:1 for business school faculty. It is likely that the business school ratio has risen considerably since 2004.
TABLE 2. Party registration of U.S. person-roles in the IR field

<table>
<thead>
<tr>
<th>Registration</th>
<th>All</th>
<th>All academics</th>
<th>ILRR</th>
<th>JR</th>
<th>LERA</th>
<th>JLR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic</td>
<td>304</td>
<td>227</td>
<td>73</td>
<td>65</td>
<td>66</td>
<td>23</td>
</tr>
<tr>
<td>Other left parties</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Republican</td>
<td>34</td>
<td>20</td>
<td>5</td>
<td>3</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Libertarian</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Registered, but no party</td>
<td>111</td>
<td>86</td>
<td>18</td>
<td>28</td>
<td>11</td>
<td>29</td>
</tr>
<tr>
<td>Not registered</td>
<td>144</td>
<td>127</td>
<td>29</td>
<td>46</td>
<td>24</td>
<td>28</td>
</tr>
<tr>
<td>Unavailable*</td>
<td>320</td>
<td>253</td>
<td>59</td>
<td>60</td>
<td>74</td>
<td>60</td>
</tr>
<tr>
<td>Totals</td>
<td>920</td>
<td>719</td>
<td>185</td>
<td>205</td>
<td>181</td>
<td>148</td>
</tr>
</tbody>
</table>

*Includes residents of twenty states that do not make registration information available and deceased participants.

Voter registration and the higher stations

Figure 2 shows Democratic-to-Republican ratios among those LERA officers, proceedings authors, and members who have academic affiliations. We see that there are zero Republicans among the academic officers and authors, but several Republican members.

A similar pattern is found with regard to leadership at two mainstream journals, as shown in Figure 3—the Democratic-to-Republican ratio is much higher among journal editors than among article authors. At JLR, arguably, the opposite
Political registration of academic *ILRR*, *IR*, and *JLR* authors and editors

There are 17 Democratic authors to four Republicans, and seven Democratic editors to three Republicans.

Figure 3. Political registration of academic *ILRR*, *IR*, and *JLR* authors and editors

I also found that the authors, editors, members, and officers of the three ‘mainstream’ sources (*ILRR*, *IR*, and LERA) are at higher-ranked institutions than are the editors and authors of *JLR*. To obtain a measure of the participants’ positions in the academic hierarchy, I determined whether each officer, editor, author, and member works at a university or liberal arts college ranked for quality by *U.S. News and World Report*, and I coded the rankings. Thus, I was able to differentiate ideological orientation across ranked and unranked status, and to examine the differentiation across ranked institutions.

Figure 4 depicts the inverse of the mean ranking of the *U.S. News and World Report* nationally ranked institutions in which the participants in the four sources work. Participants in *JLR* work in institutions ranked considerably lower than those of participants in the more left-leaning journals. The more social democratic-oriented the industrial relations journals are, the better the rankings of the colleges and universities of the participants’ employers.

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17. I did not attempt to ‘merge’ the two lists, but simply entered each liberal arts school’s ranking among liberal arts schools, and each research university’s ranking among research universities; this is to say, for example, that Williams College and Princeton each were assigned a ranking of “1” in my data set.

18. Some universities are regional, some are unranked, and some, by choice, have undisclosed rankings. Regional campuses include Elon University, Shippensburg University, and Brooklyn College. Nationally ranked universities with undisclosed rankings include Georgia State and the University of Massachusetts at Boston. Unranked institutions include Penn State Harrisburg and Penn State Beaver.
Political contributions

The website of the Federal Election Commission allows lookup of donors who contributed in excess of $200 to a political candidate. I went through the list of IR editors, officers, authors, and members, and I identified place of work from author credits, the LERA membership directory, and from online sources such as employers’ websites. I included all contributions listed in the FEC database, which are from 2000 to 2015 (the FEC keeps a rolling fifteen-year listing of federal contributions). Combining geographic location with middle initials, I could identify almost all the names with reasonable certainty. The data listed in the FEC website are imperfect; the contribution amounts and whether contributions were made are measured with error. Errors include inaccurate coding, identical names, differently spelled names, and moves resulting in different states of residence, for the data are listed by state of residence. Hence, some coding errors are inevitable.

If an individual’s Democratic contributions were more than their Republican contributions, I counted that person as Democratic, and vice versa, in Figure 5. I counted Green and Working Family Party contributions as Democratic, and I counted Libertarian contributions as Republican; this third-party element was, again, minor.

In reviewing the party contributions I again focus on academics because my claim is that groupthink characterizes social processes in academia. Once again we see a different pattern for JLR. For JLR the Democratic-to-Republican ratio is

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19. Only three academics contributed to both parties.
eight to seven, nearly even. For *ILRR*, *IR*, and LERA combined, the ratio is 22:1 (109 to 5). For all academics, the mean contribution of the Republican contributors was $1,731, while the mean of the Democratic contributors was more than twice that amount, $3,573.

Using political contributions, we again find that the mainstream officers and editors are more active in Democratic support than authors, showing that the higher stations are even more lopsidedly Democratic. For example, of the 20 LERA officers, six were contributors to Democratic politics, and zero to Republican. Further results are reported in a footnote.\(^{20}\)

### Figure 5. Democratic-to-Republican academic contributor ratios by sample source

![Bar chart showing Democratic-to-Republican contributor ratios by sample source.]

<table>
<thead>
<tr>
<th>Source</th>
<th>Democratic</th>
<th>Republican</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILRR</td>
<td>35</td>
<td>1</td>
</tr>
<tr>
<td>IR</td>
<td>31</td>
<td>1</td>
</tr>
<tr>
<td>LERA</td>
<td>42</td>
<td>8</td>
</tr>
<tr>
<td>JLR</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>117</td>
<td>12</td>
</tr>
</tbody>
</table>

TABLE 3. Campaign contributions, 2000–2015, among U.S. person-roles in the IR field

<table>
<thead>
<tr>
<th>Registration</th>
<th>Academics only</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Academics</td>
</tr>
<tr>
<td>Democratic (or Green or Working Family) Party contributors</td>
<td>155</td>
</tr>
<tr>
<td>Republican (or Libertarian) Party contributors</td>
<td>18</td>
</tr>
<tr>
<td>No contributions in FEC database</td>
<td>747</td>
</tr>
<tr>
<td>Total</td>
<td>920</td>
</tr>
</tbody>
</table>

\(^{20}\) Here I report raw-number academics’ political-contribution Democratic-to-Republican ratios by sample source (again, “Democratic” also includes a few cases of minor left parties, and “Republican” a few Libertarian). For LERA: Among all 20 officers who are academics, I found 6 D and 0 R; for all 69 academic authors 16 D and 0 R; for 92 members who are academics I found 20 D and 3 R. For *ILRR*: Among all 44 academic editors I found 15 D and 1 R; for all 146 academic authors 21 D and 0 R. For *IR*: Among all 36 academic editors I found 14 D and 0 R; for all 169 academic authors 17 D and 1 R. For *JLR*: Among all 35 academic editors I found 5 D and 3 R; for all 113 academic authors 3 D and 4 R. Once again we see that the *JLR* is different from the others.
My scoring of each article’s ideological orientation

For 539 articles published 2009–2013 in the four periodicals, I scored the article’s ideological orientation along two dimensions. One is what I will proceed to call “regulation,” by which I mean government interventions, not only regulatory and but also related to social insurance. The other concerns unions. Kaufman tells of “the pro-union value system predominant in industrial relations” (1993, 192). Although unions involve a voluntary element and could exist in a free market, I nonetheless score articles along an anti- or pro-union dimension. Unions as they actually exist in the United States depend not only on freedom but also on coercive privileges from the government, particularly directed against employers and would-be employers; furthermore, unions themselves are typically active in promoting left-leaning policies and Democratic politics.

I used the ‘find’ feature in the article PDF files to identify key words such as union, regulation, labor, and legislation. If the article did not discuss regulation or unions, I did not score it, coding the article “NA” in the spreadsheet that accompanies this article (link). Assigning the scores involved my own personal judgment. The scoring is transparent and accessible online; others can easily spot-check the scores and raise objections. I scored each article on a scale from −5 to 5, where negative scores indicate anti-regulation or anti-union sentiment, argument, or evidence; zero indicates neutrality; and positive scores indicate pro-regulation or pro-union sentiment, argument, or evidence. I view scores of −3, −2, and −1 as reflecting mildly unfavorable sentiment, and of 1, 2, and 3 as reflecting mildly favorable sentiment toward regulation or unions. Scores of −5, −4, 4, and 5 reflect strongly worded or repeated assertions of sentiment toward unions or regulation or research findings that are strongly supportive of or antagonistic to unions or regulation. The scorings are not meant as evaluation of the quality of the research.

For example, consider an article by John Goddard and Carola Frege (2013) in ILRR, titled “Labor Unions, Alternative Forms of Representation, and the Exercise of Authority Relations in U.S. Workplaces.” The authors write:

Labor unions have long been argued to be the primary institutions of workers in the United States, providing not only improved wages and benefits but also rights and protections related to the exercise of authority and ultimately to the realization of democratic values at work (Chamberlain and Kuhn 1965; Sinyai 2006). Union decline might therefore be seen, in this respect, to represent a diminishment of American democracy… First, to the extent that unions can
still be shown to democratize authority relations at work, the case for stronger labor laws is supported. Second, to the extent that management-established systems appear to serve as effective alternatives to union representation, the case for repealing legal prohibitions against these systems may also be strengthened…Our conclusion that unions continue to matter to workplace authority relations (even if indirectly, through employer practices) is consistent with arguments for labor laws reforms to enhance union organizing effectiveness. Second, our finding that management-established representation systems are not associated with union voting propensities, coupled with our finding that they may serve as a part of a bundle of practices with positive implications for authority relations, is consistent with arguments for the repeal of section 8(a)(2) of the Wagner Act. (Goddard and Frege 2013, 142–165)

Although the authors argue for repeal of section 8(a)(2) of the Wagner Act, they also argue for a fine tuning of the regulatory system, which they fundamentally support. Also, they argue for labor law reforms to enhance union organizing effectiveness. I therefore assigned a 1 with respect to regulation. Because their motive includes support for unions or related institutions, I assigned a 3 with respect to unions.

In the same issue of ILRR, in an article entitled “Unionization and Certified Sickness Absence: Norwegian Evidence,” Arne Mastekaasa writes:

This study has shown that unionized employees in Norway are absent from work considerably more often than are their nonunionized counterparts. This is the case even when comparing people with the same detailed occupation and industry codes, who should therefore be in very similar if not identical jobs. Depending on the choice of absence measures, the differential varies between 9 and 20% for higher-grade employees and 20 and 47% for lower-grade employees. (Mastekaasa 2013, 136)

The findings are unflattering to unions, so I assigned a −5 with respect to unions. As to regulation, Mastekaasa writes in a positive tone of Norway’s “very generous system of sick pay,” and of government regulations imposing “high standards” of health and safety. Thus, I assigned a 2 for regulation.

Of the 539 articles that I reviewed in ILRR, IR, JLR, and the LERA proceedings, including international and nonacademic authors, 205 (38 percent) concern economic analysis of labor markets; 155 (29 percent) concern institutional analysis of labor unions; and about 179 (33 percent) concern analysis of firm-level human resource policies.

Of the 539 articles, I identify 170, or 32 percent (66 percent of those that discuss regulation), as pro-regulation. I score 56 articles, or about 11 percent (22 percent of those that discuss regulation), as neutral toward regulation. I identify 33,
or about 6 percent (12 percent of those that discuss regulation), as anti-regulation. The overall ratio of pro-regulation to anti-regulation articles is thus about five to one. Regulation is not discussed in 280 (52 percent) of the articles. Table 4 gives an overview of these data.

TABLE 4. Ideological orientation of articles in four IR periodicals toward regulation and unions, 2009–2013

<table>
<thead>
<tr>
<th>Periodical</th>
<th>Total no. of articles</th>
<th>Pro-regulation</th>
<th>Anti-regulation</th>
<th>Neutral toward regulation</th>
<th>Regulation not discussed</th>
<th>Pro-union</th>
<th>Anti-union</th>
<th>Neutral toward unions</th>
<th>Unions not discussed</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILRR</td>
<td>177</td>
<td>62 (36%)</td>
<td>8 (4%)</td>
<td>19 (11%)</td>
<td>88</td>
<td>56 (32%)</td>
<td>5 (3%)</td>
<td>28 (16%)</td>
<td>88</td>
</tr>
<tr>
<td>LERA proceedings</td>
<td>88</td>
<td>39 (46%)</td>
<td>1 (1%)</td>
<td>8 (10%)</td>
<td>40</td>
<td>39 (46%)</td>
<td>1 (1%)</td>
<td>16 (20%)</td>
<td>32</td>
</tr>
<tr>
<td>IR</td>
<td>163</td>
<td>51 (31%)</td>
<td>10 (6%)</td>
<td>12 (7%)</td>
<td>90</td>
<td>45 (28%)</td>
<td>11 (7%)</td>
<td>16 (10%)</td>
<td>91</td>
</tr>
<tr>
<td>JLR</td>
<td>111</td>
<td>18 (16%)</td>
<td>14 (13%)</td>
<td>17 (15%)</td>
<td>62</td>
<td>21 (19%)</td>
<td>4 (4%)</td>
<td>20 (18%)</td>
<td>66</td>
</tr>
<tr>
<td>Total</td>
<td>539</td>
<td>170 (32%)</td>
<td>33 (6%)</td>
<td>56 (10%)</td>
<td>280</td>
<td>161 (30%)</td>
<td>21 (4%)</td>
<td>80 (15%)</td>
<td>277</td>
</tr>
</tbody>
</table>

With respect to unions, 161 of the 539 articles, or about 30 percent (61 percent of the articles that discuss unions), are pro-union. Twenty-one of 539, or about 4 percent (eight percent of those that discuss unions), are anti-union. Eighty articles, or 15 percent (31 percent of the articles that discuss unions), are neutral toward unions. The articles reviewed are thus strongly pro-union, with a ratio of seven pro-union articles for every anti-union article.21

Of the 1,073 authorships in the four publications for the years 2009 to 2013, 557 are from authors based in the United States, with 515 from authors in other countries. Of the 557 U.S.-based authorships, 492 are from persons employed as academics (see Table 5).

TABLE 5. Authorship characteristics in four IR periodicals, 2009–2013

<table>
<thead>
<tr>
<th>Periodicals</th>
<th>Total authorships</th>
<th>Non-U.S.</th>
<th>U.S.</th>
<th>U.S., with academic affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILRR</td>
<td>380</td>
<td>220</td>
<td>160</td>
<td>141</td>
</tr>
<tr>
<td>LERA proceedings</td>
<td>134</td>
<td>39</td>
<td>95</td>
<td>69</td>
</tr>
<tr>
<td>IR</td>
<td>336</td>
<td>153</td>
<td>183</td>
<td>169</td>
</tr>
<tr>
<td>JLR</td>
<td>223</td>
<td>104</td>
<td>119</td>
<td>113</td>
</tr>
<tr>
<td>Total</td>
<td>1073</td>
<td>516</td>
<td>557</td>
<td>492</td>
</tr>
</tbody>
</table>

21. Regulation is not discussed in 280 of the articles, and unions are not discussed in 278 articles, or about 51 percent each.
22. Again, a single person sometimes corresponds to multiple authorships.
The ideological drift of journal articles

Table 6 shows the breakdown of the articles’ ideological orientation by the minus-5-to-plus-5 scale that I apply. For regulation, the largest categories are 5 (pro-regulation), with 23.1 percent, and 0 (neutral), with 24.3 percent. For unions, the biggest single category is 0 (neutral), with 31.6 percent, and the second biggest is 5 (pro-union), with 25.9. A leftward tilt is apparent.

<table>
<thead>
<tr>
<th>Table 6. Orientation of articles discussing regulation/unions, all authors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Regulation (n=256)</td>
</tr>
<tr>
<td>Unions (n=264)</td>
</tr>
</tbody>
</table>

***P<.0001.

Table 7 separates the results by publication. The mean scores (again, the range is −5 to 5) for articles published in the three mainstream IR journals range from 1.3 to 2.2; hence, the means are tilted to the left. In contrast, the JLR mean scores are −0.3 for regulation and 1.1 for unions, showing again that JLR is different from the other three periodicals.

<table>
<thead>
<tr>
<th>Table 7. Mean ideological orientation of articles in IR periodicals, 2009–2013 (standard deviations in parentheses)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Mean orientation toward unions, among relevant articles</td>
</tr>
<tr>
<td>n=75</td>
</tr>
<tr>
<td>Mean orientation toward regulation, among relevant articles</td>
</tr>
<tr>
<td>n=76</td>
</tr>
</tbody>
</table>

Table 8 shows the differences in the means of the ideological orientation scores for Democrats and Republicans for the articles of authors in the thirty states that report registration. I counted authors as Democrats or Republicans if they were either registered as Democrats or Republicans or had contributed to the Democratic or Republican parties (recall that I am counting a few minor left party registrants as Democrats and a few Libertarian Party registrants as Republicans).

The t-tests for differences in means are significant for Democrats—in other words Democratic authors in the thirty states that report party registration
published articles with significantly further left ideological content than other authors. The difference in means for Republicans for the articles on regulation is significant for the traditional equal-variance t-test, but I used the unequal variance t-test for the Republicans because an F test rejects the assumption of sample variance equality. The sample sizes for the Republicans are only seven and eight. The small number of articles by known Republicans in the years 2009 to 2013 have mean scores that are well below those for other articles, both for articles on regulation (−0.8 for Republicans versus 1.5 for non-Republicans) and articles on unions (1.0 versus 2.0), but according to the t-test these differences are not statistically significant.

Table 9 shows the results of analysis of variance with the authors’ party affiliation, when known, as the predictor and the scoring of the ideological orientation of their articles as the dependent variable. The results of the ANOVA are modest, but they validate the ideological tilt measured in my scoring. I scored the articles before reviewing the data on affiliations; nevertheless, the associations between the authors’ political registrations and the scored ideological orientation are statistically significant for three of four ANOVAs. This is so despite the ad hoc nature of my scoring process, which introduced error. In ANOVAs not shown, inclusion of the inferred observations in the states that do not report party registration increases the sample size from 161 to 250 and 136 to 262, the F statistics retain their significance, and the R² statistics are approximately the same.
### Conclusion

This study finds that articles published in the industrial relations field reflect a social democratic political ideology and that political affiliations of researchers in the field are preponderantly Democratic. Moreover, the researchers’ political affiliations statistically explain, to a modest degree, the ideological orientation of their findings. Researchers with Democratic (or minor left party) registration tend to publish research that reflects social democratic ideology. Moreover, status is associated with ideology: More social democratically oriented academics publish in the more prestigious journals and work at the more prestigious universities. Editors of the most elite journals have a stronger tendency toward Democratic affiliations than do the authors whose articles appear in those journals. These findings coincide with McEachern’s (2005) study of American economists and Klein and Stern’s (2009b) groupthink model.

Thus, for our sample of person-roles in the industrial relations field, the ratio of Democratic (or minor left party)-to-Republican (or Libertarian) voter registration is 10.0 to 1, and for campaign contribution the ratio is 9.8 to 1. Those ratios, however, include editors and authors of the *Journal of Labor Research*, which is something of an aberration from the left-leaning orthodoxy of industrial relations; if *JLR* entries are excluded from the sample, the political registration ratio rises to 13 to 1, and the contribution ratio becomes 22 to 1. If one looks at those who serve in multiple roles, for instance as an editor and an author or as the author of several articles, the registration ratio is 11.8 to one.

The editorship of the leading American industrial relations journals is even more oriented toward left politics. Among *Industrial and Labor Relations Review*’s ed-
tors, I find 23 registered Democrats and only one Republican; among *Industrial Relations*’s editors, I find 23 registered Democrats and zero Republicans. The less-prestigious *JLR* is again different: Among its editors, I found seven registered Democrats but also three Republicans.

As I said at the outset, these results will not surprise anyone. Yet, to come to terms with the facts, it is important not only that everybody know, but that everybody know that everybody knows.

**Appendix 1.**

**Organizational Members of the Industrial Relations Research Association, 2002**

This listing is reproduced from the IRRA *Proceedings of the 54th Annual Meeting* (IRRA 2002, 318):

**SUSTAINING MEMBERS***

- AFL-AFL-CIO
- The Alliance for Growth and Development
- Boeing Quality Through Training Program
- Ford Motor Company
- General Electric
- National Association of Manufacturers
- National Education Association
- UAW-Ford National Education, Training and Development Center
- United Steelworkers of America

**ANNUAL MEMBERS 2002**

- Albert Shanker Institute
- American Federation of Teachers
- Bechtel Nevada Corporation
- Chapman University
- Communications Workers of America
- Cornell University - School of Industrial and Labor Relations
- Georgia State University, Beebe Institute
• International Brotherhood of Teamsters
• Las Vegas Metropolitan Police Department
• Massachusetts Institute of Technology - Sloan School of Management
• Michigan State University - School of Labor & Industrial Relations
• New York Nurses Association
• Rutgers University - School of Management and Labor Relations
• Society for Human Resource Management
• St. Joseph’s - Erivan K. Haub School of Business
• University of Illinois at Urbana-Champaign - Institute of Labor & Industrial Relations
• University of Michigan - Institute of Labor and Industrial Relations
• University of Minnesota-Twin Cities, Industrial Relations Center
• University of Notre Dame - Higgins Labor Research Center

*Sustaining Members—one-time contribution of $5,000 to $10,000
**Annual organizational memberships are available at the following levels:
  Benefactor, $5,000 or more—6 employee members
  Supporter, $1,000 to $4,999—6 employee members
  Major University, $500—2 employee members
  Educational or Non-Profit, $250—2 employee members

Appendix 2.
Data
Data used in this research (Excel and SAS formats) and some accompanying documentation are available for download (link).

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**Kochan, Thomas A.** 2000a. Rebuilding the Social Contract at Work: A Call to Action for a Renewed IRRA. Presented at the 52nd Annual Meeting of the Industrial Relations Research Association (Boston), January. [Link](#)


### About the Author

**Mitchell Langbert** is an associate professor of business at Brooklyn College. He holds an MBA from UCLA, an MBA from the St. John’s University School of Risk and Insurance (formerly the College of Insurance), and a Ph.D. in industrial relations from the Columbia University Graduate School of Business. He has published in mainstream journals including *Human Resource Management Journal, Journal of Business Ethics, Academy of Management Learning and Education Journal,* and repeatedly in *Benefits Quarterly, Journal of Labor Research,* and *Journal of Economic Issues.* At Brooklyn College he teaches managerial skills, human resources, and business writing. His email address is mlangbert@hvc.rr.com.

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Go to January 2016 issue

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[http://journaltalk.net/articles/5901](http://journaltalk.net/articles/5901)
Swedish policies were quite liberal, and for 100 years, say from 1870 to 1970, the economy grew rapidly (see Schön 2011; Bergh 2014). During this period Sweden enjoyed relatively high-quality public debate—a tradition in which Sweden still remains quite exceptional. Leading economists took active part and influenced opinion; they were genuine leaders in public discourse. Five titans stand out: Knut Wicksell, Gustav Cassel, Eli Heckscher, Bertil Ohlin, and Gunnar Myrdal. The first three were highly liberal. Ohlin began as liberal, like his mentor Heckscher, but moved to a position of social liberalism, or moderate welfare-statism, and became a leading politician (Berggren 2013). Myrdal represents Sweden’s turn toward social democracy (Carlson 2013). Here I tell of Eli Heckscher (1879–1952), and in particular of his ideological development. For most of his life Heckscher was the most firmly principled economic liberal Sweden had. He fought against state-socialist tendencies, Keynesian crisis policy, and economic planning, and had only one real rival, Gustav Cassel,
for the title of the most vigorous economic liberal Swede of the twentieth century. But at age 25 Heckscher’s views were not liberal: “during my student years I had been almost as far from economic liberalism as anyone at that time” (Heckscher 1944, 94). He did not come to his liberal views until his early 30s. From that time his liberalism only grew firmer.

Heckscher’s status as a titan can be understood by way of his enormous accomplishments in four areas. First, he achieved worldwide fame as an economic theorist through the Heckscher-Ohlin theorem. Second, he was a leading figure in the history of economic thought, his magnum opus there being the two-volume work *Mercantilism* (1931; English ed. 1935). Third, he was Sweden’s leading figure in economic history, writing a monumental economic history of Sweden (2 vols., 1935–1936; English ed. 1954); he has been seen as a forerunner to cliometrics, the new economic history of the 1960s (Hettne 1980). Fourth, he was hugely active in public debate. He was the most active debater ever in the debate forum of the Swedish Economic Association (*Nationalekonomiska föreningen*) and wrote about 300 articles in a leading Swedish daily, *Dagens Nyheter*. He thus influenced many economists and politicians as well as the general public.

One might venture to say that there is, yet, a fifth dimension of Heckscher’s accomplishment, namely, his formulation and development of argumentation for a coherent liberal political economy. All of Heckscher’s accomplishments are little appreciated outside of Sweden, but this fifth dimension is especially underappreciated, as few of his policy-oriented writings have been translated. I draw on many such writings in this article.

Before proceeding, it might be useful to remind readers that in the nineteenth century, especially in long-settled lands of Europe, liberal views and liberal policies were highly dynamic, disruptive forces. Liberal attitudes brought change and upset to traditional ways of life. Liberalism militates against governmental custody of sacred values, envisioning instead the individual pursuit of happiness and pluralism with regard to sacred values. Conservatives were resistant to such changes. They sought to slow things down, to preserve *gemeinschaft*, political community, especially through the governmentalization of social affairs. Odd as it might sound to North American readers, the conservatives of the time had tendencies toward state socialism, not from Marxism of course, but from conservative statist sensibility. At
this time in Sweden, such conservatives were sometimes referred to as the political ‘right.’ As Sheri Berman puts it:

[T]he fin-de-siècle witnessed a surge in communitarian thought and nationalist movements that argued that only a revival of national communities could provide the sense of solidarity, belonging, and collective purpose that Europe’s divided and disoriented societies so desperately needed. (Berman 2006, 13)

Meanwhile, the political ‘left’ could mean either the liberals or the social democrats, two groups that mixed and, at that time, often were allied against the conservatives. 8

Heckscher’s political conversion

Let us begin by skimming through some depictions of the younger Heckscher and his political stance and sources of inspiration, drawn from sundry Heckscher authorities.

Heckscher, raised in a wealthy Jewish family, was enrolled at Uppsala University in 1897 and soon became a leading figure in a moderate wing of conservatives gathered around the historian Harald Hjärne, who argued for a view where the state was seen as an organic entity that had a value of its own, to some extent separated from the people or individual citizen. As a young conservative, Heckscher adopted an almost state-socialist stance. The social democrat Erik Palmstierna tells of a “junta” of “intelligent young men who gathered themselves around Eli Heckscher […] these men of the historical school whose masters were Adolf Wagner and [William] Ashley” (1951, 34).

Arthur Montgomery emphasizes how strongly Heckscher was marked by his teacher of history, Harald Hjärne, compared with his teachers (and eventually colleagues) in economics, David Davidson, Knut Wicksell, and Gustav Cassel. In Montgomery’s account, Heckscher’s appointment as professor of economics at the Stockholm School of Economics in 1909 had “very profound consequences for Heckscher’s scholarly work during the next two decades. His interests were now led to a higher degree than formerly into the paths of economics” (1953, 154–155). But otherwise Montgomery does not speak of any radical change of direction in Heckscher’s ideas.

8. For a valuable and candid discussion of ideological developments at the time, with much attention to Sweden, see Berman (2006), who openly expresses her favor for “the primacy of politics,” as pursued by social democratic politics.
One of the young Heckscher’s partisans, Herman Brulin, with the help of some letters from Heckscher to his friend and colleague Gösta Bagge, tells of a “crisis of economic and political belief” which Heckscher underwent during World War I. Heckscher explained in a letter of 1915 that he had

an abnormal need for unity of outlook and therefore [I] continually endeavour to find an explanation of every separate point so that it comes into line with my total conceptual scheme. So in the end I arrive at a position which is clearly absurd; and then I start to pick the entire thing apart again in order to bring out another unbroken line, which goes the same way, and so on ad infinitum. Consequently I go from the one extreme to the other in the course of ten to fifteen years…. (Heckscher, quoted in Brulin 1953, 417)

In another letter of 1916 Heckscher spoke of “the road I am travelling at present, away from old gods and ideals and towards some goal of which I have no inkling myself” (Brulin 1953, 417). In Brulin’s opinion, one reason for Heckscher’s conversion is to be found in his “Anglomania,” which would relate to his fear of a German victory in World War One.

Ernst Söderlund too had the idea that Heckscher’s reorientation in a liberal direction resulted from the experiences of WWI: “It was mainly during this period, as far as can be judged, that Heckscher was working his way towards the thoroughly reasoned, almost Marshallian liberal approach to economic questions which was to mark so deeply both his scholarly work and his participation in public debate” (1953, 63).

Bertil Ohlin summed up his mentor’s political evolution in the following words: “He long considered himself a conservative in the spirit of Harald Hjärne. Little by little, however, his liberal approach to economic policy caused him to adopt a more independent outlook” (1971, 280). Ohlin takes it for granted that Heckscher’s appointment as professor of economics in 1909 caused him to turn his interest increasingly towards economic theory.

Björn Hettne argued that it was natural for Heckscher, after being appointed professor of economics, “to become oriented more strongly towards neoclassical theory in the period that followed” (1980, 56–57). Rolf Henriksson considers that Heckscher’s change of stance happened during WWI: “The war had turned Heckscher’s political views from moderately conservative to strongly liberal” (1991, 151). Kurt Wickman (2000), finally, explains Heckscher’s switch to liberalism in terms partly of his study of Marshall and partly of the experiences of WWI.

In the literature on Heckscher there is consequently an opinion (represented by Montgomery, Ohlin, Hettne, and Wickman) that he, after his appointment as

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9. Heckscher’s letters are to be found at the Royal Library in Stockholm.
professor of economics in 1909, aligned himself more in the direction of modern neoclassical economics, which could explain his drift from conservatism towards liberalism. There is also an opinion (represented by Brulin, Söderlund, Henriksson, and Wickman) that he underwent an economic-political conversion during WWI with its multitudinous examples of state intervention, and perhaps under the threat of a German victory, as Germany represented state socialism at this time.

Heckscher’s own explanation of his drift towards an economic liberal standpoint emphasizes the negative experiences of state economic intervention during WWI. When asked during a newspaper interview why he had changed from conservative to liberal he replied:

Yes, that is mostly a result of my changed economic stance. I was of a conservative way of thinking formerly, which chimed in with Hjärne’s constitutional ideal. Then the Hammarskjöld government’s national economic planning policy came along, which signified state intervention in every field. I really felt respect for the government’s good intentions, but I got more and more of a depressing feeling that it had taken a wrong turn. (Heckscher, quoted in Ingelson 1933)

In a summing-up of “Experiences of economics and economic policy over forty years,” Heckscher repeats the message that his skepticism about the state’s ability to beneficially influence the economy emanated from WWI: “It cannot be denied that my skepticism on this point had its root primarily in experiences of the working of government during the First World War” (1944, 94). What Heckscher chiefly learned was that state interventions were marked by planlessness and deference to diverse special interests.

We shall now follow the economic and political standpoints of the young Heckscher chronologically between 1906 and 1918.10

Early in 1906 Heckscher along with Herman Brulin went on to the offensive against “old liberalism.” They spoke of “the general, well-deserved and international bankruptcy which has fallen upon the old historical liberalism.” It was important, they held, to incorporate the workers into the nation, and there were possibilities here for a vigorous right. Given a strong state power and sufficient energy it ought to be possible to hammer the masses out to the right as easily as to the left. “Socialism and true conservatism [can] meet here with an abundance of the prerequisites for cooperating with and understanding each other” (Heckscher and Brulin 1906).

10. Heckscher’s first decade as a publicist did not leave much to interest anyone concerned to know his standpoints on economic policy.
When Heckscher discussed measures to combat child and female labor, accidents at work, and long working hours, he believed that neither employers, nor trade unions, nor parents could solve these problems. The state was the only power that could push through the necessary protective measures:

It is not a question of the interests of private individuals but of those of society. [...] It is society’s interest which shall dictate the rules. That is the meaning of the expression social legislation, which is neither charity nor sympathy for the workers; it is not class legislation but social legislation; it is the means for a better organization of society. (Heckscher 1906a, 10)

In another article Heckscher declared that the monopolistic nature of railways had created a strong argument for state railways (1906b). He refuted the view attributed to earlier political economists “concerning the universal validity and vitality of free competition, and of the unnaturalness of monopoly and the state’s duty of passivity in the economic field.”

Heckscher then turned on the old conservatives, whom he accused of having failed to understand what opportunities were opening themselves to the right—instead, they had turned conservatism into a “moderate braking device.” “They seem to have no perception that developments in the social sphere over the past century towards a strengthening of the state’s position as the proper guardian of the national interest constitute a great victory for conservative ideas” (1907a, 178).

In an article in Social-Demokraten, Heckscher (1907b) describes himself as “a person who backs state intervention in principle without being a socialist.” In the article, Heckscher challenged Stockholm socialists to a public debate on the theory of socialism. The gauntlet was picked up, and early in 1908 Heckscher tangled with leading social democrats and declared that it was a great mistake to believe that health and safety workplace rules, workers’ social insurance, and state railways were socialist inventions. In all eras the state had intervened in every field, and liberalism was merely a parenthetical phenomenon in this scheme of things. “There is therefore not the least tendency for us to be slipping towards a socialist state just because events are shifting us back into the grooves in which they have moved for thousands of years with one brief intermission” (Heckscher 1908c, 22).

Heckscher also appeared at the Swedish Economic Association with an interventionist message. He noted that the task of the state had begun to be understood in a sense more wide-ranging than fifty years earlier, and he accepted this development:

11. This article was a forerunner of Heckscher’s doctoral thesis on railways the following year (Heckscher 1907c).
For the modern state has, as every state must do in the long run, resumed its work of protecting and encouraging all aspects of the national life. The state is no longer merely the supplier of the protection of the law and the representative of the formal systematization of the relation between individuals, but it also intervenes as a positively active power, supporting tendencies which seem to merit being developed and assisted while counteracting others which cause harm within the pale of the law…

(Heckscher 1908a, 3)

As an example of spheres which had been the object of intervention, he specified public education, economic policy, and social policy, and added that Germany’s economic expansion was the result of state intervention.

Which enterprises ought to lie in the hands of government? Well, replied Heckscher: “It is chiefly—and ought to be—enterprises which firstly constitute more or less what one calls natural monopolies and secondly are indispensable to the health, welfare, and legal protection of all members of society” (1908b, 383–384). Heckscher here made fun of the “timid old liberal theorists” who painted pictures of the dangers of economic enterprises in the hands of central and local authorities (ibid., 382). However, one had to take into account the risk that workpeople of a democratic society would capture political power and in that way secure control over the enterprises in which they themselves were “subordinates.” This risk was particularly serious precisely in natural monopolies and public utilities.

In 1909 there was in Sweden a general lockout and strike during the summer and autumn. Heckscher’s reaction was very resolute. In his very own person he went out with the dustcarts to keep Stockholm clean. In the wake of the strike he complained of anarchy in the trade union movement, disobedience to the leaders, and lack of centralization. His discourse climaxed in a tirade against democracy:

The chief casualty in all these phenomena is democracy—the word may be aptly translated as the sovereignty of the mob! If one wishes to appreciate properly the incredible silliness of pure democracy—the dominion of the stupid over the wise, the inexperienced over the experienced, the ignorant over the discerning—then one must go to the labor movement… (Heckscher 1909a, 8–9)

On the whole, however, Heckscher (1909b) seems to have viewed the result of the conflict as a useful lesson for the youthful and overweening labor movement.

Heckscher continued to criticize the extremist alternatives of liberalism and socialism—“the state’s absolute abstention from any involvement in economic questions on the one hand, and the state’s complete takeover of the nation’s production on the other.” State intervention was necessary and did not lead to
a socialist state; rather, economic activity “inevitably needs effective protection and supervision by state authorities” and “certain types of monopolistic activity are suitable for the state itself” (1910, 1). Socialist politicians of course wanted to expand the state’s sphere of activity, but at the same time they wished to limit the discretion of state authorities. “The first prerequisite of every form of state socialism is probably a strong executive power, equipped with far-reaching authority and unencumbered by involvement in matters of detail,” stated Heckscher (ibid., 2, 7) and continued with the following complaint: “We find everywhere the same individualistic spirit, hostile to vigorous government action.”

Heckscher and Gösta Bagge soon started the journal Svensk Tidskrift, and served as the editors. Bagge and Heckscher declared that the journal aimed to defend “the Swedish state’s internal and external strength and the effectiveness of state action, in support of the nation’s common tasks, in nurturing the nation’s international standing, and in furtherance of the state’s interest against encroachment or unjustified claims by all private parties and classes” (1911, 2).

In early 1911, Heckscher delivered a lecture on trade and industry that is notable for its palpably quieter tone. “When one speaks of means for raising trade and industry, one’s thoughts probably turn in the majority of instances to the state,” he began, but at once asked whether or not “the state’s influence, both positive and negative, over economic events is becoming overestimated” (1911a, 3). Taking labor legislation as an example, he expressed skepticism toward the idea that the state “should seek to create a condition of things desirable in itself,” suggesting rather that the state should probably content itself with “giving the sanctity of law to a condition which has already become the normal” (ibid., 4). And the conclusion of Heckscher’s lecture was no ringing affirmation of state activism: “Without wishing to deny the great importance of state action, therefore, I believe we should hold to the basic principle that trade and industry should look primarily to themselves for help” (ibid., 6).

In an article published late in 1911, Heckscher took up again the question of “What our industry needs,” and again the message was that traders must help themselves:

A flourishing industry depends in the first instance on industrialists themselves. At the present time, both in Sweden and in other countries, we have got so much into the way of being supported by the state—by ‘trade policy,’ ‘industrial policy,’ ‘export policy,’ ‘shipping policy’—that sometimes the greatest danger seems to me to be that this simple truth may be forgotten. (Heckscher 1911d)

Another article from 1911 shows Heckscher becoming doubtful about the state as entrepreneur. The advantages of government enterprise were, he thought,
the economies of scale and the scope for cheaper access to capital, but the
disadvantages included rigidity, uniformity, lack of the pioneering spirit, and the
risk of workers securing too much influence over the firm. Profit-and-loss, residual
claimancy, is the crucial factor in the choice between state and private enterprise
(1911b).

Heckscher’s agitation against socialism was no longer introduced with any
announcement of unity in the matter of the important role to be played by the
state. When the social democratic movement emphasized more and more that the
aim of socialism was to abolish poverty, Heckscher (1911c) posed two questions:
Can socialism increase economic growth? Can socialism prevent pauperization of
the people? By the latter question he meant that talk of society’s guilt and the
individual’s innocence in the matter of individual poverty risked undermining the
spirit of personal responsibility and creating a “poorhouse mentality.”

It is my judgment that by the end of 1911, Heckscher’s state-socialist stance
of even a year prior was more or less gone. As the Liberal party took over the
government, Heckscher wrote: “Now, however, a fairly long liberal regime is
approaching under which business and industry pretty obviously will have to
expect less benevolent interest on the part of the state than hitherto”; business and
industry, therefore, must stand on their own feet and “keep themselves afloat even
in the face of very strong government measures for the benefit of other interests”
(1911d).

In a 1912 article on social reforms, Heckscher spoke of the abolition of
poverty as the highest goal of all economic and social work. He underscored that
poverty could only be abolished through economic growth, not redistribution.
He could conceive of legislation dealing with maximum working hours and (with
some hesitancy) minimum wages and social insurance. “Security for the great mass
of people can only be created, at least up to the present, by the most enduring
of all social structures, viz. the state itself, and for this reason social insurance is
indispensable” (1912, 417). However, care must be taken not to undermine “the
sense of personal responsibility, that each and every one of us ‘is the architect
of his own fortune,’ that poverty…must never appear to the individual as not of
his own making as long as he has had some opportunity of avoiding it” (ibid.,
415–416). Therefore every responsible-minded person must strive to ensure that
the forthcoming social reforms “do not lead to the pauperization of the people, to
the creation of a poorhouse mentality in the whole of society” (ibid., 416).

In 1914 the World War came, and with it state interventions in various
directions on which Heckscher commented from time to time. “Maximum prices,”
he opined, “are, as a rule, a remarkably foolish stunt” (1915a, 85). The less
interference in the price-setting process the better. On the other hand he could
see nothing wrong with the state’s appropriating unearned war profits, which otherwise risked “being squandered on champagne” (Heckscher 1915b, 248).

Towards the end of the war Heckscher described an ideal vision of “a really strong and respected state power, independence and authority to the organs of state, a state administrative machine protected from party-political infection” (1917, 444). But such strength and respectability were not necessarily tied to extended exercises of state power: “Whether one wants to call wartime developments ‘war socialism’ or not, what is clear even to the most purblind observer is the extent to which during the war the state has extended its functions to more, bigger and increasingly difficult fields of action” (Heckscher 1918a, 134).

In a lecture on state and private initiative after the war in 1918, Heckscher preached that the “invisible hand” was “the right engine for all true economic activity” (1918b, 5–6). He argued that “we ought to have the least possible state management when the war is over” (ibid., 33). On state monopoly, he averred “that those who saw state management at close quarters during the war generally incline to the view that it is a contraction rather than an expansion of state enterprise, even such as it was prior to the war, that we are in need of” (1918d, 520). Only by scrapping the wartime régime at once would it be possible to achieve self-limitation of the state.

By this time, Heckscher had already made use of a powerful metaphor for the menace of a state machine running riot: Frankenstein’s monster. “Humanity in its adversity seeks to bring in more and more and more, to include ever larger areas within the compass of state organization, and in so doing loses all command of this mighty organization” (1918c, 292). Heckscher declared that “the wartime planning fiasco made a great many people wary of state intervention in matters great and small” (1919a). In an article on the unexpected progeny of war, Heckscher dissociated himself from “state absolutism” (1919b, 107). The state exists for its citizens, not the other way round. The state is a means to an end; to regard it as an end in itself was “idolatry” (ibid., 110).

The passages lately quoted are from dispersed articles, mostly in Svensk Tidskrift. Heckscher’s magnificent entrance upon the scene as the prophet of economic liberalism in Sweden came in 1921 with Gammal och ny ekonomisk liberalism (“Economic Liberalism Old and New”) (1921a; see also 1921b), a work which evoked the following exclamation from Social-Demokraten (1921): “That a prominent man, Professor Heckscher, has been converted leftwards is one of the most sensational events of the age.”

12. A move from conservatism to liberalism is normally a move to the left. However, it is questionable if a move from social conservatism to market liberalism is really a move to the left.
as a market liberal, and for the rest of his life he was highly active as a public intellectual, as well as an eminent and prolific scholar.

With the help of testimony from Heckscher authorities, and from Heckscher himself, we have traced Heckscher’s conversion from a statist conservatism to economic or market liberalism. But some background events deserve further attention.

The general strike of 1909 caused many in Sweden to re-evaluate their political stance. Sven Ulric Palme has described the strike as “the strongly dominant experience which, more than any other, awakened the fear of socialism among middle-class Swedes” (1964, 260). Above all the strike may have destroyed hope in the conservative camp of class cooperation under conservative leadership.

Another crucial sequence of events was the reform of the franchise in 1909 and the subsequent change of government in 1911. Nils Elvander (1961) describes the following scenario: Following the dissolution of the Union with Norway in 1905, the Conservative party maintained a reformist course in a spirit of national solidarity until 1910, when it switched from social conservatism to economic liberalism. The main reason for the change of direction toward economic liberalism was that after the franchise reform, the Conservatives were faced with the prospect that the reform policy would be pursued by a government controlled by a radicalized liberalism with socialist support, fears which proved justified in 1911, when Karl Staaff formed a liberal government with parliamentary support of social democrats. ¹³

We can now present four hypotheses concerning the causes and turning points of Heckscher’s migration to liberalism:

1. Heckscher’s appointment to a professorship in 1909 and the subsequent stronger orientation towards neoclassical (liberal) economic theory;
2. the general strike of 1909 which awakened fears of socialism and cast doubt on the social-conservative project;
3. the franchise reform of 1909 and the subsequent shift of power from right to left in 1911, which led to the conservatives losing control over reform policy and, as a further consequence, moving in an economic liberal (anti-statist) direction; and
4. “war socialism” during WWI, which had the effect of discrediting state activism in Heckscher’s mind (as in many other people’s minds).

¹³. Elvander’s conception of the timing of and explanation for the switch towards economic liberalism in the conservative camp has been confirmed by historian Ake Sundell (1989).
It is difficult on the basis of Heckscher’s writings to free oneself from the impression that his movement from social conservatism or state socialism to market liberalism or state skepticism began in a marked way from the start of 1911. His detailed studies of neoclassical economists at this time (hypothesis 1) may have had some influence, but the change of direction was so sudden as to provoke the suspicion that it may have been triggered by a more palpable change of ideological wind.

If the change of direction happened around the start of 1911 the general strike (hypothesis 2) is unlikely to have been of much significance. After all, one of his most state activist articles—the 1910 article on state socialism—was published after he had published reactions on the strike.

The readiest explanation is probably to be found instead in the fact that in 1911 power passed from the right under Arvid Lindman to the left (liberals supported by the social democrats) under Karl Staaff (hypothesis 3). Heckscher, from his conservative horizon, must have interpreted the power shift as a threat against the state, which he wanted to see elevated above special interests. Now the hour had struck, as he wrote in 1911, for “strong government measures for the benefit of other interests” than those of trade and industry. He thus regarded the conservative elite as representing the general interest while, for example, the labor movement represented a special interest.

Heckscher’s dawning economic liberalism was then obviously fortified by the experiences of “war socialism,” and towards the end of the war he elaborated his well-reasoned and uncompromising liberal world view.14

Heckscher himself testifies that the war experiences were of overriding importance. Are we not to believe his own words? It seems that the war made him place his full weight on the economic liberal leg rather than making him shift his center of gravity from one leg to the other. In fact it is not all that difficult to understand if Heckscher, when he in the 1930s and 1940s wanted to explain his switch from social conservatism to market liberalism, preferred to emphasize the negatively perceived experiences of WWI state intervention, rather than the 1911 power shift that had been precipitated by a democratic reform. In the 1930s and 1940s he did not hold on to the negative view of democracy that he had espoused in 1909—rather, he fought for democracy against dictatorship. So I am suggesting an interpretation that takes as its starting point two observed circumstances (hy-

14. Other former young conservatives who, like Heckscher, moved in a liberal direction after 1910, fell back into right-wing radicalism and state socialism during the war because they placed their hopes in a German victory. Heckscher was more inclined to favour the British side and therefore was not affected by any reversion.
pototheses 1 and 4) and draws attention to one circumstance previously less noticed (hypothesis 3).

I have searched Heckscher’s letters to his mother, Rosa Heckscher, during the period 1909 to 1922 to find some additional evidence. Heckscher had a very close relationship with his mother (who was only 17 years his senior), and wrote no fewer than 876 letters to her during the period 1894–1944 (Kungliga biblioteket L:67:85:1–3). Heckscher explained his conversion in two letters to her. He goes into the most detail in the second of these letters, dated 26 March 1919: 15

Well, Mother, you are right that my essay [Heckscher 1919b, on the unexpected progeny of war] … is a sort of defection, but unfortunately not very substantial in positive respects. I have really thought this ever since 1915–16 but refrained from writing it down out of consideration for the others who were thought to have a right of censorship over my scripts as long as I was editor [of Svensk Tidskrift]. … What caused the change is as usual lots of things. An inborn and inherited individualism probably plays a main part, it has emerged gradually during the silver-plating which Hjärne and his school gave it at one time and which was of tip-top material. Then studying economics has had a lot to do with it; it weaned me away from my former protectionism, and much against my original thinking it took a lot more with it. A closer insight into what in reality lies behind the cliché of ‘the state’ then also became a main factor, especially the Hammarskjöld government’s inability, even during its golden era and despite better intentions than we are likely to see again, really to act in accordance with what the general good required. The war came as the last big mouthful, especially the experiences during the study-tour of 1915. 16

Heckscher’s remarks concerning his studies of economics and the war bring nothing new to what previous Heckscher scholars have discerned. New are the remarks to the effect that he was a liberal by birth and force of habit but for a time became a conservative through his studies under Hjärne, and that he dates his conversion more exactly, at the years 1915–16. 17

Heckscher’s studies of economics began to exert their effect from 1909 onwards and the crucial experiences of wartime came from the years 1915–16. But Heckscher’s writings evidence a marked change around the start of 1911. Thus there remains a suspicion that the change—or even anticipated change—of gov-

15. In the earlier letter (29 December 1918) Heckscher speaks similarly of an underlying individualism, which was restrained by the Hjärne school, in combination with an inclination to go the whole hog theoretically, and of theoretical economics and the war causing him to change his opinion.

16. Heckscher refers to the study-tour he made in Holland, England, France, and Germany in the summer of 1915 (see Heckscher 1915c).

17. As far as his reference to Hjärne is concerned, one should perhaps keep in mind that Hjärne hardly ever displayed such a radical economic and social state-activist attitude as did Heckscher.
ernment from right to left in 1911 played a part in his conversion. One reason for this change seems to be that he regarded the conservative regime as elevated above special interests, whereas the social-liberal regime supported by social democrats represented special interests. That Heckscher’s conversion was so radical can be explained by his psychological constitution. When affected by doubt he had to search for an entirely new and consistent system of ideas: “I go from the one extreme to the other in the course of ten-fifteen years.” Heckscher was a very principled man, which explains why he got into so many conflicts with colleagues, students and friends (see Hasselberg 2007; Lundahl 2015).

Heckscher’s liberal insights in political economy

In his youth, Heckscher was particularly influenced by his teachers and colleagues David Davidson and Gustav Cassel (even though he could not stand Cassel) and somewhat later by his reading of Knut Wicksell and Alfred Marshall.

In *Gammal och ny ekonomisk liberalism*, Heckscher stated the basic theses of economic liberalism. Adam Smith’s invisible hand was portrayed like this: “every individual understands what is best for him, every individual can do what is best for him by acting for himself; and by pursuing what is best for himself every individual in fact does what is best for society,” and nothing makes “such capable or such happy people as the awareness that one is the smith of one’s own fortune.” If all these diligent smiths had the liberty of action, society would thrive, “even at the risk that a considerable number of extravagant, uncompromising, lazy, uneconomically inclined individuals and groups will fall into difficulties from which an all-regulating state could have been able to rescue them” (1921a, 5, 91, 95).

The goal of all economic activity, Heckscher (1918b) stressed, is consumption. Economics is about adjusting means to ends and the overall end is maximum human want satisfaction. Since means or resources are scarce, one must economize with them and achieve the greatest possible result with the least possible sacrifice. This economizing is the starting point of economic science.

The task of economizing rests on free pricing. Heckscher had many names for pricing: “this wonderful machinery,” “the proper motor of all true economic activity,” “the invisible hand,” “a graduated deterrent against waste” (1918b, 5–6; 1926, 5; 1928, 8). Private enterprise, wrote Heckscher, is “the most faithful servant of pricing” (1928, 8).

Heckscher admitted that the sum of individual interests did not necessarily constitute any social optimum, “for society has an organic or corporate existence
which makes it impossible to break it down to its atoms” (1922, 30). Nevertheless, in peacetime at least, free economic life and profits for individuals basically worked also to the benefit for society. “This results precisely through free pricing, which encourages production of what is scarce…but restrains production of what exists in abundance and therefore ought to be reduced” (ibid.).

In *Gamml och ny ekonomisk liberalism*, Heckscher (1921a) outlined his view of the state. He basically argued for a night-watchman state. Its most important tasks were to provide justice, defense, and a stable money value, to establish a firm foundation for the free exchange of goods and services. An expansion into a welfare state would create opportunities for different interest groups to capture the state.

Heckscher was willing to allow state interventions in some cases, but most of these cases were surrounded with reservations:

- People may be misled on the market. However, the state cannot do much about this. The only effective measure is “for the buyer to acquire common sense—and this the state cannot supply” (Heckscher 1918b, 10; 1921a).
- People may make bad choices, e.g., if they consume too much alcohol or too little education (Heckscher 1918b; 1921a; 1928).
- People may be short-sighted, and the state could have to compel them to be more far-sighted (e.g. compulsory saving through social insurance). However, the state, in its democratic form, may have a shorter perspective than people in business life because it is represented by “kaleidoscopically changing carriers—politicians,” who think mostly in terms of day-to-day politics and opinions (Heckscher 1918b; 1921a; 1928, 10).
- People may be poor and helpless. Heckscher’s (1921a) main position is that people are poor because they have nothing to offer other people. Anyone who is intelligent and able does not need the state as guardian. If too much responsibility is laid on government there is a risk of implanting a poorhouse spirit. Heckscher nonetheless writes a prescription in the spirit of John Stuart Mill: free education to reduce the impact of a poor start in life, vocational training to raise the value of the workforce, and job-finding services to improve the efficiency of the labor market. Socialist ideas about eradicating poverty by abolishing wealth he dismissed as madness. Protective measures were also needed when an agreement between two parties affects a third party, especially when the third party is under age.
Inequality of income is the consequence when people are rewarded for their efforts on the market, which is a necessary incentive. However, “the [market] system may take care of a rich man’s dogs before it takes care of a poor man’s children” and aggregate satisfaction increases when income is more evenly distributed. Heckscher’s goal setting was not very precise: “an income distribution as equal as can be achieved without weakening the forces of wealth-creation” (Heckscher 1913, 34; 1921a, 53; 1927, 23).

Free pricing is eliminated by private monopoly. However, private monopolies have arisen through the play of free forces and can vanish likewise—there are always potential competitors—while state monopolies are eternal (Heckscher 1918b; 1928).

Some utilities, which are the object of collective demand, e.g. street lighting, should be under public control, since it would be unreasonable to limit demand by price when the cost to society is the same regardless of how many people have their wants satisfied (Heckscher 1926; 1928).

Much reasoning about the welfare state during the 20th century focused on market failures, where the failure was measured as the difference between a perfect theoretical market and a real market, and where there was a call for a perfect theoretical state to intervene. Public choice economists challenged this peculiar view, reasoning instead about when a real-world government (with its failures) should intervene on a real-world market (with its failures). Heckscher (1918b) anticipated this reasoning by recognizing that in principle there are many reasons for state intervention, but since no ideal state exists these reasons melt away. There are no ideal entrepreneurs either, but entrepreneurs are at least to some extent disciplined by the laws of the market whereas no comparable mechanism governs the state. One could of course object here that under democracy there is a mechanism exerting control over the state. Heckscher, however, did not trust this mechanism much as he argued that even the best government would not dare to do what is necessary for fear of public opinion.

Heckscher was, as we have seen, prepared to accept certain state interventions, especially to counteract income inequality and social ills. In other areas, he was not prepared to compromise, especially regarding economic planning and protectionism. In the 1920s he had a showdown with Cassel, his liberal brother-in-arms, who had a more pragmatic approach to the tariff question, and in the early 1930s Heckscher was portrayed as “agriculture’s enemy no. 1” (Hirsch 1953, 219).
Heckscher and politics

In the 1920s, conservatives were moving in a liberal direction and the gap between them and Heckscher was thus not that large. However, the conservatives were prepared to make exceptions from economic liberalism for national and agricultural policy reasons. Was Heckscher a political conservative or a political liberal? The difficulty of affixing party labels is illustrated in the correspondence among Heckscher, his old friend and colleague Gösta Bagge, and his former student Bertil Ohlin. Bagge labeled Heckscher a liberal in some letters (20 March and 2 April 1929). Heckscher (21 June 1935) wrote to Ohlin that he himself was closest to the Liberal party and that Ohlin ought to confess himself a Social Democrat. Ohlin replied (3 August 1935) that in his opinion Heckscher belonged to the conservative camp, “to the right of the conservative leader” Bagge, while he himself was a liberal.  

In his older days Heckscher looked back at the ideas and regimes of the 19th century as the good old days. In 1948 he wrote a booklet titled Ödeläggelsen av 1800-talets hushållning (“The Destruction of the 19th Century Economy”). Certainly, older persons often look back on ‘good old days,’ but Heckscher’s pessimism in the 1930s and 1940s was based on more than his own aging. It must be seen against the contemporary political and economic events triggered by WWI and the Great Depression: massive state interventions, protectionism, aggressive nationalism, communism, fascism, national socialism, and anti-Semitism. He feared that these developments were not only caused by war and crisis, but also by long-term structural developments in modern economies, especially the growth of natural monopolies like railroads, electricity, telecommunication systems, and the like, which were allowing governments to get a grip on society in a way that had not been possible previously.

Many economists have wrestled with the issue of handling the relationship between values, politics, and science, and Heckscher was no exception. Henriksen concludes that science and politics were never entirely divorced in Heckscher’s writings: “In his academic work he never abandoned the politico-ideological starting point and in his political outlook there was always a scholarly dimension” (2014, 222). Heckscher was very aware of this dilemma, not least after having

18. For a recent and well elaborated view of political labeling among Heckscher and his colleagues, see Lundahl 2015, ch. 8.
19. Concerning Swedish economists, see, e.g., Carlson and Jonung 2006; Lundahl 2015.
encountered Gunnar Myrdal’s (1930; English ed. 1953) criticism of liberal economists’ value-loaded statements, and wrote the following:

For on the one hand he [the social scientist] is a citizen and therefore has the same duties as others to form a subjective, practical opinion on the things which in a democratic society depend on the decisions of all citizens…. But his practical standpoint must necessarily contain a purely subjective judgment which is not that of a scientist. On the other hand, however—in the first place even—he has the duty of a scientist, which is to describe objective reality to the best of his ability and regardless of his own sympathies and antipathies. He can, and if he is conscientious must, endeavor to clarify for the reader and listener where the boundary lies between the objectively valid and the subjectively judged; but to accomplish this even for oneself is a very difficult task…. (Heckscher 1936, 2)

Heckscher thought that an adherence to standard theory as then current, to conceptions of equilibrium and scarcity and to an atomistic approach, helped to enforce objectivity, but that developments in economic theory in the 1930s had opened up opportunities for “patching the theory together” to suit political viewpoints (1936, 4).

Nonetheless, Heckscher was accused both from right and left for concealing a political outlook under the scientific surface. Bagge accused Heckscher of assigning efforts in liberal direction to a special class: “it is always ‘objective’ or ‘neutral’ or ‘economic’” (letter of 30 March 1929). Myrdal similarly accused Heckscher of conducting “liberal politics in objective disguise” (letter of 26 December 1934).

Heckscher’s nightmare

When state intervention in most countries accelerated in the 1930s, due to the Great Depression and the growth of totalitarian movements and governments, Heckscher (1934b; 1939) identified some long-term changes that greatly upset the prospects for liberalism. Liberalism had rested on three important conditions: relatively small production and business units, geographical scope for expansion, and population growth. Those conditions had now been transformed into their opposites: vastly bigger production and business units, the closing of the frontier in the United States and the end of colonialism, and population stagnation. On top of this came increased organization among producers and workers.

These developments had reduced the dynamism of society, and certain factors in particular had put new powerful resources in the visible hand of the state.
Modern “distribution systems” ("ledningsystem")—electricity, telephones, telegraphs, posts, railroads, gas, water—in combination with economies of scale had made possible a massive concentration of power. “Humanity is woven into a network of pipes, rails, and cables which are controlled from central points” (Heckscher 1934b, 151). This development implied “a strengthening of the executive resources to a degree hitherto unknown in history,” the creation of an uncontrollable “Frankenstein’s monster” and offered “a by no means remote prospect that the individuals in a state will become its slaves” (1934a, 100, 102).

As we have seen, in his younger days Heckscher had made fun of the “timid old liberal theorists” who pointed to the dangers of natural monopolies in the hands of governments. Now this danger had become his own nightmare.

Heckscher (1936) set his hopes on some counteracting tendencies. Technological progress had not exhausted its dynamic power. The automobile constituted a challenge to centrally directed transportation. Small electrical motors had created new scope for small production units.

During the 1940s, Heckscher further developed his thoughts on the increased power of the state resulting from large-scale production and distribution systems. There was a continuous struggle between technological dynamics and regulatory rigidity. Heckscher thought he could sense which way the wind was blowing: toward the chaining of “more and more people to an all-powerful, all-interfering, all-regulating state” (1948, 33). In this way the fates of both freedom and technology would be sealed:

For my own part, I find myself convinced, unfortunately, that liberty of thought and the freedom of science are incompatible with a socialized society and an all-powerful state; and I fear greatly that such an order will sever the roots not only of humanity’s intellectual freedom…but also of technological progress…. (Heckscher 1947, 8)

Heckscher (1950) characterized the increased interaction between state and organized interests as a major problem and argued that governments had become dependent on working-class favor above all others. On one occasion he made use of yet another monstrous metaphor when he exclaimed that the welfare state “is truly Leviathan” (1949, 97). It should consequently come as no surprise that Heckscher played a key role in the debates on economic planning during the 1930s as well as the 1940s. During the 1930s he fought alongside Cassel against Gunnar Myrdal, Bertil Ohlin, Ernst Wigforss, and other planning advocates. During the 1940s he fought alongside Herbert Tingsten against Wigforss, Myrdal, Karin Kock, and others. On both occasions, he focused on planning as a threat to freedom, arguing that in the pursuit of clear-cut economic planning the political compro-
mises of democracy must be replaced by dictatorship. He was thus in line with Friedrich Hayek’s 1944 message in *The Road to Serfdom*.

In this article I have only scratched the surface of Heckscher’s still-untranslated works on political economy and liberal argumentation. In those works there is significant development of themes that would later be associated with other famous economists, including the following: the sclerotic growth of interest groups in welfare states (Mancur Olson), external effects (Arthur Cecil Pigou), contestable markets (William Baumol), government failure and the statist double standard associated with the Nirvana fallacy (Ronald Coase, Harold Demsetz, James Buchanan, and Gordon Tullock), the intervention dynamic (Ludwig von Mises; see Ikeda 1997), and knowledge problems of intervention and economic planning as a threat to freedom (Hayek).

**Heckscher and Hayek**

What were the relations between Heckscher and the twenty-years-younger Hayek? A letter from Heckscher to Hayek (30 December 1946) shows that they were in touch regarding the formation of the Mont Pelerin Society. Hayek had visited Heckscher during the spring of 1946. Heckscher wrote to Hayek about the formation of “some sort of international Liberal Association.”

Heckscher became a member of the Mont Pelerin Society but withdrew in 1950. He gave the following motivation in response to Hayek: “It is true, as you say, that I am in general agreement with your views. But at the same time I have become more and more of an individualist, which in this case means an increasing unwillingness to take the responsibility for expressions of opinion not exactly my own.” Heckscher added that he did not want to take part of political life any more but spend his remaining days on “scholarship pure and simple” (letter of 13 July 1950). When he wrote this, two and a half years remained of his life.

Hayek, on his side, did not mention Heckscher or Cassel in an article (2012/1951) in which he presented the leading advocates of market liberalism in the interwar era, advocates like Edwin Cannan, Ludwig von Mises, Frank Knight, Walter Eucken, and Wilhelm Röpke.

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20. This letter is mentioned in Leeson (2013). There are only two letters from Heckscher to Hayek and one from Hayek to Heckscher in Heckscher’s collection of letters.
Concluding remark

Heckscher had good reason to grow pessimistic during his final decades. He died in 1952, at the age of 73. If, from the heavens, he continued to look down upon Sweden, most likely his dolor would have continued during the decades following his death, reaching a nadir in the 1970s. But afterward, and down to the present, Sweden again showed an exceptional willingness to change direction and to make a place for the liberal point of view. Today the liberal outlook championed by Wicksell, Cassel, and Heckscher is very much alive in Sweden’s exceptionally reasonable culture of politics, policymaking, and public discourse.

References


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Liberalism in Korea

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LINK TO ABSTRACT

Liberalism in Korea came from the West, and all political outlooks sometimes called ‘liberalism’ are present there. Some of those outlooks are more paternalistic or communitarian, and those are construed as compatible with some traditional political views in Korea. But classical liberalism, which, hereafter, is what we signify in using the term liberalismo, is without antecedent in Korea before the turn of the 20th century. Today, liberals there are relatively small in number and are mostly, but not exclusively, economists. Yet they do seem to have attained a critical mass in recent years. The aim of the essay is to trace the evolution of liberalism in Korea. Before we discuss its recent development, we provide a brief historical discussion. Korea’s history illustrates the difficulties of liberalism in the face of totalitarian threats of all varieties.

Pre-modern Korea (before 1850)

The dominant political views in pre-modern Korea reflected monarchical absolutism and rigid social stratification. The last dynasty of Korea, Chosun (which spanned the years from 1392 to 1910), adopted Confucianism as the state ideology in order to combat the previous era’s rampant superstition and corruption. Since 206 BCE, Confucianism had been the ruling ideology of various dynasties in China, including the Ming dynasty (1368–1644). Acting in the name of Confucianism, the

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3. American-style ‘liberalism’ that promotes the welfare state is referred to in South Korea by an appropriate term, namely, progressivism.
literati had tried to limit the arbitrary rule of the king through a system of censorship. In Korea, the centralized bureaucracy of Chosun operated by a set of codes, notably the Great Ming Code, supplemented by the Code of Administration. Confucians also tried to introduce orderliness into society by education in morality and etiquette, with emphasis on maintaining proper social relations through loyalty, fealty, filial piety, chastity (for women), respect for the elderly, and so forth. Individual conduct was to be guided by Confucian principles and the traditional decorum. Confucians did not view the issue of natural rights of individuals or personal liberty within the bound of just laws as relevant.

Society was divided into distinct hierarchical classes—king and royal families, the gentry (Yang-ban), the middle classes (Joong-In), the commoners (Pyung-Min), and the slaves (No). Only members of the gentry could become government officials, rewarded by pay and/or fiefdom. The middle classes served in various respected technical capacities, as physicians, clerks, translators, artisans, craftsmen, et cetera. They also could become merchants, who were less respected. Commoners would usually become farmers or peasants. The slaves were properties, to be bought and sold.

After a period of cultural flowering in the early decades of the dynastic founding, the Chosun dynasty gradually declined as a result of wars, heavy taxation, and forced labor. It is estimated that by the middle of the 19th century, more than 50 percent of the Korean population was serfs or slaves.

The satirist Park Ji-Won traveled to China (Qing) in 1780 and was struck by how much better off Chinese were than Koreans. What he witnessed in Beijing confirmed his view that Korea was backward because of its contempt for trade and industry and its system of rigid social stratification. He argued that Koreans should open their eyes and learn from the Chinese. He dreamed of a more prosperous Korea where trade and industry were esteemed and the social stratification was done away with so that people could interact as equals. Unfortunately, his ideas attracted few followers, as they were rather exceptional for the time.

It sometimes has been claimed that elements of Confucianism are an antecedent of liberalism in pre-modern Korea. We disagree. It is a mistake to conflate Confucius’s observations on human nature and personal ethics with his political philosophy. Confucius’s observations on human nature are often very apt; he should be regarded as one of the greatest humanists in history. But the political philosophy of Confucius and his followers conceived the reign of the Duke of

4. Cultural achievements during the period include the invention of the Korean alphabet, printing books using movable metallic type, and publication of encyclopedias.
5. Even so, Tullock (2012) suggests that the political system of the Chosun dynasty, which lasted 600 years with a dense population and a reasonable standard of living (in comparison with other countries at the time), may have some features worth studying.
Zhou (before 1046 BCE) as the ideal. In this ideal state the king is wise and benevolent, ministers and government officials just and decorous, and the common folks respectful and industrious. There is little room for individual rights or freedom of thought and action.\(^6\)

Another way to illustrate the relationship of Confucianism to modern political systems is to review the variety of reactions of Confucians when East Asian countries encountered the superior power of the West. There were three types or forms of reaction: (1) insistence on adhering to Confucianism and rejecting the ways of the West; (2) retaining Confucianism as a political philosophy, while adopting Western technologies; and (3) abandoning Confucianism as the ruling political ideology (that is, radically restructuring the political structure) and adopting the ways of the West. The first two forms of reaction failed. Japan successfully adopted the third type of reaction, and other late-comers in Asia have subsequently adopted it as well. But, abandoning Confucian political ideology is of course not inconsistent with retaining many of the Confucian elements of personal ethics.\(^7\)

**First transitional period (1850–1905)**

During the 19th century, Korea was encircled by foreign powers, but it was also a vassal state of China (Qing dynasty). Western powers such as Tsarist Russia, France, Britain, the German Empire, and the United States all tried to pry Korea away from China and obtain privileged concessions. Japan, with a successful crash program of modernization under way, eventually elbowed out others.

A significant development coming in 1869 was the formation of the Party for Opening (“Gae-Hwa-Dang”). One of the principal actors, Park Gyu-Soo, was a grandson of Park Ji-Won. Unlike his grandfather, he had a successful career as a government official and rose to become the Chief Magistrate of Seoul and the Minister of Justice. He and like-minded intellectuals reflected on the state of China, which had fallen victim to Western imperialistic aggressions, discussed the reasons why the Western nations became strong, and what needed to be done for Korea to avoid a fate similar to that of China. Over time, they recruited young and ambitious adherents from the gentry. They were particularly keen on learning lessons from the modernization programs under way in Japan and China.

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6. Of all the ancient thinkers of East Asia, only Lao-tzu can be construed as being an antecedent to liberalism, or even libertarianism. But his teaching in its original form, which appears to strike at the underpinnings of feudalism, was never popular in China, nor was it in Korea.

In 1875, about twenty years after Commodore Perry’s gunboat diplomacy jolted Japan into a modernization program, Japan itself used gunboat diplomacy to force Korea to open up. In the late 1870s and the early 1880s Korea’s Queen Min sent overseas missions to report on advances in Japan, China, and the United States. Duly impressed by what they saw, the emissaries agreed on the urgency of reforms. But there developed two factions, divided over the nature of reforms Korea needed. The ‘moderate reformers’ wanted a Chinese-style reform of adopting Western technologies and industries while retaining the traditional social structure. The ‘radical reformers’ thought the Chinese-style reform was not sufficient; they wanted thoroughgoing sociopolitical reform in the manner of Japan. The moderate faction sought support from China, and the radical faction sought support from Japan.8

Delegates to Japan met and were influenced by Fukuzawa Yukichi, the great advocate of Japan’s modernization. He argued that the West became powerful because the nations had liberal institutions, fostering individualism, free exchange of ideas, education, and competition. He argued that Japan should adopt the liberal institutions of the West in order to become powerful enough to resist the Western nations’ demand for unequal treaties. He translated the term liberalism as 「自有主義」, a term since used in Japan, Korea, and China. Fukuzawa shared his views on the necessity of political reforms with Korean delegates and continued to provide moral support for Korean reformists.

Fukuzawa, however, had doubts that Koreans were culturally ready for a successful reform. It would be a mistake to classify Fukuzawa as a liberal; he was also a nationalist, and for him liberalism was a means of building a rich nation with a strong military. He believed that if Korea could not reform successfully, and thus would fall into the hands of Western imperialists, Japan might as well pre-empt them and colonize Korea. Thus, he justified Japanese colonization of Korea.

In 1884, the radical reformers, with a promise of Japanese military assistance, led a bloody putsch to eliminate the rival factions and impose a reform fashioned after the Meiji Restoration. However, the radical faction was quashed in three days by Queen Min, with the help of Chinese troops. The coup failed because it was carried out in haste without securing enough supporters, plus the radicals were naïve in trusting the good intentions of the Japanese who, after a successful crash program of modernization, were gearing up to secure control over Korea.

In 1894–1895, Japan fought China for control of Korea, obtaining cessions of territory (including Taiwan) and a rich indemnity, among other things. Japan then fought Russia (1904–1905) over control of Korea and Manchuria and shocked

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8. The factions influenced by reports of the missions to the United States were to play a role later as the Party of Independence in the last days of Chosun.
the world by destroying Russian fleets. Thus, Japan established herself firmly as an imperial power with an undisputed claim over Korea. Japan relegated Korea to a protectorate in 1905. Soon, Korea became a colony of Japan.

During this turbulent period, in 1896, was formed the short-lived but significant—from the point of view of the development of political thought in Korea—Party of Independence (“Dok-Rip-Hyup-Hoe”). Key figures of the Party included Min Young Hwan, Yoon Chi-Ho, Yoo Gil-Joon, Yi Sang-Jae, Ahn Chang-Ho, and Seo Jae-Pil.

Seo Jae-Pil was recruited from the United States by Yoon Chi-Ho to be the editor of Independent Times (“Dok-Rip-Shin-Moon”). Seo Jae-Pil returned to Korea with a new name, Philip Jaisohn. He had fled to the United States after the failed coup of 1884, in which he was one of the principal actors. In absentia he was found guilty of treason, and his family had been exterminated in the old Korean practice of collective punishment. During his stay in the United States, Seo studied to become a physician, and he learned much about the American political system from a retired federal judge (who was a brother-in-law of Seo’s landlord).

In his speeches and writings, Seo admitted the mistake of naively trusting the benign intentions of the Japanese for Korean development. Seo emphasized that the core of Korean reform should be the establishment of a system in which freedom of action and individual responsibility are emphasized and individual merits are respected, instead of relying on familial ties and factionalism, which lead to corruption and inefficiency.

The Party of Independence tried to push political reforms: Korea should become an independent constitutional monarchy, run by the democratically elected parliament; Korea should stop selling various economic rights to foreigners for little in return; foreign technologies should be utilized in agriculture and industry to increase productivity; and Korean markets should be protected, to allow infant industries to take root and grow.

The principals of the Party had been either emissaries to the U.S. or exposed to the West in schools founded by American missionaries. Whereas earlier reformers, whether moderate or radical, had been influenced by Japanese or Chinese reformers, the principals of the Independence Party were influenced by what they learned about the United States. They advocated a democratic political system,
emphasizing individual liberty and responsibility as keys in the political system. The Independents began to gain popular support.

However, the Party incurred the wrath of both Korean royalists and the Japanese colonizers. The Party and the newspaper could not survive the joint attacks of the royalists and the Japanese military. Active members of the Party were soon harassed and imprisoned. They were tortured for subversion by the royalists, and they were also forced to acquiesce to the Japanese takeover of Korea—some did, while others refused and suffered greatly.

One of the popular speakers at the Party’s rallies, Syngman Rhee, was arrested, tortured and sentenced to death. In 1904, after five years of imprisonment, however, he was given an amnesty and released from the prison with the help of Min Young Hwan. He was given an amnesty in part because of his command of English, which he had improved by reading an English Bible while in jail. Rhee was sent to the United States on a secret mission to convey the Korean king’s letter to President Theodore Roosevelt, beseeching him to honor the Treaty of Amity between the two countries and help prevent the Japanese colonization of Korea. The United States government refused to receive the letter.

Just before his release, Rhee finished a handwritten book manuscript, The Spirit of Independence (“Dok-Rip-Jung-Shin”). It was hand-copied and circulated among friends. In the book, he reviewed the American and French revolutions and the failed reform attempts in Korea. Then he laid out his vision for Korea: a constitutional monarchy in which self-reliant individuals with inviolable human rights enjoy the fruits of their labor through free exchange of goods and ideas, and a society governed by the rule of law, undergirded by Christian values which accord dignity to individuals and the determination to fight injustice. Rhee’s visions for

10. Those who had a chance to travel to the United States were most impressed not only by the degree of industrial development, but by the governmental structure based on the liberal Constitution. At the same time, many were deeply troubled by racism they personally experienced and witnessed toward blacks and Asians. For example, Lee Sang Jae (as a secretary to the Korean ambassador to the U.S.) was stoned by a boy in New York. Yoo Gil Joon had been beaten up for no reason by schoolmates when he attended school in Boston. Philip Jaisohn could not make a living as an M.D., nor as a lecturer at a medical school (the present-day George Washington University), because of racism by patients and students. Some noted that even American missionaries were condescending toward Asians. Their experience of racism, however, was counterbalanced by the liberality and kindness shown by other Americans they met. Most importantly, they correctly identified democratic republicanism based on individual liberty as the true source of what was admirable in America.
11. While imprisoned Rhee had also converted many inmates to Christianity, including Lee Sang-Jae.
12. Min Young-Hwan did not know that President Roosevelt had already made a secret pact with the Japanese that the United States would not interfere with Japan’s control of Korea in exchange for Japan’s acquiescence of the American control of the Philippines. Min committed suicide in 1905 when he could not prevent the treaty in which Japan took away the sovereignty of Korea.
Korea were obviously influenced by the founding principles of the United States and Christianity.

**Second transitional period (1905–1945)**

Japan was a quick student of Western imperialism and soon became imperialist in its own right. Through a combination of military aggression and diplomatic duplicity, in 1910 Japan formally annexed Korea as its first overseas colonial acquisition. To secure complete control of Korea, Japan ruled Korea with an iron fist and forced Mikadoism upon Koreans. Koreans were made second-class citizens, denied political voice and strongly discriminated against. Japanese expatriates, given preferential treatments and subsidies, came to dominate the Korean economy. The Japanese oppression drove a large number of Koreans to emigrate to Manchuria and far eastern Russia.

The brutal and discriminatory Japanese rule awakened nationalist sentiments and an aspiration for national independence among many Koreans. In March 1919 a nationwide nonviolent demonstration calling for independence met with bloody suppression. People were machine-gunned, bayoneted, imprisoned, and tortured. Christians were gathered inside churches and burned alive. The international community abhorred the brutality of Japanese suppression, which was reported by American missionaries, but little if anything was done. Many survivors fled the country, some to establish a provisional government in exile in China, others to

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14. The purpose of this section is to trace the rise of Korean national independence movements, influenced by socialism, communism, fascism, and liberalism, in reaction to Japanese colonial rule. An anonymous referee suggests that the paper neglects positive roles Japanese colonial rule may have played in the future development of South Korea, as suggested by Kohli (1994), Kimura (1993), and Cha (2004). We think those who advance the thesis that Japanese colonialism was instrumental in the economic development since the mid-1960s are wrong; it is like arguing that a man who had been bullied by a thug has grown up because of all the bullying he received. Given the limited space, we simply refer to Haggard et al. (1997), who offer an able critique of the thesis.

15. Japan had wrested Taiwan from Qing China after the Sino-Japanese war in 1895.

16. Mikado (meaning “the royal gate” in Japanese) is an ancient designation of the Japanese emperor. Mikadoism is the cult of emperor worship in Japan. Japanese fascists feverishly promoted Mikadoism, demanding complete loyalty of subjects for national purposes whatever they are, including the subjugation of foreigners (see Kitagawa 1990). Mikadoism is like the cult of the Führer in Nazi Germany. The ferocity with which Japanese soldiers fought and the abandon with which Kamikaze pilots crashed their planes into American targets are difficult to understand unless one recognizes the similarity between the martyrdom sought by Japanese patriots, on the one hand, and the martyrdom sought by the radical Islamic terrorists, on the other.

17. The Declaration of Korean Independence was inspired by President Wilson’s principle of national self-determination announced in 1918, even though he had in mind mostly the settlement of boundaries in Eastern European after WWI.
wage various forms of militant resistance in Manchuria, China, far eastern Russia, and elsewhere. The battle for independence from the mighty Japanese empire, as it continued, took many forms. Some appealed to human decency and justice, but in the world of power politics that appeal mostly fell on deaf ears. Some fought alongside the Chinese (both Nationalists and Communists) against the Japanese, hoping for eventual victory over the Japanese. Some went abroad (including to Japan) to study. Those who remained in Korea had to survive under Japanese rule. Some decided to undertake education and business as a way of increasing the capability of Koreans, looking toward future independence.

The Japanese colonial government discouraged education and industry among Koreans. What schools the Japanese established in Korea were for Japanese transplants, with only limited admission for Koreans. The Japanese colonial government did its utmost to suppress education among Koreans, even when Koreans wanted to educate themselves at their own expense. Soon the Japanese were all but trying to obliterate the Korean culture, forbidding Korean language from schools and forcing people to adopt Japanese surnames.

Emboldened by the successful colonization of Korea and the establishment of a puppet regime in Manchuria, militarist fascists came to dominate Japanese politics. They soon launched aggressive military campaigns into China, brutalizing the people and committing atrocities, all the while insisting that Japan was only trying to defend its own interests.

After his failed mission in 1904, Syngman Rhee had remained in the United States and pursued education, getting a B.A. at George Washington, an M.A. at Harvard, and a Ph.D. in politics at Princeton in 1910, when Woodrow Wilson was the president of the university. After a brief return as a Christian missionary in colonized Korea, he returned to the United States to seek international assistance in restoring Korean independence, much of the time as the president of the Provisional Government of Korea in exile, which was located in China.

In June 1941, six months before the Japanese attack on Pearl Harbor, Rhee published a book in English, *Japan Inside Out*, warning of an impending Japanese attack on the United States. He documented the pattern of Japanese duplicity and

18. As a member of the Allies, Japan fought Germans in Asia during World War I. As victors, the Japanese were able to exert a diplomatic influence to keep her brutality in Korea invisible.

19. Soongsil University, the first privately founded university in Korea in 1907 (started with the help of American missionaries), was forced to downgrade to a college in 1925. In 1938, Soongsil closed its doors altogether instead of complying with directives to practice Mikadoism.

20. For an example of the fine art of duplicity and disinformation, see Emperor Hirohito’s radio message of surrender in August 1945 containing the following passage: “We declared war on America and Britain out of Our sincere desire to ensure Japan’s self-preservation and the stabilization of East Asia, it being far from Our thought either to infringe upon the sovereignty of other nations or to embark upon territorial aggrandizement.”
aggression, starting with Korea, to Manchuria, then to China, a pattern surprisingly consistent with the notorious Tanaka Memorial.\textsuperscript{21}

In addition to accurately describing the pattern of Japanese aggression and predicting the coming conflict with the United States, Rhee (1941) pointed out one of the central issues a free society faces, namely, pacifism in the face of threats from totalitarianism. In the last chapter, “Democracy vs. Totalitarianism,” he argued that individual freedom was incompatible with the totalitarianism of the day—Nazism, fascism, Mikadoism, and Communism. Unfortunately, he observed, few people in a free society were willing to fight for the freedom they enjoyed. Pacifists who argued that free people should not fight even in the face of impending threats from totalitarian regimes, in his view, were like “fifth columnists” of totalitarianism. Pacifism invited slavery under the domination of dictators. If pacifists were truly serious about peace, Rhee suggested, they should preach peace to war-mongering totalitarians such as Hitler and Japanese militarists.

Rhee was in the minority among Korean nationalists in his opposition to totalitarianism. One can see why many Koreans suffering from the Japanese brutality disliked fascism, but many Korean intellectuals, like many intellectuals elsewhere, were attracted to communism as a liberating idea and sought guidance for national liberation from the Soviet Union. Rhee thought it was a fatal mistake not to see communism as a variant of totalitarianism.\textsuperscript{22}

As Rhee predicted, Japan eventually attacked the United States and opened an all-out war in China, Southeast Asia, and elsewhere in the Pacific region. According to the Cairo Conference declaration at the end of the war, the Japanese colony Korea was to become a free and independent nation in due course. The U.S. Army, however, hastily decided to stop the advancing Russian army by dividing Korea at the 38th parallel. The Russian army was to disarm the Japanese military stationed in the northern half of the Korean Peninsula, and the U.S. army was to do the same in the southern half. In place of the Japanese colonial government, Korea came to be ruled by two foreign armies, the Russian in the north and the American in the south. The fateful decision, based on military expediency, laid the ground for the two distinct forms of political structure in Korea.

\textsuperscript{21} The Tanaka Memorial is the alleged plan submitted by the Japanese Prime Minister Tanaka to the Emperor Showa in 1927, laying out a strategy for overseas conquests. Its existence became known when it was published in a Chinese newspaper in 1929. The Japanese and some historians say the document is a sophisticated hoax or forgery, but events through WWII nevertheless make it prophetic.

\textsuperscript{22} Rhee, serving as the Prime Minister/Foreign Secretary of the provisional government in exile since its inception, had to deal with communists and became highly critical of their hostility toward property, capitalists, intellectuals, religion, and nationalism. Rhee thought them loyal only to international communism, and to Moscow, its puppet master (see Rhee 1923).
Division of Korea and ideological battles (1945–1953)

Joseph Stalin established a communist state in the northern half of Korea, in a manner similar to that in the Soviet occupation of Eastern Europe. After the brutality of the occupying Russian Army, Korean communists tried to force communism on people and began to harass landlords, businessmen, non-communist intellectuals, and the religious. An anti-communist uprising in Shin-Ui-Joo in November 1945, the first in the Soviet-occupied territories after WWII, was brutally suppressed. In March 1946, all farmlands in the Soviet-occupied North were confiscated and redistributed to erstwhile landless peasants and tenant farmers. In 1948, the Soviet Union established a communist government in the North, installing Kim Il-Sung as the ruler. During this period about 1.8 million people (mostly landlords, businessmen, intellectuals, and Christians) managed to migrate to the south.

The U.S. military government in the South tried to establish a non-communist state, but the process was not easy. Having lived under an oppressive colonial overlord for thirty-five years, many people were perhaps not even sure what human dignity and freedom were. There were also many Korean communists from the days of Japanese colonialism. Some went to the North to join the communist state. Others remained in the South and tried to establish a communist state there. They organized nationwide labor strikes, armed revolts, and had violent clashes with the police and anti-communist organizations.

The American military government ended up backing Syngman Rhee as the future leader of the South, a choice consistent with the Truman Doctrine of containing the spread of communism. Rhee presided over the constitutional convention of South Korea. The Constitution declared that South Korea was a republic, in which the political power resides with people, who are free and equal under the law. Subsequently, the 73-year-old Rhee was in 1948 elected the first president of the Republic of Korea. Three years after the liberation of Korea from Japan, therefore, two different governments were established in Korea: the North as a communist state and the South as a liberal democracy. In the South the new

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23. For example, the Marxist economist Baek Nam-Woon migrated to the North in 1948, after intense political activities in the South.
24. According to a poll conducted by the U.S. military government, a majority of Koreans preferred socialism to either capitalism or communism (Dong-A-Il-Bo, August 13, 1946; see Moon 2015, 182 n.11). We thank an anonymous referee for this reference.
government had to face communist armed rebellions. These were put down, but there remained a substantial number of communists in South Korea.  

Soviet-backed North Korea—believing that South Korea could be easily taken over with the help of the communists there—invaded the South in June 1950. Within two months, the unprepared South was indeed easily overrun by the North Korean army, and the South Korean government was driven into a small southeastern corner. In the areas now occupied by North Korean forces, local communists often eagerly helped the North Korean Army to control the area, harassing and killing many ‘enemies of the revolution.’ However, the last-minute decision by the U.S. to enter the war resulted in the North Korean army being driven back, nearly to the Chinese border. However, Chinese intervention on the side of the North, with deployment of its massive army, drew the war to a stalemate near the line of initial division of Korea within a year of the outbreak of the war.

The Korean War involved some 2.5 million soldiers from 20 nations in combat, plus 18 nations involved in other capacities. Because the back-and-forth ground battles covered almost the entire Korean Peninsula, with intensive aerial bombing, there was massive property damage and great loss of life. The death toll among combatants was 600,000 to 900,000, along with over 2 million civilian deaths and about 1.2 million wounded. South Korea ended up with some 200,000 widows and 100,000 orphans, along with about a million refugees from the North, in addition to about 1.8 million refugees before the War. The total population of South Korea at the time was less than 20 million.

After another two years of protracted trench warfare, an armistice was signed in 1953 and the division of Korea acquired a sense of permanence. North Korea became a belligerent communist country, daily professing her desire to take over the South. South Korea became an outpost of the Cold War, with strong anti-communist laws (Park 2007, 108). The Korean Peninsula became highly militarized, with combined standing armies of about 1.6 million strong facing each other across the 2.5-mile-wide and 160-mile-long Demilitarized Zone (DMZ).

What has happened since in North Korea is a sad story. Kim Il-Sung became the unchallenged leader of North Korea by purging his rivals from the South and communist expatriates from China and Russia. Taking the credit for the successful reconstruction of North Korea (downplaying the substantial help from Chinese, Russians, and East Europeans), Kim Il-Sung began to build a totalitarian state.

There is a parallel between the communists’ activities in South Korea in the late 1940s and those of Viet Cong in South Vietnam in the late 1950s. Both South Korean communists and Viet Cong (South Vietnamese communists) were trying to undermine the government and reunite their respective countries under communism. Had Rhee’s government not succeeded in suppressing communists and in carrying out a successful land reform in 1948 to create a class of farmers willing to defend their possession of land, the fate of South Korea probably would have been like that of Vietnam.
based on a caste system, anchored on a cult of hero worship of himself. The North Korean population was controlled through constant surveillance, brainwashing, and punishment, including torture, banishment to a concentration camp, or death by a firing squad. Freedom was obliterated, and only the visibly sincerest devotions to the ruler would ensure survival. With the ambition of conquering the South by force, Kim devoted substantial resources to the outsized military and the armament industry. The standard of living for the rest of population steadily declined to the point of forcing people to eat only two meals a day by the early 1980s.

After the dissolution of Soviet Union and the fall of communism in Eastern Europe, the North Korean economy collapsed completely. Hundreds of thousands of people died of starvation in the 1990s, and millions more suffer today from chronic malnutrition. The countryside came to be filled with orphan-beggars scavenging dumpsters and foraging the mountains. More than half a million desperate people crossed the Chinese border at the risk of being shot by the border guards, arrested and tortured, or captured by Chinese human traffickers. Today, nearly everyone in North Korea lives in constant fear of being branded disloyal and suffering grave consequences, and North Korea is one of the poorest countries in the world.

The developmental state (1953–1987)

The 1953 armistice was only a temporary ceasefire. South Korea was still being threatened by the hostile enemy in the north. President Rhee, who was an anti-communist to begin with, adopted strong national security laws aimed at the elimination of communist support in South Korea.

Known communists who refused to renounce communism were imprisoned. Anyone suspected of communist sympathy, including the family members of known communists, were put under surveillance and their civil rights were severely curtailed, including banning them from government employment and

26. Kim Il-Sung became, in all but name, king, his immediate family members, the royalty, and his loyal comrades and their family members, barons, or the “Special” caste. They constitute the ruling inner circle of North Korea. The kingship has in due course become hereditary. The rest of the population is divided into three hereditary castes, based on their perceived degree of loyalty to Kim Il-Sung—“Core,” “Wavering,” and “Hostile.” Inmates in concentration camps undergird the caste system. The caste system thus created is an amalgam of the Marxist-Leninist conception of the capitalist class structure and a feudal conception of the heredity of one’s social station by bloodlines (see Choi 2015).

27. Some twenty thousand North Korean refugees managed to escape to South Korea, via China, Vietnam, Mongolia, and Russia (see Choi 2015).
overseas travel. One may be tempted to liken the heightened anti-communism to that of McCarthyism in the United States, except that Korea’s experience reflected the fresh memory of fighting an intensive war against the communist North, with millions of casualties, the memories of the atrocities committed against their families by communists, and the bitter memories of persecution and expropriation for millions of refugees from the North. The communist threat was much more real.

At the end of the war the surviving South Koreans found themselves among ruins. Cities were teeming with beggars, mostly crippled soldiers or orphans. Many of the hundreds of thousands of refugees from the North built shacks anywhere they could and became squatters. The shortage of food was severe. A major famine was averted only with massive U.S. aid. The U.S. aid also included equipping the army, training of manpower, and higher education, sometimes by providing visits to American universities. South Korean dependence on government-to-government assistance from the United States in the 1950s was extreme.

While South Korea was rebuilding slowly, one of the important tasks of the government became the distribution of resources transferred from the United States. The government soon began to take further charge of the economy. To maximize the real value of imports, the exchange rate was kept artificially high. To keep the balance of trade in check, the government imposed severe restrictions on imports with a tight foreign exchange control, and it encouraged import substitution. Foreign aid and statist domestic policies made a perfect breeding ground for rent-seeking and cronyism.

Complaints of corruption and demands for cleaner government became perennial among South Koreans. Most believed that only if more honest political leaders came to power, the situation would become better; few realized that the economic policies themselves necessarily invited corruption. In the late 1950s there was still no sign of South Korea becoming less dependent on U.S. aid; by contrast, North Korea claimed itself to be a model of Soviet-style economic development and declared an ambition to liberate the poverty-stricken South. Eventually the U.S. government began to cut back on aid.

The combination of dwindling resources, complaints of widespread corruption, and the discovery of election irregularities led to nationwide student protests, and in 1960 to the toppling of President Rhee’s government. The democratically elected government subsequently became paralyzed, beset by protests from various interest groups and ideologues. In 1961, General Park Chung-Hee seized

28. The estimated per capita GDP of South Korea in 1960 was roughly one-twentieth of that of the United States. North Koreans continued to escalate military actions along the DMZ, as well as commando actions through the sea throughout 1960s, taking advantage of the U.S. predicament in the quagmire of Vietnam.
power in a coup d’état, aiming to get rid of the widespread corruption and poverty. He imposed martial law, arrested corrupt government officials and businessmen, and revised the Constitution. General Park became President Park through an election in 1963.

After a period of trial and error in economic policy, Park became a firm believer in export-led growth. The Korea economy began to grow at a rapid rate. There have been debates over whether the export-led growth policy of Korea is an example of successful dirigisme. Certainly, President Park did much to promote exports—and he did his best to suppress organized labor strikes. But against the backdrop of the then existing regulations inherited from the past, much of Park’s measures to promote export can be seen as selectively lifting restrictions on trade.

The life of a nation is more than just earning foreign exchanges through export. Preservation of peace from external and internal enemies is a paramount concern of a nation. The international geopolitical situation in the 1960s was the expansion of communism and the U.S. attempt to contain it. After the mid-1960s, emboldened by the success of the communists in Vietnam and sensing Americans’ weakened will to fight, North Korea escalated military provocations. They included the capture of the USS Pueblo near the North Korean territorial water and in 1968 the sending of a commando unit to kill President Park, which almost reached the presidential residence. North Korean provocations continued through the 1970s, including the murder of the First Lady by a communist assassin (he had aimed at President Park and missed) and the killing of two U.S. Army officers by axewielding North Korean guards in Pan-Moon-Jom.

Unsure whether the United States was committed to help South Korea, Park became gravely concerned about the national security. He saw the reasons for the demise of South Vietnam as being its penetration by communists and a lack of leadership to combat it. He assumed that he should be the one to provide the leadership to change South Korea—and to that end, in fall of 1972 he imposed the Yushin constitution, which effectively ended many democratic practices. To affirm anti-communism, he organized the countryside through the “New Village Movement” and announced the “National Creed” (“국민교육헌장”) as the national ideology. Park pursued an industrial policy to promote industries deemed necessary for the production of armaments (such as steel, machines, and chemicals) in preparation for the day when South Korea would be unable to obtain weapons from the United States.

29. South Korea sent combat forces to Vietnam in the late 1960s, with an understanding that the U.S. forces stationed in South Korea would be maintained and certain quid pro quo for South Korea.
30. All schoolchildren, government officials, and soldiers were required to memorize the creed (link).
Park’s industrial promotion may have laid some important bases for later development in steel production, machine making, shipbuilding, and chemicals industries. But in the late 1970s, over-investment in these strategic industries and the resulting crushing debt burdens, amid the worldwide economic downturn, resulted in widespread protests against the Yushin constitution and Park’s rule of almost two decades. In December 1979 Park was assassinated, by the chief of the Korean Central Intelligence Agency (KCIA).

General Chun Doo-Hwan, chief of the army intelligence, led the investigation into Park’s assassination, gained the control of the army, and took steps to seize power. Anti-authoritarian student demonstrations erupted, culminating in an armed revolt in Kwang-Ju during May 1980. It was put down after a bloody confrontation. General Chun became the president in September 1980. Chun ruled with an iron fist, dealing sternly with challengers from the entrenched political-business nexus, political opposition, and the street.

Anti-authoritarian movements went underground and steadily spread, encompassing not only democrats and human rights advocates, but also religionists, unionists, farmers, progressives, socialists, and even pro-North Korean agents. It became increasingly popular, through the 1980s, among college students to study in secret the banned Marxist literature. Quite a few went to Japan to study Koza-ha, the Japanese variant of Marxism. Quasi-Marxist ideas such as liberation theology and dependency theory became vogue among the youth.

While President Chun was merciless toward anyone who might challenge his authority, his rule was marked by many liberalizing reforms, such as lifting the decades-long midnight curfew and overseas travel restrictions. The most notable reforms were economic. Chun’s administration inherited severe economic dislocations from President Park’s excessive investment in strategic industries and the attendant unserviceable debt to foreign creditors. Knowing that he was rather unpopular politically, Chun wanted to focus his energy on improving the economy. Confessing ignorance in economic matters, he hired as his chief economic advisor Kim Jae-Ik, a career bureaucrat trained in economics. Through Kim, President Chun came to appreciate the merit of liberalizing the economy through such measures as letting the market determine the interest rate and exchange rate and lowering tariffs. Helped by favorable international economic conditions, the South Korean economy boomed, growing at a brisk rate.

Kim Jae-Ik was one of few free-market economists in Korea at the time, says Kim Jin-Hyun (2008). In October 1983, Kim Jae-Ik, along with more than a dozen South Korean cabinet members and high-ranking officials accompanying President Chun in a state visit to Burma, was killed in a bomb explosion. The bombing was ordered by Kim Jong-II, the son of the North Korean ruler Kim Il-Sung, to assassinate President Chun—but Chun escaped death because his arrival
had been unexpectedly delayed by 30 minutes. It was a troubled time. Only a month before, the Soviet Union had shot down the Korean Airline Boeing 747 as it strayed into Russian airspace, killing all 269 passengers and crew aboard.

South Korea is often touted as an example of successful economic development combined with a transition to democracy. Before we discuss its 1980s movement to democracy in the next section, we should address its economic development, which is much debated. There is no doubt that, from abject poverty, the Korean economy was transformed in about twenty years, beginning in the early 1960s. What is disputed is the reason why.

At one pole, some at the World Bank have argued that South Korea developed because its development policies were in conformance with market forces; at the other pole, it is argued that South Korea developed because of its industrial policies (see Amsden 1992; Chang 2002; Jwa and Yoon 2011). We believe that neither of these extreme views can well explain the uneven process of Korean economic development. For example, Jungho Yoo (2011) argues that the main reason for South Korean development was the access to the vast world market through export, but the export boom started unintentionally, through devaluations, before the government deliberately began to promote exports. The South Korean government in the mid-1960s recognized the benefit of export earnings, and it tried to provide additional incentives to encourage exports.31

The additional incentives had two aspects. One was to undo or neutralize the distortions inherited from the past, which had the net effect of neutralizing some of the existing distortions. The other was to provide extra incentives for select industries or businesses to achieve targets set by the government, which has led to misallocation of resources, cronyism, and corruption. The second aspect became more transparent in the late 1970s when the growth rate declined substantially as a result of promoting heavy and chemical industries. Also, it should be noted that by allocating credit to those industries, the government ended up suppressing light industries.

One cannot but compare the development trajectories of South Korea, which deliberately promoted heavy industry, and of Taiwan, which did not. Taiwan’s economic development does not compare unfavorably to that of South Korea. All Asian countries that did not hinder exports and that removed institutional barriers against exports enjoyed a high rate of growth, whether or not they promoted industrial policies. In the late 1970s, as it was deliberately promoting certain industries at the expense of others, South Korea actually fared less well than other Asian countries. In addition, the tradition of cronyism became a basis for social discord that was to adversely impact the transition to democracy.

31. Choi (1994) argues that the ruling party acted as if they were residual claimants.
Transition to democracy (1988–present)

In 1985 President Chun lifted restrictions on politicians—some had been under house arrest—permitting them to organize political parties for the scheduled election of the legislature. He intended the election to meet the popular demand for democratization, while retaining the control of the legislature through machination, in preparation for handing over the rein of the government to his chosen successor. However, President Chun and his advisors had grossly underestimated the popular demand for democracy and a regime change—the opposition parties took nearly half the seats of the legislature. The pro-democratic movement grew stronger and became more violent with the passage of time, demanding a direct election of the next president.32

In June 1987, as the political situation seemed to be getting out of control, Roh Tae-Woo, a former general and the designated successor of President Chun, made a surprising announcement that he would agree to a revision of the constitution to allow a direct presidential election. President Chun did not insist on an orchestrated transfer of power to insure his safety; instead, he acquiesced to Roh’s willingness to take a chance in election. It looked as if Roh simply yielded to the mounting popular pressure and, given the unpopularity of the ruling party, he would surely lose the election. However, Roh ended up winning the election, with only a third of the votes, because opposition factions could not agree to field a unified candidate and ended up splitting their votes three ways.33 This was how South Korea managed a peaceful transition to democracy.

The South Korean transition to democracy has been successful thus far. Since President Chun stuck to his agreement to serve only one term (seven years in his case) in 1987, six Presidents have served the constitutionally limited five-year single term and yielded power to democratically elected successors. By 2015, per capita GDP (nominal) reached $28,338. South Korea is not yet ranked among the rich countries, but she has come a long way, from abject poverty as late as the early 1960s, and from a dictatorship as late as the mid-1980s to a full-blown democracy.

The decade following the advent of democracy in South Korea was eventful. In November 1987, the Korean Air Flight 858 blew up over the Indian Ocean, killing all 119 on board. Kim Jong-II of North Korea orchestrated the terrorist act in a failed attempt to disrupt the 1988 Summer Olympics, which were hosted in

32. At the time, the President was to be elected indirectly by the Electoral College.
33. The opposition votes went to ‘the three Kims’: Kim Young-Sam, Kim Dae-Jung, and Kim Jong-Pil. The first two Kims subsequently became Presidents in succession.
Seoul. The Games allowed South Korea to showcase its economic development to the world, especially to the socialist countries as they were falling apart. In 1991, South Korea, along with North Korea, was admitted as a member of the UN. In the early 1990s South Korea normalized relationships with Russia and China. The economy grew briskly through the mid-1990s, and in 1996 South Korea became a member of the OECD.

In 1997 South Korea was embroiled in the financial crisis that swept through Asia and had to seek a bailout from international financial institutions such as the IMF and World Bank. After some painful adjustments the South Korean economy roared back, and the international loans (some $30 billion in U.S. dollars) were paid off ahead of the schedule. In 2002, South Korea co-hosted the World Cup with Japan. Also, a number of reforms have been adopted to reduce the possibility of a military coup, as well as financial transparency, in part to root out corruption.

Significant changes in politics also have taken place since the transition to democracy. The left has emerged from underground and has come to dominate South Korean politics, as evidenced by the back-to-back elections of Presidents Kim Dae-Jung (1998–2002) and Roh Moo-Hyun (2003–2007). National security laws have been emaciated in the name of protecting human rights, to the point where several pro-North Korean activists and their sympathizers have been elected lawmakers. Since 2005 several motions in the legislature to condemn the human rights violations in North Korea have been blocked by pro-North lawmakers.

In the name of protecting freedom of speech, all manner of disorderly and violent demonstrations and illegal occupations of public spaces have been tolerated. Leftists have staged a number of nationwide anti-American rallies, demanding the withdrawal of the U.S. forces stationed in South Korea. In the name of

34. Not to be outdone by South Korea, Kim Jong-Il and Pyongyang hosted at great cost the World Festival of Youth and Students, a socialist counterpart of Olympics, in 1989. The financial help pledged by other socialist countries did not come through because they were themselves falling apart; in fact, socialism was collapsing. It goes without saying that the extravagance further ruined the finance of an already bankrupt North Korea (see Choi 2015).

35. The South Korean diplomat Ban Ki-Moon has served as the Secretary General of the UN since 2007.

36. It was a result of the combination of decades-long cronyism and the hasty liberalization of the financial sector to meet the requirements of joining the OECD (see Choi 2000).

37. One of the most important was disbanding of the Ha-Na-Hoe, a powerful and not-so-secret club of army officers. Chun Doo-Hwan and Roh Tae-Woo were members of the club when Chun seized power.

38. In 2013 the UN established a commission to investigate North Korean human rights violations. The following year the commission filed its report, charging North Korea with crimes against humanity (United Nations Human Rights Council 2014).

39. Occasions used for anti-American rallies include the 2002 rallies protesting the death of two school girls by the U.S. Army tank in a traffic accident and the unfair legal status of the U.S. forces stationed in Korea and 2008 rallies against U.S. imported beef on the suspicion of ‘mad cow disease.’
preventing the collapse of the North Korean regime, and avoiding the astronomical costs of re-unification by absorption in the style of the German re-unification of 1990, South Korea under Kim Dae-Jung and Roh Moo-Hyun transferred a massive amount of cash and food aid to North Korea, this despite the North's belligerence and continued development of nuclear weapons.  

Also significant has been the domination of the left in the media and the schools, especially K–12. Major textbooks in social sciences in high schools are completely silent on the nature of market competition and the value of freedom (Kim 2015). Instead, the textbooks promote progressive and socialist values—that inequality is socially unjust, that the rich got rich at the expense of the poor, that businesses practice unfair and shady tactics to get rich, that the pursuit of income is unethical, that globalization is an imperialist tactic to dominate and exploit the weak and poor, that individualism is bad, that collectivism is good, that competition is cutthroat and excessive, and that government should redress all sorts of ‘social injustices.’

The transition to democracy was based on the constitutional revision of 1987, containing the provision for the direct election of the president. But what passed with little notice in the midst of political hoopla was the constitutional provision for ‘economic democracy,’ at the insistence of the opposition parties, to which the ruling party acquiesced. This constitutional provision for ‘economic democracy’—Article 119, Section 2—provides the basis for the discretionary power of government to intervene in the economy for so-called balanced growth, equitable distribution, and fair competition. Section 2 (which contradicts Section 1 on matters of economic freedom) was to become a Pandora’s box, to the delight of the subsequent democratically elected governments.

In some ways, the democratically elected governments have continued the process of liberalization started under President Chun, especially in the area of international trade. For example, the proliferation of ‘free trade agreements’ also

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40. Hwang Jang-Yop (2010), a high-ranking defector from North Korea, asserts that if not for the massive aid from South Korea, the North Korean regime would have collapsed in the late 1990s.

41. Nine revisions of the constitution since the Inaugural Constitution of 1948 represent a lack of political consensus in South Korea, where political actors have been all too willing to rewrite the constitution for their convenience.

42. Article 119 of the Ninth Constitution of 1987 consists of the following: (1) The economic order of the Republic of Korea shall be based on the respect for the freedom and creativity of individuals and businesses; (2) The state can regulate and adjust the economy to promote the balanced growth and stability of the national economy, to maintain a proper distribution of income, to prevent monopolization of the market and abuses of economic power, and to promote economic democracy through harmonizing the interests of economic actors (authors’ translation). Section 1 was a carryover from previous constitutions. Section 2 greatly expanded on previous constitutions’ concerns for economic stability and market monopolization, and it clearly contradicts Section 1.
appears to indicate increasing liberalization of the economy. Additional liberalizing reforms were made in the aftermath of the 1997 financial crisis, to meet the conditions for World Bank bailouts.

But on the whole, government regulation of the economy has become more intrusive and pervasive, in pursuance of so-called economic democracy, social justice, and so on. There has been a marked increase in government-provided benefits to all sorts of groups. One example is the Economic and Social Development Commission established in the aftermath of the financial crisis of 1997 as a presidential advisory body. Its Korean title more clearly reveals the corporatist nature of the commission: we translate it as “Labor-Business-Government Committee on Economic and Social Development.” Another example is the quasi-private Commission for Balanced Growth, founded in 2010 to insure “harmony and parity” among large, small, and medium firms.

The successive democratically elected governments have not only expanded welfare provisions that were introduced earlier, such as health insurance and income guarantees, but also created many new programs. For example, since 1988 the South Korean government has provided substantial funding to various civic groups. In the 2000s, most municipalities have begun offering free meals in schools through the 6th grade, in some cases through the 9th grade. Since 2013 the government has paid subsidies for raising pre-school children whether or not they are sent to daycare or kindergarten. These are just a few examples of the growing governmentalization of social affairs.

The power of the South Korean presidency is almost kingly. Since the transition to democracy, the legislature is supposed to counterbalance the powerful presidency to help preserve freedom. But popularity-seeking lawmakers seem to have something else in mind, passing at a torrential rate all manner of laws to promote their own interests, dispensing handouts for political expediency, or granting privileges to favored groups. Onerous burdens and arbitrary restrictions have been imposed on certain targeted groups, especially jae-bol—big businesses.

43. South Korea has ‘free trade agreements’ with the U.S., the European Union, Canada, China, Vietnam, and New Zealand, among others.
44. Civic groups are mostly left-leaning activist organizations and lobbyists. It goes without saying that a lion’s share of government funding has gone to the leftist groups.
45. The subsidy for daycare costs was initially meant to assist working mothers, but most non-working mothers insisted on equal treatment and got comparable benefits. In nationwide demonstrations during 2011, college students demanded that their tuition be cut in half. They seemingly did not care whether the tuition cut would be made up by government subsidy, or if colleges and universities simply would be forced to cut tuition.
46. It is unfortunate that big businesses in Korea, so used to cronyism, are dispensing large sums of money to various anti-business activist groups. Now, in an unrestrained democracy, such pressure groups wield great power. The practice is nothing short of bribery. In the short run, businesses buy respite from the
In all these, of course, the lawmakers who wield the arbitrary power of government never fail to recite the mantra of fairness and economic democracy. The relatively high level of corruption in South Korea shows that there is much room for abuse. Also, indiscriminate redistribution schemes and over-regulation of the economy have resulted in slow growth and high unemployment, especially among the young.

**Liberalism taking root**

The gradual realization in the 1980s and 1990s that democracy is not the panacea that many leftists thought it would be has created a yearning for a more secure freedom from the arbitrary rule of government, whether or not democratic. That realization had been a worldwide phenomenon. In 1979 Margaret Thatcher became the prime minister of the United Kingdom on the promise of curing the ‘sick man of Europe’ by liberalization and privatization. In 1981 Ronald Reagan became the president of the United States on the promise of rolling back the state. The trend culminated in the dissolution of the Soviet Union and its self-proclaimed socialist utopia in 1991. But any realizations concerning the excesses of government’s role in social affairs came belatedly in South Korea, because the primary concern there before 1988 had been getting rid of authoritarianism. Only after the transition to democracy did South Koreans begin to sense the oppressive nature of the collectivist state in various guises and realize that the ‘anti-authoritarian movement’ contained many disparate and contradictory strands.

The period of the 1980s and the 1990s in Korea was marked by raging ideological battles, with progressives and socialists pitted against conservatives and liberals. The former, riding on the triumphal wave of democratization, tended to be hostile to market forces; they advocated greater state intervention in the economy, in the name of social justice. In the latter coalition, the conservatives were generally pro-business—and, often, in favor of government intervention on social gadflies. But as the ancient Chinese thinker Han Feitzu said, it is like trying to chase away flies with a piece of meat; over time, there will be more flies (Choi 1989).

47. Even though many South Koreans feel that things are much better than before, the 2014 Corruption Perceptions Index from Transparency International places South Korea only 43rd out of 176 countries (link).
48. The result is the lowest birth rate among the OECD nations at 1.19 children per woman.
49. Stockman (2013) argues that the promise to roll back the state was not kept.
50. Most active anti-authoritarians curiously overlooked the despotism just across the DMZ.
51. In the Korean context, a liberal is person who is opposed to the expansive governmentalization of social affairs, including communism and progressivism. Liberalism in Korea is not confused with the “American liberalism,” because the latter is properly called Progressivism.
behalf of business. Most conservatives did not distinguish between being pro-business and being pro-market; very few saw that the two were not the same.

One of the very few was Kim Jin-Hyun, who was appointed the leader of the newly founded Korean Economic Research Institute (KERI). KERI was launched by the powerful Federation of Korean Industries (FKI) as an affiliate organization in 1981. Kim faced opposition from FKI when he showed interest in promoting the idea of a free-market economy, because most members of the FKI—captains of industry—did not care at all for free markets. For them cronyism (or mercantilism) was the norm. But, Kim persisted. He managed to publish in 1984 his own translation of Anti-Capitalist Mentality by Ludwig von Mises. Subsequently, in the late 1980s and the early 1990s, he commissioned translations of Liberalism by Mises, Competition and Entrepreneurship by Israel Kirzner, and The Economics and the Ethics of Constitutional Order by James Buchanan, among other books.

Kim Jin-Hyun’s project of translating works by free-market thinkers had the effect of introducing liberalism to a few Korean economists who would not otherwise have become familiar with it. One of them was a researcher at KERI, Gong Byung-Ho. In 1997 Gong managed to establish the Center for Free Enterprise (CFE) as an entity separate from the Korean Economic Research Institute (KERI). Though it was a small operation, the energetic and enterprising Gong expanded the efforts at translation, in few years many important works of liberalism had been published in Korean, from authors including Friedrich Hayek, Frederic Bastiat, Ayn Rand, Milton Friedman, Thomas Sowell, Henry Hazlitt, Bruno Leoni, Murray Rothbard, and Richard Epstein. The translators, such as Gong Byung-Ho, Ahn Jae-Wook, Min Kyung-Gook, Kim Chung-Ho, Kang Gi-Choon, Lee Sang-Ho, Kim Yi-Sok, and Yoon Yong-Joon, along with the CFE’s own economists Choi Seung-No and Kwon Hyuk-Chul, constituted the bulk of a

52. KERI’s first President was Chung Ju-Young, the founder of Hyundai, and its first vice-president was the economist Shin Tae-Hwan.
53. In the early 1980s Kim Jin-Hyun became interested in the ideas of the compatibility between a free-market economy and morality espoused by Michael Novak of the American Enterprise Institute and invited Novak to Korea (see Kim 2008).
54. Kim (2008) recounts how the publication needed the blessing of Kim Jae-Ik, then the Chief Economic Secretary to President Chun.
55. The establishment of the CFE as an independent entity would not have been possible without the help of Son Byung-Doo, the vice-president of KERI in 1996 and the vice-chairman of FKI in 1997, and the blessing of the then-chairman of FKI, Choi Jong-Hyun of the SK Group. Choi studied economics at the University of Chicago and was greatly interested in free markets (see Kim 2007; Bok 2013, 70).
still small number of free-market economists in Korea. The project provided an important opportunity for the liberal economists to associate.

The significance of the CFE’s translation project in recruiting and training free-market economists can only be appreciated in light of the development and composition of the economics profession in Korea, which by and large follows the neoclassical synthesis prevalent in the United States. The Korean Economic Association (KEA) was founded in 1952 during the Korean War by some 30 economists. In the 1950s the massive U.S. aid after the Korean War allowed a few Japan-trained economists (both in academia and in government) a chance to visit American universities and get some retooling. In 1960s a few South Koreans began to study economics in the U.S. and to earn doctorates from American universities. With the rapidly developing South Korean economy in the late 1960s and 1970s, economists came to be valued highly as consultants on policy and as communicators, both with international organizations and the populace at home. The growing demand for economists in academia and in government was met by an increasing number of Koreans studying abroad, mostly in the United States but also in Germany and Japan.

By the early 1990s economists with Ph.D.s from American universities came to constitute the majority of almost 1,900 members of the KEA (see Choi 1996). The race for better credentials was a big factor in seeking a degree from overseas, especially the United States. Reflecting the source of the members’ training, the Korean economics profession became a clone of that of the United States, which is by and large dominated by the neoclassical synthesis. Given the pervasive involvement of government in all areas of society in Korea, the majority of economists, regardless of their training, tend to become pragmatic, workaday economists, whether they are in academia or in government.

That is why a free-market thinker such as Kim Jin-Hyun was rare in the early 1980s. Perhaps it helped that Kim was not a professional economist (though his fellow liberal thinker Kim Jae-Ik was, with a Ph.D. from Stanford University). But his efforts to make known the merit of free-market economics bore fruit by influencing Gong Byung-Ho, the eventual founder of the CFE, and in the subsequent growth in the number of people interested in liberalism in Korea. There

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56. Translators from other disciplines include Joh Young-II, Shin Joong-Sup, Park Hyo-Jong, and others. The CFE also commissioned numerous books oriented toward liberalism by Korean authors.
57. The founding members were non-Marxist economists trained in Japan during the colonial period. Shin Tae-Hwan, who studied economics at the Tokyo College of Commerce (present day Hitotsubashi University), became the first President (see Shin 1983).
58. Later, Korean universities began to produce Ph.D.s, but these tended to be valued less than a foreign degree. A Ph.D. from an elite American university carried the most prestige.
59. Kim Jin-Hyun’s undergraduate training was in politics and diplomacy.
is no question that CFE drew much inspiration from liberal think tanks and institutes overseas, especially the Institute of Economic Affairs, the Cato Institute, the Heritage Foundation, the Center for Study of Public Choice, and the Ludwig von Mises Institute.

Even those rare souls who had independently discovered the virtues of liberal economic policies must have been encouraged by the growing number of free-market economists associated with the CFE. These independent thinkers include the novelist Bok Geo-II, who started to advocate openly a free-market economy in the early 1980s, and Min Kyung-Gook, a graduate of Freiburg University and the foremost Korean evangelist for Hayek’s work since the early 1990s. Today, Bok and Min have become leading members of the growing network of liberal thinkers in Korea, regularly contributing to popular newspapers and making TV appearances.

The growing confidence of Korean liberals is expressed in a collection of intellectual biographies, *Why I Became A Liberal* (Bok 2013). Twenty-one Korean liberals describe in that volume why and how they became liberal. The majority of contributors are economists with an advanced degree from abroad; the rest include a philosopher, a political scientist, a novelist, etc., who are nevertheless familiar with economics. Their initiation into liberalism was varied, including life experience, research, books, professors, colleagues, and even fathers-in-law. Their critical inspirations were invariably classical liberals of the West. They cited as their major influences the following thinkers: Mises, Hayek, Friedman, Buchanan, Kirzner, Rothbard, Adam Smith, Walter Eucken, Karl Popper, Ronald Coase, Gordon Tullock, Douglass North, Mancur Olson, Gary Becker, Armen Alchian, Samuel Brittan, Randall Holcombe, and so on. Most often cited are Mises, Hayek, Friedman, and Buchanan. Some of the twenty-one Korean liberals, however, testify that they drew much of their inspiration for liberalism from other Korean liberals, such as Lee Yong-Wook (cited by Kim I-Sok), Gong Byung-Ho (cited by Kim Chung-Ho, Shin Joong-Sup, Ahn Jae-Wook, and Choi Seung-No), Min Kyung-Gook (cited by Ahn Jae-Wook), and Lee Seung-Chul (cited by Kim Jung-Ho). This is an indication that Korean liberals have gone beyond the stage of merely importing Western ideas. Liberalism has begun to take root in Korea.

60. Kim I-Sok was introduced to Mises and Hayek by a professor at Young-Nam University, Lee Yong-Wook, in the mid-1980s. Professor Lee had earned his Ph.D. from Seoul National University for his research on Piero Sraffa (Bok 2013, 175–176).
61. Not all of the contributors state where they studied when they were introduced to liberalism, but it is interesting to note, in this relatively small sample, that two of them studied at the University of Freiburg, two at George Mason University, two at Ohio State University (where the faculty carried on the free-market tradition of the University of Chicago), and one at New York University (under Israel Kirzner and Mario Rizzo).
The deepening Korean roots of liberalism are even more clearly seen in a recently published book, *Thirty-Three Books That Awakened Me* (Song and Bok 2014). In that book, thirty-three Korean liberals each cite one book that was most important for them personally. Among the books mentioned are: *The Fatal Conceit* and *The Road to Serfdom* by Hayek; *The Law* by Frederic Bastiat; *Free to Choose* and *Capitalism and Freedom* by Friedman; *The Anti-Capitalist Mentality* by Mises; *Economics in One Lesson* by Hazlitt; *Competition and Entrepreneurship* by Kirzner; *The Open Society and Its Enemies* by Popper; and *Property and Freedom* by Richard Pipes. But there is a significant presence of books by Korean liberals (all written in Korean), including: *The Story of Korea* by Lee Young-Hoon (2007); *Nation Building and Enriching the Nation* by Kim Young-II (2004); *The Shadow of China on the Korean Peninsula, The Evolution of the Market, and Why I Became A Liberal*, all by Bok Geo-II (2009; 2012; 2013, ed.); *Answer! Liberalism* by Ahn Jae-Wook (2013); *Hayek, A Road to Freedom* by Min Kyung-Gook (2007); *The Miracle Called Individual* by Park Sung-Hyun (2011); *I Sell My Daughter for 100 Won* by Jang Jin-Sung (2008), a poet who defected from North Korea; and *Everyday Economics* by Kim Young-Yong (2009).

An important development in the late 1990s, when South Korea seemed to have been swept away by social democrats and socialists, was the creation of the Korean Hayek Society in 1999 by Min Kyung-Gook and other admirers of Hayek. Its goal was to sustain scholarly exchanges on liberalism. The founding members of the society constituted the bulk of CFE translators and contributing authors. The society holds a monthly seminar and posts online member writings on various issues.

After the initial flurry of translating and commissioning Korean authors to write on relevant topics, the CFE decided in the early 2000s to shift its focus to educating the public. One example is offering a course on the market economy at college campuses. Initially, even free-market economists were skeptical about the prospect of such a course at colleges, given the widespread anti-liberal sentiments among the youth in South Korea. They were pleasantly surprised, however, when the first of such courses bravely offered by Professor Chun Sam-Hyun of Soongsil University had all 230 seats filled within 30 minutes of opening for registration. The enrollment in the program steadily increased to some 3,000 students per semester by spring 2007 (Kim 2007, 293). Another success is a continuing education program called Open Society Academy. When the CFE faced financial difficulties and could not continue the program in fall 2006, the alumni of the academy contributed funds to continue the program. Under the current leadership of Hyun Jin-Kwong (since 2014), CFE has redoubled its efforts for popular education through publications, lectures, seminars, and various events. The continued success of the CFE
education programs has led to the founding in 2013 of Freedom Factory, a for-
profit corporation that offers courses on subjects such as the history of
entrepreneurship in Korea. Freedom Factory’s founder is Kim Jung-Ho, a former

It seems to us that liberals in South Korea have not only become more self-
confident, but they may have reached a critical mass.

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Liberalism in Mexican Economic Thought, Past and Present

Pavel Kuchař

Adam Smith has long been liberalism’s best representative, and he captured the essence of liberalism when he expounded the principle of “allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice” (1976/1776, 664). Liberalism revolves around the idea of liberty that we may associate with John Locke’s “natural rights” or Smith’s “natural liberty.” It holds a presumption in favor of liberty: Anyone who proposes a contravention of the liberty principle bears a burden of proof.

It must be recognized, however, that Smith’s philosophy also gives considerable presumption to the status quo. Any practical reform movement must bargain with the status quo, and the colonial status quo characterized by a skepticism of economic competition has been a major challenge to the adoption of liberal ideas in Mexico and much of Latin America.

At one point in *The Wealth of Nations* Smith describes his discourse as a contribution to “the science of a legislator” (1976/1776, 468). Such instruction presupposes a legislator, and a legislator presupposes a stable political system, a stable polity. It is unclear what Smith’s “liberal plan” has to say in a realm without a stable polity, without a meaningful process of law or lawmaking, without a regular legal system. Absent those things, what does it mean to speak of a “science of a legislator”? 

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1. Department of Economics and Finance, Universidad de Guanajuato, 36250 Guanajuato, Gto., Mexico. For insightful suggestions I thank Fernando Arteaga, Sarah Babb, Erwin Dekker, Michael Margolis, Luis Sánchez-Mier, Jane Shaw, Oscar Sánchez Rangel, and two anonymous referees. All errors are my own.
Moreover, Smith’s work speaks to a legislator who is open to liberal ideas, and who is prepared to advance liberal reform, even at personal sacrifice. Smith himself advanced the “plan” of allowing the individual to pursue his own interest his own way within a context in which people had much understanding of and allegiance to “equality, liberty, and justice” as he also understood those terms. Liberalism developed in Smith’s time and thereafter, especially in countries where the political system was stable, where people shared an understanding and allegiance to liberal notions, and where the people manning the government were willing to see and to act on the merits of liberal reform.

Liberalism advanced less well in certain countries, including those in Latin America, not so much because instituting liberal reforms in those countries would not be beneficial, but more because ‘instituting liberal reforms’ was not possible, or even meaningful. The cultural conditions for wide adherence to liberal sensibilities and for consequent liberal reforms were much less well established. Conditions in Latin America have always made the region liberalism-challenged.

Many authors have written on the history of Mexican economic and political thought (e.g., Armstrong 1989; Cosío Villegas 1955; 1957; Guerra 1995; Hale 1968; 1989; Silva Herzog 1967; Reyes Heroles 1974; Haber et al. 2008; Vázquez 1969). In recent years, María Eugenia Romero Sotelo (2013a; 2013b) and Fernando Escalante Gonzalbo (2015) have discussed Mexican economic orthodoxy, which Romero and Escalante often condemn as “neoliberal.”

In this paper I outline the development of economic and political thought in Mexico, with an emphasis on the fortunes of liberalism. The term liberal came to be used in quite disparate ways. Part of the disparity can be understood as plain differences in understanding of the essential meaning of the term. But part of the disparity arises, I think, from differences in attitude about how to approach the underlying problem, which was that Mexico did not have the background conditions for Adam Smith’s “liberal plan.” Such background conditions include a national identity, a stable polity, a broad cultural allegiance to liberal principles, and a corresponding sense of law. Some of the thinkers treated here emphasize the basic liberal formulas and formulations, such as individual liberty and mutual gains from voluntary exchange. Others were, perhaps, more concerned to establish the background conditions, and, again perhaps, favored statist policies to realize the background conditions, to arrive at a state in which liberalism can be more meaningfully advanced. I discuss the leading figures in 19th century Mexican economic and political thought, and focus in the 20th century on issues of the economics profession, reforms of the 1980s and 1990s, and disputes about ‘neoliberalism.’ Finally, I list individuals and organizations in Mexico who represent the aspiration for a more classical liberal state today. Where I quote from Spanish-language sources, I provide my own English translation.
Colonial roots of liberal thought

Liberal ideas existed in New Spain well before independence in 1821. I mention two men. Bartolomé de las Casas (1484–1566) was a Spanish Dominican priest who vigorously defended the rights of the indigenous people in New Spain. In his *De regia potestate*, las Casas pointed out that justice is not equivalent to enforcement of the law in the books. He argued that the law is binding for all the individuals as well as the governor and that within the rule of law the medium by way of which people can communicate with the governor is referendum (Beuchot 1996, 75). Tomás de Mercado (1525–1575) was a scholastic doctor who belonged to the School of Salamanca, which understood value subjectivism and the implication that voluntary exchange produces mutual gains. Mercado, having spent a great deal of time writing and thinking about New Spain’s problems, intuited the supply and demand mechanism and the quantity theory of money. It is worth mentioning his two fundamental treatises, *Tratos y contratos de mercaderes* (1569) and *Suma de tratos y contratos* (1571).

Charles Hale, an influential and widely recognized scholar of the history of Mexico, points out that Spanish-domain liberals were influenced especially by the writings of Jean-Baptiste Say. Say’s *Traité d’économie politique* was translated in its entirety in 1803, just one year after it had been published, and spread quickly. The first Spanish edition of the Adam Smith’s *Wealth of Nations*, meanwhile was translated by José Alonso Ortiz, who was a mercantilist; the book “emerged mutilated, abridged and full of qualifying footnotes” (Hale 1968, 252). One prominent Spanish liberal of the time who was heavily influenced by Smith and other British sources was Gaspar Melchor de Jovellanos (1744–1811) (see Polt 1964). Jovellanos’s treatise on agriculture “provoked a considerable reaction” due to which he fell into a royal disregard (Hale 1968, 252).

An example from colonial times of liberal reform is the trade reforms implemented by Charles III of Spain who in 1774 liberalized intercolonial trade and in 1778 tamed the mercantilist restrictions on trade with Spain. The Spanish-empire-wide Cortes de Cádiz (“cortes” were Spanish legislatures) and the Spanish Constitution of 1812, regarded one of the first examples of a classical liberal constitution, continued the Bourbon reforms that had turned against corporatist privileges, guilds, and local jurisdictions, thus advancing liberal ideas throughout the empire.

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2. On the late scholastics, see Grice-Hutchinson 1952; Schumpeter 1954; Popescu 1997.
Independent Mexico

Mexico became independent from Spain in 1821. Independence did not produce a stable polity—far from it. From independence until 1876, Mexico would have more than 70 presidents and suffer two foreign invasions. Mexican presidents would often be appointed by unconstitutional means and serve multiple times; General Antonio López de Santa Anna, for example, served eleven non-consecutive terms.

The challenges included nurturing a national identity and economy, regional obstacles to internal commerce “divided the country into a set of fiscal territories and hampered the circulation of merchandise” (Riguzzi 2009, 358). Other huge challenges included overcoming the norms and structures of Spanish colonial rule and subjecting the church and the military to the rule of law.

Marcello Carmagnani suggests that “liberal principles had circulated in Mexican society since the promulgation of the Constitution of Cádiz, the introduction of free international trade, and the establishment of the federal republic in 1824” (2005, 286). The consolidation of a body of liberal thought, which happened between 1840 and 1860, was most prominently manifested in the 1857 Federal Constitution of Mexico. I proceed to treat some of the leading figures of this period: Lucas Alamán, José María Luis Mora, and Manuel Ortiz de la Torre.

Lucas Alamán

One of the defenders of political and economic interests of New Spain was Lucas Alamán (1792–1853), who in 1821 represented the province of Guanajuato at the Spanish Cortes. Alamán defended the freedom of press, the right of national representation (which he believed should complement taxation), and the liberty of the individual. Coming from a family of wealthy landowners, the young Alamán, himself an entrepreneur, was passionate about free trade and called for dismantling some of the barriers to the circulation of goods. In a proposal of the congressional mining commission, Alamán even mentions Adam Smith on the “natural tendency” of foreign capital to seek profitable investment: “They will direct their investment here without needing further encouragement” (quoted in Hale 1968, 265).

Historians have long considered Alamán—who in 1849 founded the Conservative party—to be a reactionary conservative with monarchical sympathies, a man of enterprise, and a mercantilist statesman of Mexican economic development who urged government intervention in the economy. Some authors have lately
highlighted Alamán’s more liberal aspects, pointing especially to the importance of his liberal constitutionalism (Andrews 2007; Aguilar 2010). 3

Alamán believed that private property has moral implications in terms of the political economy of a country. According to him nothing could contribute to a spiritual and material development of an individual as much as ownership and the inclusion in the process of production. Property has a tendency to cultivate a man, to civilize him, and to make it possible for him to live in a society; to make him a stakeholder, to colonize him, and to make him useful. For Alamán, the key moral implication of secure property rights was therefore not individual autonomy, but rather raising the owner’s own awareness of a greater public good. Alamán thought deeply about order, governance, and stability.

Catherine Andrews (2009) argues that there are reasons to believe that by 1834 Alamán’s concern for political stability involved some liberal tendencies. He admired the separation of powers established by the U.S. constitution, and he did not hold in high estimation the French and Spanish constitutions. Alamán—seemingly following William Blackstone, Edmund Burke, and the French Anglophiles like Montesquieu—“espoused… the separation of powers and representative government” (Andrews 2007, 16). Andrews writes that Alamán’s disenchantment with the 1824 Federal Constitution of Mexico stemmed from two main points. First, he suggested that “Mexico found itself in ‘anarchy’ because, by establishing the Federal Republic, it had elected to destroy ‘all that had previously existed’” (ibid.). Second, he held that the 1824 Constitution

...did not institute an adequate division, or the appropriate balance, between the different branches of government. … [A]lthough the constitution ostentatiously modelled itself on the US charter, in reality it followed the ideas of the first French constitution of 1791 by way of its Spanish imitation: the 1812 Constitution of Cádiz. (Andrews 2007, 17)

Alamán felt that the constitution was an eclectic transplant not well aligned with historical circumstances of the newly born Mexican nation. The reforms that Alamán proposed revolved around four institutional features: the division of powers, the powers of emergency, attributes of the Congress, and the nature of representation (Aguilar 2010, 91). In particular, Alamán felt the 1824 Constitution gave strong powers to the legislative branch and constrained the executive too.

3. Aguilar (2010, 87) argues that although we might find consistency in Alamán’s thought, the schisms in his thought seem to be crucial. The idea of “two Alamánes” is often adopted, where one side of Alamán’s thought shows a liberal centralist, whose thought on constitutional reform is of immense importance, and the other presents a voracious mercantilist defending clerical interests. The difficulty of understanding Alamán is amplified by the changing character of his thinking.
much. He therefore called for a more stable and secure executive power venerating “the provisions of English law that allowed…the principle of habeas corpus to be suspended at times of emergency” (Andrews 2007, 28–29).

José Antonio Aguilar Rivera suggests that there is a Machiavellian aspect to Alamán’s meditation on the difference between a dictatorial authority established by irregular means and an institution that would permit an orderly concentration of powers in the hands of a dictator during the times of a crisis to prevent a greater harm (Aguilar 2010, 99–100). Aguilar reproduces a quotation from a document probably authored by Alamán:

> The form of government is nothing but an organization of its powers and these powers are in themselves nothing but a guarantee of liberty. It is not a result of natural law that all the governments should be constituted by one chamber or two chambers, by an elected and a temporary president, by two consuls or a directorate. … What really matters is to properly apply general principles to particular circumstances…in order to avoid the tyranny of the government, the tyranny of the parliament, the demagogical tyranny or the judicial tyranny. (quoted in Aguilar 2010, 118–119; also Andrews 2006, 100)

Despite his favor for property and liberal constitutionalism, Alamán inclined toward protectionism (Hale 1968, ch. 8). As a minister of foreign relations, Alamán sought to revive the Mexican mining industry through domestic and foreign investment. Furthermore, he wanted to set up a system of customs that would put the domestic industry in a “just equilibrium” with other international firms. In 1830, he established Banco de Avío, a program that would ensure that credit flowed into those industries that could make best use of it. He believed that public money should be spent to spur technological change and industrialization. From 1835, to protect the domestic cotton industry, he tried to influence the Mexican commercial policy so as to block cotton imports.

At the same time, Alamán continued to defend private property as a natural limitation on state intervention, and to promote the “spirit of enterprise” (“espíritu de industria”). The apparent contradictions in Alamán’s thought illuminate a recurrent aspect of Mexican thought and experience: the resort to statist means to create a stable nation-state, so as to make subsequently viable movement toward Adam Smith’s liberal plan.

**José María Luis Mora**

The most prominent proponent of liberal ideas in the post-independence period was José María Luis Mora (1794–1850). Mora was educated in theology and rationalist philosophy. According to Hale, Mora was influenced by French consti-
tutional liberals, physiocrats, and Benthamite utilitarianism. Hale says that we find Mora “speaking in 1827 of ‘the wise [Jeremy] Bentham’ and agreeing that ‘not only is utility the origin of all law, but also the principle of all human actions.’” Hale adds that “throughout Mora’s anticlerical writing runs the thread of utilitarian ethics. It appears that Mora’s general attack on corporate privilege is carried through in the name of utility rather than from the natural rights position” (1965, 206).

Unlike Alamán, Mora saw the main problems of the new country to be the privileges of the Catholic Church and the military class. Mora thought that the concentration of land tenure in the Church was a major obstacle to economic prosperity because land remained unproductive, locked in the possession of “dead hands” (“manos muertas”). Mora would accuse the privileged groups of “forming small societies that frequently conspire against the interests of the general public” (Mora 1950, 101–102; quoted in Romero Sotelo 2005, 23). He said that

the major challenge against which the public prosperity of nations must fight is the tendency to pool, accumulate, and monopolize eternally the land and capital. … This result is due uniquely and exclusively to political bodies and a nation where these bodies get to multiply; even if small in numbers they become pervasive in society and have opened an abyss where the public interest must disappear. (Mora 1950, 189–190; quoted in Romero Sotelo 2005, 24)

On such grounds, Mora proposed the confiscation of clerical property.

When in August 1827 the legislature of the State of Mexico proposed the expulsion of Spaniards, however, Mora was against the expropriation of the Spanish private property. In his Discurso sobre la expulsión, he argued that

the wealth of a country is a function of the capital goods employed since these carry the value of the primary resources and labor, the industriousness and workmanship of the man; their beneficial inflow makes the land more productive and maintains its commerce. A nation without capital cannot strive toward prosperity. (quoted in Romero Sotelo 2005, 25)

Mora feared that, as a consequence of political persecution of Spaniards, which had just started, Mexico would scare away capital. He wrote that

until now [November 28, 1827] the events have confirmed all our predictions, the distrust grows apparently … the toll on income both from maritime and land trade has fallen considerably. A loan will not be given at all or under conditions very beneficial to the lender and dear to the nation. (quoted in Romero Sotelo 2005, 26)
Mora also wrote on public finance. Influenced by Say, Mora sought reform that would result in “the greatest possible savings, and in the smallest possible tax” (quoted in Romero Sotelo 2005, 27). Mora had in mind “a transition from the regime of strong intervention to a liberal regime” (ibid., 27–28), but he understood quite well that a social conflict will most likely prevent such transition.

Manuel Ortiz de la Torre

Manuel Ortiz de la Torre, “a native of Sonora and a professor at the Colegio de San Ildefonso,” was perhaps Mexico’s “most vigorous exponent” of liberal doctrine in the 1820s (Hale 1968, 256). Robert S. Smith considers de la Torre to be a forgotten economist who would in his two Discursos refer to the “profound” Adam Smith, the “judicious, profound and well instructed” Thomas Malthus, to “the most profound and instructed genius” Richard Cantillon, and to Bentham, Say, Étienne Bonnot de Condillac, and David Ricardo (R. Smith 1959, 513). In Discurso de un diputado, published in 1823, Ortiz criticized import restrictions, saying that that it is commonly believed that without protectionist measures “the manufacturing industry will not flourish…[and that] many hands will stay unoccupied.” But if this were true, argues Ortiz, “Why don’t we apply the same principle among the provinces of the country?” (quoted in R. Smith 1959, 512).

Ortiz anticipated the objection that England did not fully adopt free trade, saying that England grew rich not thanks to remaining restrictions but in spite of them. Ortiz believed that the economic development of Great Britain should be attributed to the protection of private property, to its political constitution, to the merchant fleet, and to “the singularly industrious genius of its inhabitants” (quoted in R. Smith 1959, 512).

In his second Discurso, of 1825, Ortiz argues that “the wealth of a nation will be augmented through individual productive activities, and thus the government should be limited to guarantee freedom of production and the highest possible security in the enjoyment of the products” (quoted in R. Smith 1959, 514). Ortiz acknowledged the possibility that in some economic activities, such as public works, construction of canals, bridges, and roads, public administration may be more appropriate than private enterprise. He warns, however, that the government should stay out of the production of consumption goods or any other activity that is generally better served privately (R. Smith 1959, 514).

The 1857 constitutional moment and the Restored Republic

The efforts of Mexican liberals materialized in a new constitution, drafted in 1857, that targeted “the corporate rights and special jurisdictions (fueros) of the
military, the Catholic Church, economic guilds, and Indian communities” (Aguilar 2012, xxvi). The enactment of this document was met with a violent conservative opposition that attempted to establish a monarchical rule in Mexico and which eventually invited foreign intervention. Napoleon III of France provided military support for a puppet regime of the Archduke Ferdinand Maximilian—an Austrian prince and a younger brother of Franz Joseph. Ferdinand Maximilian became the first and the last monarch of the short-lived Second Mexican Empire (1864–1867), which was overthrown by Benito Juárez, who restored the Republic in 1867.

Daniel Cosío Villegas (1898–1976), a Mexican economist and historian, formulated a somewhat romanticized interpretation of developments following the 1857 constitutional moment (Cosío Villegas 1957). Cosío’s interpretation holds that a consolidation of liberalism in Mexico had been largely achieved under the Restored Republic. Here is how Enrique Krauze, Cosío’s biographer, explained the interpretation:

“[F]or ten years (1867–1876) under the presidency of Benito Juárez and Sebastian Lerdo de Tejada…there were no parties within the liberal group, only factions. There was, however, a true division of powers, a fanatical respect—and what else is needed?—for the rule of law, full sovereignty of states, elections free from the shade of fraud, independent magistrates, and an absolute liberty of opinion which translated into a proactive and intelligently vigilant press. People loved the political liberty. (Krauze 1984, 5)

Cosío’s picture of Mexican liberalism should be read in light of his “anti-clerical sympathies” and his “rejection of nineteenth-century liberalism in socioeconomic matters” (Hale 1974, 485). His argument that those ten years were a liberal period has been challenged by the view that a liberal order crucially depends on the existence of a suitable body of citizens. That body was absent in the Restored Republic—“imaginary” in the words of Fernando Escalante Gonzalbo (1992)—because more than half of the population lived in indigenous villages, where patterns of communal ownership prevailed, or lived and worked on land that belonged to someone else. Impersonal market exchange, self-interest, and autonomy were not significant factors in the understanding of the indigenous self—communitarian habits, compulsion, and hierarchy were. Reforma assumed autonomous, equal and self-interested men that were mostly not there (Armstrong 1989, 51–53). Furthermore, Cosío’s romantic interpretation downplays the importance of the liberal transformation under Porfirio Díaz, to which I now turn.
Positivism and the transformation of liberalism

In 1867, when foreign intervention was repudiated and the conservatives were wiped off the political and intellectual map, liberalism came to be “irrevocably identified with the nation itself” (Hale 1989, 3). Liberalism, argues Hale, “became transformed from an ideology in combat with an inherited set of institutions, social arrangements, and values into a unifying political myth.” Factions multiplied within the broad liberal group, giving rise to a movement of ‘new’ liberals. Continuity with the old liberalism was weakened largely by the search for a “scientific politics,” strongly marked by Comtean positivist philosophy. Positivism had a strong impact on the Mexican education system and later on political ideas (ibid.). From the later part of the nineteenth century, as has been the case in the Anglosphere, the so-called liberals were often a far cry from Adam Smith.

Hale speculates that positivism in Mexico was prefigured by Mora’s utilitarian liberalism. Mora’s “vision of a secular society, directed by middle-class property owners who would be the beneficiaries of a state-controlled educational system” (Hale 1965, 226) could be seen as introducing some ideas of the ‘new’ liberalism of ‘new’ liberals. Hale stresses, however, that in the search for continuity within the nineteenth-century tradition we should not forget that the earlier liberals, “despite their ultimate reliance upon a strong state to attack corporate power, always kept alive the struggle for liberties, free political institutions, and the basis of political democracy” (ibid.). This was not always the case with the nineteenth-century positivists and their notion of scientific politics administered by the group of científicos (scientists), whom Cosío considered to be “the country’s first technocrats, dedicated to the idea that the nation should be guided by a scientifically oriented apolitical elite” (Hale 1989, 124).

Gabino Barreda

The pioneer of Mexican positivism was Gabino Barreda (1818–1881), the minister of education in the Benito Juárez government. Barreda had been a student of Auguste Comte, whose lectures he had attended in Paris. In 1867 in Guanajuato, Barreda called for a universal doctrine that would unite all the intellects in one common synthesis (Hale 1989, 5). As explained by Hale, Barreda held that “economic development, a scientifically-based education, and more political order were to replace the anarchical and utopian character of the earlier liberalism” (ibid., 225). Barreda believed that education had only one purpose, that of establishing and maintaining permanent social order. According to Barreda, “Education should be an instrument in the service of order,” because, following the positivist doctrine,
“social or material order depends on spiritual order” (Zea 1974, 125). Leopoldo Zea elaborates:

When he [Barreda] said that preparatory instruction was free, he meant that all the sciences taught in the preparatory schools could be demonstrated. Everything taught in the preparatory schools was demonstrable, which meant that it could be accepted freely by everyone. Everything that could be demonstrated must be accepted by all; here there was no room for freedom in a negative sense; no one could deny that which could be demonstrated beyond any doubt. This is what was accomplished in the preparatory schools: to teach the positive, that is, the demonstrable, which meant that one was free only to affirm, not to deny. (Zea 1974, 126)

Barreda wanted to produce something that the Jesuits failed to generate, namely, a kind a civic conscience wrapped in common knowledge. The civic conscience should be effectuated by a kind of total education, according to Barreda’s new model for education. The power to design and shape this model should be commended to a new social group, a new caste of positivists (Zea 1974, 130). Such a ‘liberalism’ would seem to be very far from David Hume, Adam Smith, and Edmund Burke.

Against this new power, against its creation, rose an opposition formed by Mexican liberals belonging to the so-called “romantic generation,” including Mariano Otero, Ponciano Arriaga, Ignacio Ramirez, and Guillermo Prieto.

Guillermo Prieto

A liberal follower of Mora’s outlook, Guillermo Prieto (1818–1897) challenged Barreda’s proposal of educational reform on the grounds of the constitutional principle of freedom of speech and a derived principle of academic freedom. Barreda replied: “I recognize and proclaim that my friend Mr. D. Guillermo Prieto is, in my judgment, the best lyric poet in my country…but I cannot give him credit for subjects that he is not familiar with, subjects that he has never studied” (quoted in Zea 1974, 132). More importantly, Barreda saw Prieto and the other romantic liberals as “unrealistic, that is, they had an impractical education. Their education had made them impractical idealists and dreamers” (Zea 1974, 128).

Prieto was a colorful character, perhaps best known for the moment during the Reform War (Guerra de Reforma) when he shielded Benito Juárez with his own body, reputedly proclaiming that “brave men do not murder… you are Mexicans, this is the representative of the law and of your nation… You want blood? Spill mine!” (Sierra 1948, book XIII; Fernández Ruiz 2006, 163). Apart from being a poet, Prieto was an active journalist, statesman, and classical liberal who influenced
the course of Mexican public life throughout four decades. In 1851 he was made a minister of finance. Prieto contributed to the consolidation of Mexican fiscal policy necessary to avoid the bankruptcy of the treasury, and he pushed through the abolition of some internal customs (*alcabalas*) that hampered the emergence of a national market.

Prieto condemned “unequal, unjust, and immoral indirect taxation” (1871, 385), finding it damaging for Mexican public finance. He called instead for a system of taxes that would not be confiscatory or immoral, not “protecting or liberating some industries” but instead being general, uniform and known in advance (ibid.). He wrote that “a tax is an obstacle between production and a consumption…if this obstacle is anticipated, its influence is less pernicious; if it comes unexpectedly, it destroys the circulation; if it is not uniform, it interrupts it, it takes away the freedom” (ibid., 385–386).

Prieto’s book on *Political Economy* consists of lectures given in 1871. The book is an excellent overview of classical political economy. Prieto takes on the ever-present mercantilist contention that “if a society exports more than it imports, it wins; if it imports more than it exports, it loses” (1871, 289). To counter this thesis, Prieto reminds us that “when two persons exchange, they are brought together by a common interest” (ibid.), and same goes for international trade. Prieto salutes “Quesnay, Turgot, Smith, and Say, who famously fought this barbaric system,” which presupposes “hatred between nations, a conspiracy to impoverish foreign countries in order to come upon elements of national prosperity” (ibid., 291). Besides Smith and Say, it is Frédéric Bastiat to whom Prieto (1871) refers most frequently; the book opens with a lecture on “Property and Property Rights” that strongly follows Bastiat’s reasoning. Prieto praises Bastiat for “analytical precision” that has “made most important contributions to the economic science” (ibid., 4).

Prieto (1871, vii) writes: “Without a study of morality, property would be theft and not an extension of individual faculties, the flesh of our rights, the right which in itself appeals to the guarantee of law since propriety exists before the law, it gives it life.” Prieto considers property a natural extension of human faculties: Without property there is no guarantee to the fruits of one’s labor, without property there is no liberty, no responsibility, no consistency in exchange. Property is exclusive use of the thing. Whenever two or more individuals with their own desires and tendencies compete, the recognition of property becomes key: “Possession is useless, even if exclusive, unless recognized by the others… The recognition, in other words, the strengthening of possession, the right, cannot take place

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4. The original title of Prieto’s book is *Lecciones elementales de economía política, dadas en la escuela de jurisprudencia de México en el curso de 1871.*
outside of a society” (Prieto 1871, 5–6). Prieto’s rhapsodic case for the morality of property is worthy of extended quotation:

We have said that property is a powerful incentive for saving and capital formation. Whenever we examine the tendency of men to improve and advance, we find a desire to search for the good and avoid the bad.

The future-oriented inclination of present work, this tender heritage bequeathed into the hands of coming generations by generations that had left, signals one of the constituent features of the limitless progress that elevates us to perfection.

For this reason the rights that arise from property are the most transcendental ones. (Prieto 1871, 12)

An unhampered labor market and free enterprise will eradicate the root of monopolies in commerce but also in education. Free enterprise, argues Prieto, conveys a new outlook on a society—it “kills the contagion whereby the few live at the expenses of many” (Prieto 1871, 12). He was quick to add, however, that free enterprise embedded in and reinforced by the presumption of liberty rests on necessary restrictions that are imposed on individual self-interest:

When this interest of the individual is opposed to the general interest; when the fulfillment of this desire or when the satisfaction of that fancy hurts other rights or harms the community, in that case a restriction is just; but it cannot be justified otherwise. (Prieto 1871, 12)

Prieto lived through the 19th century transformation of Mexican liberalism into a unifying political ideology influenced by the philosophy of positivism. He clearly understood the presumption of liberty and he applied it throughout his life as a journalist, statesman, and teacher. During the last years of his life he went on to contribute to the formation of a “national conscience,” writing an epic poem called Romancero nacional. His Lecciones de historia patria were reprinted several times by the government of Porfirio Díaz (Ludlow 2005, 203).

1876: The beginning of the Porfiriato era

The term Porfiriato refers to the regime, 1876–1911, of Porfirio Díaz. The regime faced regional interests that “divided the country into a set of fiscal territories and hampered the circulation of merchandise” (Riguzzi 2009, 358). Through “rigging elections” and “forging a coalition with Mexico’s wealth holders by granting them special privileges” (Haber et al. 2008, 21) Díaz managed to maintain a stable polity and to extend the national market.
But that “the state promoted the construction of markets does not mean that this was done properly, and it failed, in fact, on criteria such as the rectification of spatial inequality and economic and distributive efficiency” (Riguzzi 2009, 359). The Porfirián policy of economic development was above all a program of “‘defensive modernization’...aimed at controlling and reducing the impact of the international on the domestic economy,” and as such the Porfirián modernization “fed the roots of economic nationalism” (ibid., 356).

Mexico managed to achieve degrees of political stability predominantly through the creation of patronage relationships and coalitions. Stephen Haber (2002, 42) argues that although a patronage system is not the best solution to the commitment problem that any government faces, it has its benefits. Since it is often next to impossible to jump from an unstable polity to a limited government operating under the rule of law and upholding universal political and economic rights, governments may solve the fundamental commitment problem by integrating favored asset holders in the political process and convincing them their interests will be protected. Any kind of authoritarian regime built around such rent-seeking coalitions is, however, prone to generate a schism between a privileged stratum and an underdeveloped sector with weak property and contract rights.5

Justo Sierra

Justo Sierra (1848–1912) and the ‘new’ liberals felt that the formulas proposed by the generation of romantic liberals were inadequate. The ‘new’ liberals felt that the 1857 constitution envisioned a “generous, liberal utopia” (Hale 1989, 49)—that it was not grounded in the reality of Mexican life. The constitution emphasized individual rights, “which Sierra and his colleagues regarded as an exaggerated, arbitrary, and socially disruptive dogma, based on faith rather than on experience and science” (ibid.). Hume and Smith, alert to the inadequacies and dangers of simplistic formulas and simplistic formulations, perhaps would have had some sympathy for Sierra.

Although some of the Mexican positivists called for “honorable tyranny” by a benign despot, Sierra was more careful in his rhetoric.6 He envisioned a “conser-

5. The historical role of Porfirio Díaz is far from settled. Garner (2003) argues that the Porfirián historiography can be divided into three chronological categories, each one having particular biases: the “porfiriism,” the “antiporfiriism,” and the “neoporfiriism.” A favorable image of Díaz dominates before 1910; what followed the Mexican Revolution destroyed the Porfirián cult and substituted for it an equally powerful myth of antiporfiriism. During the 1990s emerged a new, perhaps more balanced, consideration of Porfiriato.

6. Francisco G. Cosmes appealed for authoritarian government in September 1878 in La Libertad, which was a ‘new liberal’ outlet (see Hale 1989, 34).
“conservative” and “strong government” which would establish a stable polity; “weak

governments,” claimed Sierra, “are the sure symptoms of death” (quoted in Hale 1989, 34). This was in contrast to the views of José María Vigil and some of the ‘old’

liberals, who seem to have embraced the notion of popular sovereignty, which, however, essentially boils down to unconditional democracy.

Sierra and the new liberals proposed a constitutional Leviathan hoping it would, eventually, bind itself. Their Leviathan would come to be personified in

Porfirio Díaz, who to a large extent embodied Sierra’s thesis that “the best way to

avoid the violation of guarantees and the abuse of the law is to suppress law and

guarantees” (Hale 1989, 65). Sierra—who believed that a stable polity, so much

needed for the emergence of voluntary private cooperation, would not emerge spontaneously through consensus—compared a society to an organism. Hale

writes that Sierra “identified in the development of the organism the gradual domi-

nance of the nervous force over the muscular force…the nervous force would have

a directive role analogous to the spiritual power in society envisioned by Auguste

Comte” (1989, 33). The central nervous force that would permit a strong and

healthy constitution was to be strengthened by way of “rudimentary strengthening

of public authority” (ibid.).

José María Vigil

Although the positivist thinkers of Mexico called themselves liberal, their
doctrine derived from the collectivist philosophy of Comte, Saint-Simon and Fourier. Such philosophy plainly lacked liberalism’s understanding of individual

liberty as a natural set of focal conventions upon which spontaneous forces, if

not obstructed, generally function to good effect.7 In 1878, via the columns of La

Libertad and El Monitor Republicano, José María Vigil (1829–1909), defending liberty as an absolute principle, challenged Sierra on the meaning of freedom on these
grounds. Later on he would even argue that “positivism … degrades the man …

and leads necessarily to skepticism, materialism, atheism, and despotism” (quoted in Hale 1989, 189).

Some developments in higher education

The discussions between Prieto and Barreda and between Vigil and Sierra

point to the key role of higher education in the transformation of liberalism in

Mexican economic thought. The Colegio de San Ildefonso, a sixteenth-century

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7. Friedrich Hayek developed this line of criticism in his Counter-Revolution of Science (1952, esp. part two, chs. V and VI).
Jesuit college that had raised up many important Mexican scholars, morphed, on December 2, 1867, into the Escuela Nacional Preparatoria (ENP). The first director of the ENP was Barreda, who created a positivist curriculum to facilitate a moral development without which “liberty, considered as a right, cannot be instituted” (Hale 1989, 34). Individuals had to have a proper moral outlook, based on positive truths, drilled into them. The curriculum brought up a generation of positivists that would influence the political life of the Porfiriato.

Sierra, who became a teacher at ENP, exemplifies the tension between liberalism and positivism and the “complex and tangled relationship between scientific politics and constitutionalism” (Hale 1989, 102). Hale argues that “Sierra and his colleagues’ claim to being constitutionalists must be taken seriously despite their apparent support for authoritarian government” (ibid.). Perhaps it is not in spite of but because of Sierra’s support for a strong government in times of an unstable polity that his contributions to Mexican constitutional liberalism should be taken seriously.8 Sierra also contributed to the emancipation of the school from the state and from the Church. Later on, he founded the Universidad Nacional de México (today’s UNAM). UNAM’s school of economics was founded in 1935, and it became the cradle of the economics profession in Mexico.

1910 and after

Porfirio Díaz, whose 35-year authoritarian regime began in 1876, had created and maintained a stable polity. “By the time Díaz was forced into exile in 1911, Mexico had a sizable banking system, a manufacturing sector that produced a broad range of consumer and intermediate goods in large-scale factories, and a 12,000-mile railroad system” (Haber et al. 2008, 21). This economic transformation resulted from a system of patronage that granted special privileges to large landowners, bankers, and industrialists.9

Díaz failed to recognize the right moment to limit his political powers, however, and a violent revolution fomented by the coalition of reformist elites and

8. Consider for example Hale’s discussion on Sierra and the 1893 debate on the irremovability of judges (Hale 1989, 108–122, 247).
9. Haber, Maurer, and Razo (2002) consider Porfiriato an “archetypal case of a crony system.” Stanislav Andreski (1966, 140–145) talks about the revolutionary regime that followed in terms of “bureaucratic oligarchy.” Both the crony rent-seeking system and the bureaucratic oligarchy are historical examples of patronage systems, political schemes that distribute fiscal, budgetary, and political benefits in exchange for financial and political support. Luis Carlos Ugalde (2014) has recently argued that after the 1980s, instead of an evolution toward a liberal democracy with a government that would guarantee a rule of law and protect individual liberties, Mexico got stuck with a patronage democracy.
peasants forced Díaz into exile. Glimpses of the political instability after 1911 are given in the following newsreel offered by Stephen Haber:

Díaz was overthrown in 1911 and fled to exile in Paris. His reformist successor, Francisco Madero, was overthrown by Díaz’s generals within fifteen months of taking office. They, in turn, were driven from Mexico City by a coalition of reformist elites, peasants who clamored for the return of lands that had been confiscated during the Porfiriato, and an increasingly militant working class. That coalition broke apart as soon as it achieved victory in 1914, ushering in three years of civil war. The political victor of that civil war, Venustiano Carranza, was assassinated by his own generals in 1920. His successor, Álvaro Obregón, faced a military uprising led by his own secretary of the treasury in 1923. Obregón was himself assassinated in 1928, the day after he won a second term in office in a rigged election. (Haber 2002, 43)

The new Constitution of Mexico of 1917, which is the current constitution, reversed the Porfirián policies designed to create secure and clearly defined private property rights in land, intellectual property, and the subsoil. With Article 27, the government of Mexico acquired “original ownership” over all the land and subsoil within the national territory. Private property became a privilege that could be revoked by a government acting in the public interest. The constitution set a maximum workday of eight hours, limited the workweek to six days, limited child labor, and restricted the rights of employers to fire workers; it endorsed the principle of a minimum wage, and it gave workers privileges in striking.10 The Constitution rolled back institutional patterns of land tenure and labor relations. Furthermore, it significantly limited freedom of contract while elevating the pursuit of social justice (Armstrong 1989, 84). With the aim of protecting the most vulnerable members of Mexican society from abuse, it rekindled conservative colonial paternalism, characterized by a profound distrust of economic competition driven by private economic power.

A new stable political equilibrium emerged in the 1930s, under Lázaro Cárdenas. One element was succession: there emerged a “more credible selection mechanism by which a president appointed his successor and then permanently and completely retired from the political arena” (Haber 2002, 61). In addition, the new equilibrium integrated more social groups (workers and peasants) into the coalition, but the new political system continued and even strengthened the involvement of political actors in lucrative private activities through direct participation in state-owned institutions. Thus there was an essential continuity:

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10. See also Andreski (1966, 216–223) for the account of Mexican Revolution in the context of upheavals in Argentina, Bolivia, Colombia, Guatemala, and Cuba.
patronage system “was employed by both Porfirio Díaz, the dictator who ruled Mexico from 1876 until 1911, and the forces that claimed victory in the Mexican Revolution (1910–1920) and monopolized political power until the electoral defeat of the PRI [Partido Revolucionario Institucional] in the year 2000” (Haber et al. 2008, 9). In effect, “the basic Porfrian game remained intact, and Mexico regained stability in 1934–88 under conditions similar to those that had prevailed in 1876–1911” (Haber 2002, 61).

From the 1920s on, the regimes realized they had to integrate economic elites into the political process and allow them to shape the policies that affected their interests. In 1925, the bankers essentially wrote legislation that would establish high barriers to entry in the banking sector, limiting competition. The manufacturing sector came to be protected behind a wall of tariffs, quotas, and heavy regulation of foreign investors. Also, the post-revolutionary governments “sheltered favored firms from domestic competition by establishing regulatory barriers to market entry and by granting them preferential access to subsidized credit from government-owned development banks” (Haber et al. 2008, 14).

This alliance—also generally known as the ‘alliance for profits’—between the party that emerged from the revolution, the Partido Revolucionario Institucional (PRI), and the most prominent business interests stimulated economic expansion and rapid industrialization, but it also deepened the traditional fiscal problem and bred state cronyism. The public sector became severely underfunded compared to other developing countries and thus failed to generate public goods, services, and infrastructure. Yet, there was one major benefit to the system of unofficial rent payments: The system of patronage provided for some Mexican firms “a modicum of protection against the possibility of expropriation or other arbitrary government actions” (Haber et al. 2008, 40).

**The economics profession in Mexico**

Before the Mexican Revolution (before 1910 that is) there were no professional economists in Mexico. “The closest thing to a group of professional economists was a famous clique of wealthy government officials,” writes Sarah Babb (2001, 26). These científicos, “the most famous of whom was José Limantour—Porfirio Díaz’s minister of finance from 1893 to 1911,” were predominantly lawyers or engineers who were self-educated in economic matters. The first economics program as such started within the Universidad Nacional de Mexico (UNAM)’s Law School in 1929. Six years later the program turned into a full-blown school, the Escuela Nacional de Economía, intended to produce “a cadre of state bureaucrats who could take charge of economic policymaking” (ibid., 27).
Babb suggests that the origins of Mexican economics are best understood by examining the demand for economic expertise. As she puts it: “the success of a profession fundamentally rests upon its support by a constituency—in other words, a group with the resources to support the practice of expert knowledge. Professions need not generate widespread belief in their expertise; it is sufficient to find a group that is willing to pay for it” (2001, 20).

The principal demand for economic experts came clearly and unambiguously from the government sector. The announcement for the new UNAM program in 1929 read: “Licenciados [B.S.] in economics can assume the administrative posts of greatest importance in the Federal Government and in the local governments because their knowledge qualifies them most especially for that end” (quoted in Babb 2001, 32). Cosío, one of the founders of the economics program, lobbied for a law that would reserve certain administrative positions for students of economics.

A mastermind of the UNAM School of Economics, Jesús Silva Herzog, put it this way: “Politics is the easiest and the most profitable profession in Mexico” (quoted in Hansen 1971, 125). Since the mid-1930s the prospect of social mobility through inexpensive education in economics and an expanding public administration has driven the numbers of economic experts up. Babb writes that “graduates in economics from UNAM were confronted with a sort of virgin territory within a growing government bureaucracy so desperate for economic expertise that its officials were willing to hire students before they finished their coursework” (2001, 40). She quotes Cosío commenting on the redundancy of the set-asides he had lobbied for: “the appetite of the country for economists shortly thereafter led institutions like the Banco de México to establish an ascending salary scale for economics students, which began with those in their first year” (Cosío Villegas 1977, 141–142, quoted in Babb 2001, 40–41). Mexican economics was “probably the single most state-centered profession within a system of state-centered professions” (Babb 2001, 45–46). Practically all of UNAM’s School of Economics graduates ended up in public administration, principally the Ministry of Finance (Hacienda) or the Central Bank (Banco de México).

The emergence of ITAM and AMC

As shown by María Eugenia Romero Sotelo (2013a; 2013b), a professor of history of economic thought at UNAM whose interpretations come across as anti-‘neoliberal,’ the demand for economic expertise would not originate purely in the government sector. The decades of 1930s and 1940s had given birth to another stream of thought, which would develop into what Romero calls “orthodox liberal thinking” (2013b, 122). But arguing that the latter ‘orthodoxy’ (or ‘neoliberalism’) can be traced back to this “conscious act by a sector of Mexico’s élite, intended to
create an alternative to what has been called economic nationalism, which emerged with the Mexican Revolution of 1910” (ibid., 119), Romero seems to ignore the prominence of economic nationalism during Porfiriato. She writes:

My personal view is that this school of thought is a continuation of the liberalism that prevailed during the reign of Porfirio Díaz at the end of the nineteenth century, updated with new developments from the liberal school of the nineteen-twenties, in particular the Austrian School, put forward by Friedrich von Hayek and Ludwig von Mises. This approach was adopted and promoted in Mexico by Luis Montes de Oca and Miguel Palacios Macedo, who believed that price stability should be the foremost objective of economic policy. (Romero Sotelo 2013b, 122)

Events from the late 1940s were recounted by the classical liberal Aníbal de Iturbide who had been the director of the Banco de Comercio since 1945. He recalled that the “ideas of the government of General Cárdenas,” which were of an agrarian-socialist kind, “still had an important influence in the ideological development of Mexican life and politics”:

[In 1946] cardenista ideology, in our opinion mistaken, was still very much in effect. … [W]e thought that to encourage the industrial development in Mexico we had to try to change people’s mentality, because it was predominantly a socialist, leftist mentality, which is what predominated in the political sphere … This was essentially the reason that impelled us to create the Mexican Technological Institute, having as its goal the creation of a School of Economics from which would graduate the men who would in the future manage both the private and public economies in Mexico. …

The idea began to take shape during the government of General Lázaro Cárdenas, when we saw that his policies did not coincide with what we thought.

We believed that with the cardenista ideology in full effect there did not exist sufficient encouragement for the investment of the capital that would initiate the process of transformation of an agricultural-mining country to an industrial one … The School of Engineering was discarded because we arrived at the conclusion that we could not be efficient if we tried to include too many branches. We decided on three or four, giving preference always to the School of Economics, because in our opinion it was the base upon which the future of Mexico would turn. (Iturbide 1988, 9–10; quoted in Babb 2001, 72)

The Instituto Tecnológico de México (today known as ITAM), with its School of Economics at its center, was founded in 1946. Directly related was the founding, also in 1946, of Asociación Mexicana de Cultura (AMC), whose first board brought together entrepreneurs, bankers, and academics. Both the ITAM
School of Economics and the AMC were “the creation of a group of businessmen who were explicitly interested in providing an alternative to what they perceived as the leftist slant of the UNAM” (Babb 2001, 71). Ideologically, the AMC was a mixture of business interests, conservatives, and classical liberals. The AMC had the power to appoint the ITAM director for an indefinite term. From 1946 to 1967 the president of the association was Raúl Baillères, a banker and a businessman. As Romero puts it, Baillères believed that “Mexico needed a free society with private enterprise as its engine of economic development” (2013b, 143).

It is unlikely that the founding of ITAM and AMC would have taken place had Aníbal de Iturbide not introduced Baillères to Luis Montes de Oca, a classical liberal, a Secretary of Finance (1928–1932), and a Director General of Mexico’s central bank (1935–1940). “I was the one,” said de Iturbide, “who brought them together. Luis was the ideas man, and Raúl the one who provided financial support” (quoted in Romero Sotelo 2013b, 143). Eduardo Villaseñor, who served as a Director General of the Banco de México from 1940 to 1946, recollected:

> With regard to economics, he [Montes de Oca] was a classic liberal and he was faithful [to that viewpoint] in theory and in practice. He maintained correspondence with several prominent economists, some of whom he invited to Mexico to give conferences. These caused great interest, and motivated students and government officials alike to study and reconsider the problems that concerned us all. (Villaseñor, quoted in Romero Sotelo 2013a, 3)

Montes de Oca finished his translation of Walter Lippmann’s *The Good Society* (1937) into Spanish in 1940. He thought Lippmann’s book necessary to “revive the discussion about political and economic, intellectual and moral liberalism, that was the product of the greatness of the proliferous, magnificent, exuberant 19th century” (quoted in Romero Sotelo 2013a, 3–4).

Montes de Oca invited Ludwig von Mises—whose work had already been recognized by “a group within the Mexican élite”—to lecture in Mexico; this group “much admired the contributions that Von Mises had made to economic theory” (Romero Sotelo 2013b, 125). The first lectures, given February 1942 at the Universidad Nacional de México (UNAM) and at the Escuela Libre de Derecho, were attended by a small group, with only some eight to 14 students present. Montes de Oca interpreted from English. During their private conversations, “Mises expressed again and again his pessimism about the future of society. Montes de Oca, on the other hand, insisted on his optimism. He believed that it was not too late to fight for freedom and was firmly convinced that Mexico was the ideal place to start.” (Romero Sotelo 2013b, 125). Two organizations, La Asociación de Banqueros de México and La Cámara de Industria Minera, asked Mises to stay for a longer period. Mises wrote to Hayek: “really amazing is the fact that there are
some people—of course a small elite only—who have a very keen insight into the problems involved and try to educate the intellectuals” (Hülsmann 2007, 815). In 1946 Mises returned to Mexico to lecture in Monterrey, Guadalajara, and Mexico City. In the same year, Hayek, invited by the newly established AMC, spoke in Mexico City on “Employment and Public Expenditure” and on “The Meaning of Competition.”

In 1950 Montes de Oca published a set of essays addressing policy trends “in the opposite direction to the principle of freedom in the field of economics” (Romero Sotelo 2013a, 5). Mises highlighted this paragraph in endorsing Montes de Oca’s message:

If we really wish to make Mexico a great country, to hasten the day when our people may enjoy a higher standard of living and to bring about lasting abundance, we should abolish all the paralyzing restrictions now prevailing in our relations with the outside world. Perhaps most European nations—oppressed as they are by an economic and social philosophy which is annihilating them—could enrich Mexico, in these times so adverse to them, with their agricultural experience, their technical knowledge, and their capital in flight from insecurity and destruction, if only they could find us ready and able to make our nation into the free port of the world, where undreamed-of wealth and prosperity would flourish in the coming quarter of a century.

(Montes de Oca, quoted in Mises 1953, 702)

Montes de Oca died in 1958 as he had been about to submit the first Spanish translation of Mises’s *Socialism.* The final review of the translation was carried out by Gustavo Velasco, himself a liberal “strongly influenced by Machlup, Simons, and Knight” (Romero Sotelo 2013a, 7). In the preface, Velasco wrote that there is a risk of carrying out socialising experiments whose only result must be shortage and poverty in the field of economics, and abuse and tyranny in the field of politics, instead of the paradise on earth promised by collectivist writers. That is why this book is so necessary… (Velasco 1959, XXI; quoted in Romero Sotelo 2013a, 7)


Mises had received an offer to settle in Mexico City, to start the International Institute proposed by Montes de Oca, but he declined. Still, Mises, through his writings and correspondence as well as his visits, had an impact on a number of
liberal economists. One was Faustino Ballvé, a “lawyer and economist who had studied in England and Spain and who took Mexican nationality” (Romero Sotelo 2013a, 8), and who was hired by ITAM in 1948. Ballvé had come to Mexico in 1939 from Spain and attended the talks given by Mises in 1942 and 1946. Afterwards he maintained “lively correspondence for many years with Mises” (ibid.). Ballvé wrote *Diez Lecciones de Economía* (1956), which Velasco hailed as “a necessary book. A short, simple, intelligible book. A book that had to be written and has been. A book that must be read and will be” (quoted in Romero Sotelo 2013a, 8). Ballvé’s main premise was that “the economy is human activity aimed at satisfying needs on the basis of freedom of choice. Economic science is, in turn, the study of man’s economic activity” (quoted in Romero Sotelo 2013a, 9).

Romero says that the work of Montes de Oca, Baillères, de Iturbide, Velasco, Ballvé, and others is part of “the roots of orthodox thinking in Mexico, as well as its development and the consolidation of its power during the last century” (Romero Sotelo 2013b, 123). According to her,

The renewal of the liberalist project, neoliberalism, has its roots in the nineteen-thirties. The revitalisation of the movement was undertaken by a group of intellectuals of different nationalities, among whom von Mises and von Hayek played an important role. The intellectual core of the movement aimed to reform the State, by establishing institutions to strengthen the free market and to create an elite capable of directing these institutions, which in turn would strengthen the State that created conditions for market development and the correct functioning of price mechanisms.

By the nineteen-eighties, when the neoliberal model became established in the country, all of them had died. Nonetheless, they were shrewd enough to have prepared their replacements: an elite that would modify the institutions of the Mexican Revolution and steer the country toward liberal economic and social policy. Neoliberalism has deep roots in Mexico: it grew throughout the 20th century, during which time it was in constant tension with the Mexican Revolutionary State, which was its antithesis. (Romero Sotelo 2013a, 10, emphasis added)

The research of Romero into these matters is extremely valuable, but she fails to see that classical liberals do not call for government-managed construction of markets. An argument for economic liberty is not an argument for markets—classical liberals call for voluntary private cooperation, generally. If conditions for voluntary private cooperation exist, market exchange is only one of the possible forms of practice that may emerge.
Mises’s “Mexico’s Economic Problems”

In a monograph commissioned by Montes de Oca, “Mexico’s Economic Problems,” Mises outlined the failings of Mexico’s economic problems under the Ávila Camacho regime.\(^\text{11}\) He starts by condemning economic nationalism, which he believed did nothing but damage to the most impoverished Mexicans who toil in the agricultural sector:

Many Mexican patriots are entangled today in the almost universally accepted neomercantilist fallacies. Yet, these popular errors have resulted in a manifest failure in the policy endeavors of all predominantly agricultural nations to raise standards of living by the advancement of domestic industrial production. … Specialized production requires a broadening of the market. … The goal of Mexico’s industrialization has to be the raising of the average Mexican’s standard of living by acquiring a place within the international community of modern industrialism. The mutual exchange of products between Mexico and other countries has to be intensified. (Mises 2000/1943, 215)

Mises criticized the “closed door method of industrialization” and “hyper-protectionism and prohibition of imports” (2000/1943, 217). In Eastern and Southern Europe, as in many Latin American countries, such policies had only “resulted in a considerable rise of domestic prices for manufactured goods” (ibid.). Mises believed that the only way to “improve the economic well-being of a whole nation and of each of its individual citizens” was to create conditions for “progressive accumulation of capital” (ibid., 204). Industrialization that competes successfully in markets, notably foreign, “has to be the goal of economic policy, not industrialization for the purpose of restricting imports” (ibid., 220). Mises recommended property rights, strict contract enforcement, tax reform, a non-inflationary monetary system, a balanced budget, and limited government expenditures.

I dwell a bit more on Mises, because doing so reveals a problem of the anti-‘neoliberalism’ writers. According to Mises, the fundamental task of government was to provide the security needed for the steady and continuous operation of private enterprise (2000/1943, 254). He called for the “scrupulous respect for the rights of investors, whether foreign or domestic,” (ibid., 227). for “an unconditional policy of domestic free trade, private enterprise, and private property”

\(^{11}\) For some reason, “this monograph was never published in either Mexico or the United States at the time,” as Richard Ebeling (2009, 201 n.164) reports: “A Spanish translation finally appeared in print in Mexico only in 1998, under the title Problemas Economicos de Mexico, Ayer y Hoy (Mexico City: Instituto Cultural Ludwig von Mises, 1998).”
The government, the parliament, and all political parties are called upon to promise that:

1. They will never again expropriate [the property of] capitalists and entrepreneurs, whether they be foreign or native.
2. They will not adopt methods of taxation designed to confiscate business profits.
3. They will not take recourse to foreign exchange controls or foreign exchange restrictions and will not hinder the transfer of funds to foreign countries.
4. They will neither directly nor indirectly interfere with the management of law-abiding private enterprise. (Mises 2000/1943, 222)

Although anti-‘neoliberal’ writers often draw a connection between classical liberals such as Mises and later technocratic economists of the 1980s and 1990s, one will notice that Mises’s formulas call on the government neither to create nor to organize markets. He is not calling for fine tuning the efficiency of ‘the market.’ Mises’s main drift is to call on the government to restrain itself, to keep its hands to itself, to get out of way of would-be freedom.

Mises often strikes us as the prophet dispensing formulas and verities. But, at turns, he is the practical advocate. Regarding the closed-door policy, for example, he urged his readers to realize that “a sudden change would do more harm than good” (Mises 2000/1943, 221). Some factories and some sectors (e.g., textile, metallurgy, industries producing for local demand) are competitive enough to do very well under free trade. Some factories, on the other hand, “will have to re-arrange their lines of production in order to attain a higher degree of specialization” (ibid.). The repeal of import duties should be a gradual process: “Every year, a tariff reduction of 10 percent has to take place. Thus the enterprises will be in a position to adjust their operations to the new system of free trade” (ibid.). Mises saw a great deal of potential in agricultural cooperatives which, as he believed “are an expedient device for the promotion of the system of private initiative” (ibid., 241). Cooperatives could be of great help for small farmers managing their own soil. Although “it would be a mistake to subsidize them permanently or to grant them tax privileges … small subsidies for newly formed cooperatives may be advocated” (ibid., 242). A number of additional policy recommendations had to do with the possible privatization of railroads, infrastructure building, and public utilities (ibid., 230–234).

Mises saw trade unionism, built on government-conferred privileges, as a fundamental problem, saying that it was responsible for limiting the absorption of rural population into industrial jobs. The enforcement of higher wages suppressed the establishment of new factories and expansion of existing plants. Yes, a small
group of workers enjoys comparatively higher wages, but the rules “force hundreds of thousands to remain in agricultural occupations, in which their income is extremely low” (Mises 2000/1943, 236). Social security, housing provisions, and similar programs have similar effect: “If the law forces the employer to make such outlays, the outcome does not differ from that of a decree forcibly raising wage rates” (ibid., 239).

Mises praised the Bank of Mexico’s call to allow people to purchase gold, because he believed that the freedom of Mexican businessmen to keep their savings in gold would provide a safeguard against arbitrary monetary expansions. Why, he asked, should a thrifty man save if he “realizes that the purchasing power of his savings is shrinking and if the spendthrifts contracting debts are constantly favored by the alleviation of their burden”? (2000/1943, 245). If a government wants to induce capital investment at home, it must inspire confidence and abstain from confiscatory taxation, avoid open expropriations and maintain a balanced budget. A tax reform was key for this purpose: “the burden of public expenditure must revert to the bulk of the population” (ibid., 251).

Mises warned that the problems of economic reform are not “political and technical,” rather they are “moral and intellectual”:

If public opinion is convinced that the state has never-failing sources of income, and that the only decent way to make a living is to get salaries or subsidies from the treasury, then even a well-intentioned government and parliament cannot succeed in making both ends meet. (Mises 2000/1943, 253)

To facilitate the economic reform, the first duty of government is to ensure a stable polity under which voluntary private cooperation can steadily take place. Unless the government complies with this duty to “protect the life, health, and property of everyone against infringement or attack … anarchic disorder arises” (ibid., 238).

**ITAM vs. UNAM**

We saw that Romero suggested the liberal members of the AMC, following Mises, “were shrewd enough” to plan and guide the future of the ITAM School of Economics. As I will show, even if the Mexican liberals, influenced by Mises and Hayek, had tried to prepare their replacements to fight the statism of schools like UNAM, such replacements ultimately would not be found at ITAM.

The profiles of both ITAM and UNAM school of economics graduates in the second half of the 20th century have been investigated by Sarah Babb; she found that initially, although the ITAM school “was founded to fulfill the ideological objective of providing economics training with a more conservative focus
than the National School of Economics, … the similarities between ITAM and UNAM theses in the 1950s outweighed the differences” (Babb 2001, 103). The most striking difference is that the ITAM theses show a “complete absence of Marxism.” Second, the role of developmentalist policies in overcoming the deficiencies of underdeveloped countries was relatively muted in the ITAM theses. But instead of finding an overwhelmingly free-market bent, Babb found that “ITAM theses took positions on state interventionism that were nearly identical to those taken in UNAM theses, with 50% strongly interventionist and 37.5% moderately interventionist” (ibid., 104). Neither the ITAM and UNAM theses were using mathematics and both the ITAM and UNAM theses were similar “in that the most-cited theoretical author from 1956 to 1960 was Keynes—with the second-most-cited author being Ragnar Nurske, a Swedish development economist.” Babb concludes that “whereas the ITAM was not a center of Marxist economic thought, there was a basic agreement among the two schools regarding the need for state intervention in the economy; they shared a single policy paradigm” (ibid.).

Babb suggests an explanation for the Keynesian convergence in Mexico in the 1950s: “there is no a priori reason for business groups to endorse liberal ideology and reject government intervention” (2001, 104). She points out that unlike in the 1930s when the Mexican entrepreneurs felt threatened by the policies of Lázaro Cárdenas, in the 1940s the “Mexican government policy toward business (both national and international) was consistently conciliatory.” By the late 1950s, when the “ITAM economics had become Keynesian and developmentalist…it was abundantly clear that Mexican government intervention was good for business” (ibid., 104–105). Since big business was responsible for the private funding of ITAM, and since there was some reconciliation between Mexican government and the (big) Mexican businesses that benefited from such reconciliation, there was no effective constituency demanding criticism of extant interventions. Hence the convergence.

But this convergence between UNAM and ITAM broke down in the 1970s as a consequence of the populist policies which “contributed to a breakdown of legitimacy on the right—both with respect to the private sector and with respect to more conservative factions within the Mexican government” (Babb 2001, 126). This breakdown of legitimacy had created, according to Babb, “extremely favorable conditions for the ITAM to…become a bastion of American-style neoclassical economic thought” (ibid.). ITAM redesigned its economic program in the early 1970s “to resemble internationally prestigious economics programs, especially those in the United States” (ibid., 131). That meant that instead of acquiring an “extensive training in economic history, economic thought, and other assorted fields,” students of economics at ITAM
would now have a both narrower and deeper grounding in economic theory. The expression of economic ideas through mathematics was an important part of this new, more economic economics… (Babb 2001, 131)

ITAM graduates were better prepared than the UNAM students to cope with the formalistic rigors of the modern academic field of economics. ITAM was more successful than UNAM, therefore, in launching students into foreign graduate programs, often in the United States.

A key figure in the ITAM development was Francisco Gil Díaz, who in 1973 after getting his Ph.D. from the University of Chicago, became the director of ITAM economics. Gil’s “Chicago-school perspective came to permeate the ITAM economics program.” He would recruit “a sizable number of Chicago graduates…to give classes at the ITAM,” and consequently, “monetary theory taught from the monetarist perspective became one of ITAM’s strongest areas” (Babb 2001, 132). Using his personal networks, Gil Díaz would also select “promising students to recommend for graduate study at the University of Chicago…and to facilitate their admission” (ibid.). In the 1970s the economists most quoted in ITAM theses were Gary Becker, Milton Friedman, and Harry Johnson.

But these developments never blossomed into a new age of Milton Friedman. In the 1990s, ITAM theses referred most to Hal Varian, Kenneth Arrow, Robert Barro, Robert Lucas and Paul Samuelson. Is there a constituency behind this new transformation? Babb contends that “the source of this Americanization was not the businessmen who financed the ITAM and sat on its governing board but rather the Mexican central bank” (2001, 133).

ITAM was not “neoliberalized” by disgruntled private-sector groups but by foreign-trained central bankers attempting to re-create their international vision of a quality program in economics during a time of grave threat to central bank autonomy. (Babb 2001, 136)

Babb and Marion Fourcade suggest that, in the shadow of the 1980s debt crisis, the new technocrats with U.S. Ph.D.s were “neither political outsiders nor the organic intellectuals of the bourgeoisie,” but rather insiders who “saw international financial pressures as an opportunity to advance both their political careers and their particular ideological program” (Fourcade-Gourinchas and Babb 2002, 557). Furthermore, “economic liberalization was carried out by the same governing parties that had earlier advocated state-led expansion as a response to the economic crisis” (ibid., 571). In countries such as Mexico, the “highly technocratic, directly interventionist states successfully mitigated social conflict during the postwar period and created the conditions for strong economic growth.” As a result, “busi-
ness (especially large businesses) generally accepted (and benefited from) the type of economic modernization that was promoted by the state” (ibid., 571).

Among the many problems with the narrative offered by anti-‘neoliberalism’ authors is the significant differences between modern mainstream academic economics and the liberalism represented by Smith or Mises or Hayek. Admittedly, these separate strands can intersect, best represented by a figure like Milton Friedman. But few modern mainstream academic economists have read Smith, Mises, or Hayek. Most of them have little understanding of liberal philosophy and little real sympathy for liberalization. Many of them lean toward interventionism, and many are simply primarily careerist. Also, the anti-‘neoliberal’ narrators tend to denounce the reforms from 1983 without adequately discriminating among the reforms in terms of liberalization, without making use of sufficient evidence, and without clearly explaining: Compared to what? The reforms of that period were a mixed bag and had mixed results. As the decades pass, it becomes increasingly comfortable to look back on many of the reforms as blessings to even the poorest Mexicans.

Reforms made in the 1980s and 1990s

As Mexico became more urbanized in the 1960s, the demand for public goods grew, and government spending started growing faster than government revenues. The government under Luis Echeverría (in office 1970–1976) increased the number of state-owned enterprises, expanded the money supply, and forced private banks to buy government bonds. When oil prices fell in 1981, José López Portillo (in office 1976–1982) “sought to escape from this crisis by expropriating the wealth held by Mexico’s banks in August 1982” (Haber et al. 2008, 16). The political and economic changes which resulted from this attack on powerful wealth holders led to a ‘second revolution.’

National and international forces compelled the regime of Miguel de la Madrid (in office 1982–1988) shift to more market-oriented policies. His administration started cutting budget deficits, eliminating many distortions caused by subsidized prices, privatizing public enterprises, and cutting import quotas. “In 1983 the government reduced the number of manufactured products subject to import quotas from 100 percent to 83.6 percent, and by the end of 1985 less than

12. Although Mexico “had none of the features that political analysts typically associate with revolutions: no organized violence, no overturning of the social class structure, and no defeated dictator fleeing into exile,” Haber and coauthors argue that “if by ‘revolution’ we mean a dramatic change in the institutions that organize economic, political, and social life, then Mexico has undoubtedly been in the midst of a revolution since the early 1980s” (Haber et al. 2008, 1).
half of all manufactured goods were still subject to import permits” (Haber et al. 2008, 69). In 1986 Mexico entered the General Agreement on Tariffs and Trade. Between 1982 and 2003, the number of state owned enterprises dropped from 1,155 to 210 (Chong and López-de-Silanes 2005, 353). As a result of such changes during the 1980s, some industries grew while some others disappeared. In general, the results of implementing more market oriented reforms were mixed. Stephen Haber and coauthors describe these results:

Opening more markets to foreign trade did not, however, produce the boom in investment, trade, and economic growth for which the government had hoped. (Haber et al. 2008, 71)

Mexico changed its policies regarding foreign trade and investment but it did not fully liberalize its economy. (ibid., 87)

The tax system that evolved under decades of authoritarian rule largely remains in place. (ibid., 88)

In other words, the macroeconomic stabilization and democratization which took place since the 1980s did not automatically strengthen the rule of law. This should not be a surprise, taking into account that Miguel de la Madrid was no liberal. His commitment to macroeconomic stability was accompanied by enacting “constitutional reforms that...among other things...emphasized the importance of state-led economic planning and reserved ‘strategic’ economic sectors...for exclusive public control” (Haber et al. 2008, 69).

Article 28 of the Mexican Constitution, as amended on February 3, 1983, instantiated various economic policies. The first part of the article grants the government a constitutional power to impose price caps should regulatory measures to organize markets in a more efficient way fail. The second part of the article refers to those areas of economic activity that are considered strategic and can be subject to a government monopoly. First, the constitution prohibits monopolistic practices, and it grants government the power to regulate such monopolies that do exist. The regulation can, in essence, be carried out in two ways. Either the
government should generate conditions of a more competitive market by eliminating barriers to entry, usually regulations, to enable the existence of a greater number of companies, or, if these barriers cannot be eliminated (as when there are high fixed costs), then the government should regulate the operation of the monopoly by setting maximum retail prices, inducing the firm to operate as if in a competitive market (Katz 2014, 252).

Article 28 also allows the government to identify industries as ‘strategic’ for the national development and to assert monopoly control over such industries. At present these ‘strategic’ areas include industries such as petroleum and basic petrochemicals, telecommunications, electrical power generation, nuclear energy, railroads, and banking, and may at any time include other activities that are identified in the laws enacted by the Congress of the Union.

That the Constitution establishes it sufficient for any economic activity to be considered “strategic” for national development and thus be exploited monopolistically by the government any time a law is passed by Congress, creates a high risk for private-sector investment. … This risk…inhibits saving, capital accumulation, and economic growth. (Katz 2014, 254)

Here we have a significant factor in the long-term underperformance of Mexico. As Isaac Katz suggests, “The lack of an efficient, clear, transparent and permanent institutional and legal environment that would guarantee the rule of law is the primary cause of the underdevelopment of the Mexican economy” (Katz 2014, 255). For a sizeable part of the Mexican population, property rights are vaguely defined and contracts are costly to enforce. A deeply rooted system of rents remains present, and the inefficient tax system makes the reform of judiciary and police difficult. The lack of effective guarantees of property rights, the present judicial system, and cumbersome bankruptcy law have made it extremely difficult for a domestic credit market to develop.

Alberto Chong and Florencio López-de-Silanes (2005) argue that improving fiscal discipline, increasing efficient allocation of resources, and restructuring inefficient firms by way of privatization have been positive changes for Mexico, with both the government and consumers left better off. But economic transformation is not merely a technological problem. “Not all of the institutions and procedures necessary for an effective rule of law are legally codified: many are embedded in the attitudes and beliefs that citizens hold about how the legally codified institutions of government should work” (Haber et al. 2008, 204). Chong and López-de-Silanes say that, in cases when complementary measures to privatization failed and “the umbilical cord between the government and the firm has not been severed,” room remains for rent-seeking behavior (2005, 379). Haber and coauthors maintain that “what holds true for establishing an effective rule of
law is also true where the creation of a transparent, enforceable system of property rights is concerned: It cannot be done with the stroke of a pen” (Haber et al. 2008, 210).

Luis Carlos Ugalde, an economist and a political scientist, blames the administrations of Miguel de la Madrid (1982–1988) and Carlos Salinas de Gortari (in office 1988–1994) for having “carried out reforms of the state without altering the patronage pact” (Ugalde 2014, 263). Pointing to the same constitutional violations of the rule of law mentioned by Katz, Ugalde repeats:

They put in order public finance, but transfers to public-sector unions have not been addressed; they opened the economy, but maintained monopolies in the energy, telecommunications and other sectors; public enterprises were privatized, but without a regulatory framework that would mitigate the risks of private monopolization. (Ugalde 2014, 262)

Ugalde suggests that many of the reforms of 1980s and 1990s, often dubbed ‘neoliberal,’ were business- rather than market-oriented reforms:

The implementation of Mexican “neoliberal” policies that took place within the clientelistic patronage environment, without effective and independent regulators, gave rise to some privatizations carried out throughout the 1990s that worked mostly for the buyers of public enterprises rather than for consumers; the economic deregulation would benefit big businesses rather than the market in general. The fault lies not with the market economy; the culprit is a market captured by clientelistic constituencies that distort its functioning and seek rents effectively hurting the welfare of consumers. … Economic neoliberalism has become synonymous with corruption, abuse, and inequality because it was implemented without dismantling the patronage structures of the Mexican state. Consequently, the economic reforms of the early nineties gave more power to some private actors and public unions that are now strong enough to challenge their maker. (Ugalde 2014, 263)

It is crucial, if the liberal spirit is to be advanced, to recover the Adam Smith understanding of the political meaning of the term liberal. Ugalde argues that liberalism must be “separated from the use and abuse of the term ‘neoliberal’ in economic matters” (2014, 268).

**Notable liberal individuals in Mexico today**

One valuable source on the present state of liberalism in Mexico is the collection of essays edited by José Antonio Aguilar Rivera (2014), a professor at
the Department of Political Science of the Centro de Investigación y Docencia Económicas (CIDE) in Mexico City and an exponent of Mexican liberal thought. From that work and various other sources, I mention the following (other) individuals, arranged alphabetically, who have been engaged in advancing liberal ideas and values.

Arturo Damm Arnal is a professor of economic analysis of law at the Department of Law at Universidad Panamericana, where he also teaches history of economic thought. Damm Arnal publishes a column called “Pesos y Contrapesos” (“Checks and Balances”) in La Crónica.

Isaac Katz has been a member of the ITAM faculty since 1983, and from 1991 to 1997 he was the head of the economics department at ITAM. He has written on liberalism, international trade, the Mexican Constitution, and economic development.

Enrique Krauze, a historian and a liberal public intellectual, authored a biography of Cosío Villegas and is currently the editor of Letras Libres, a major platform for liberal debate.

Roberto Salinas León, president of the Mexico Business Forum, has been a visiting professor at ITAM, Escuela Libre de Derecho, and the Universidad Francisco Marroquín in Guatemala. He is an expert on trade, monetary policy, and economic liberalization in Latin America.

Luis Carlos Ugalde served as a president of Mexico’s Electoral Commission (Instituto Federal Electoral, IFE) from 2003 to 2007. He taught at various universities in Mexico and the United States (ITAM, CIDE, Harvard, and Georgetown). His research interests include comparative politics and democracy in Latin America.

Gabriel Zaid is a public intellectual who writes on economics, entrepreneurship and development, conveying economic insights in a simple way. In his book Empresarios oprimidos (2009), Zaid writes:

Mexico has what it takes for economic development: the raw entrepreneurial input. What it does not have are good economists. … Economists that gain power (independently of their persuasion) move to the bureaucratic realm, they get to understand it, and they proceed as if everything should be bureaucratic. They do not understand the situation that the entrepreneur faces. … The dominant administrative culture ignores the entrepreneurial function, which does not square with their vision of the world. Their mental model does not understand the creation of enterprises that employ others, but it rather searches for opportunities provided by marvelous enterprises or institutions created by others. … The economists in power, as the entire political class, have this mentality. … Their economic policies, their laws, rules, and prescriptions suffocate the entrepreneurial function of millions of Mexicans because
they do not know—they do not even want to know—how it feels to be in the
entrepreneurs’ shoes. (Zaid 2009, 54–56)14

Liberal think tanks and organizations

Mexican liberals can also be found in think tanks. Alejandro Chafuen (2013)
found in Mexico a “handful of fragile market-oriented institutes,” think tanks that
depend “on a few staunch champions of the free society.” Among these liberal
organizations are those following.

CISLE (Centro de Investigaciones Sobre la Libre Empresa), a Mexico City-
based research center founded by Luis Pazos. The main goal of CISLE is “to show
that the foundation of sustainable development and wealth of nation is a stable
legal order that guarantees property rights and functioning market mechanisms in
a competitive and free environment” (link).

Caminos de Libertad (“Roads to Liberty”), a Mexico City-based organi-
zation “promoting the discussion on freedom through competitions, conferences,
study circles, book presentations and exhibitions.” It was founded by Sergio
Sarmiento, “a talented writer, a thoughtful and respectful intellectual with his own
TV program, and a promoter of free enterprise for decades” (Chafuen 2013).

CIDAC (Centro de Investigación para el Desarrollo A.C.), a Mexico City-
based think tank founded in 1984 by Luis Rubio. CIDAC is focused on publishing
weekly policy analyses, books, and articles, and providing professional consulting
in the areas of transparency, justice, regulation, competition, human capital, and
economic development. “CIDAC envisions an environment in which citizens en-
joy full civil liberties, participate in societal decision-making and, through policies
that favor equal opportunities, can emerge from poverty and engage competitively
in global economic activity” (link). The current director is Verónica Baz.

IPEA (Instituto de Pensamiento Estratégico Ágora A.C.), a Mexico City-
based think tank founded in 2008 to “promote a free, virtuous and prosperous
society based on ethical principles and individual and public responsibility” (link).
The current director is Armando Regil.

IMCO (Instituto Mexicano para la Competitividad A.C.), an applied re-
search center founded in 2004 to develop “viable proposals to enhance Mexico’s
ability to attract and retain talent and investment” (link). Its main efforts revolve
around transparency, rule of law, and efficiency in the use of public resources. One
of the general directors is Manuel Molano, an ITAM economist and a founder

14. On the dominant administrative culture see also Armstrong 1989, 104.
of México ¿Cómo Vamos? (link), a database of economic, social, and political indicators for Mexican states.

*Mexico Evalúa* monitors and evaluates the functioning of Mexican government at the federal, state, and local levels. *Mexico Evalúa* “favors freedom, justice, equity, transparency, evidence over opinion, and exercise of individual rights” (link). The director of the center is Edna Jaime.

**Concluding remarks**

From its colonial days down to the present, Mexico has exhibited the problems and somber living standards typical of Latin America. Some people tend to blame such problems and living conditions on liberalism or some ill-defined ‘neoliberalism.’ In my opinion, Mexican history is but another illustration that without the culture and institutions conducive to liberal sensibilities, liberal institutions, and liberal policies, results are bound to be dull. When people fail to cherish the principle of “allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice” (Smith 1976/1776, 664), they are bound to fall into ideas that conduce toward paternalistic arrangements, which invariably breed parasitism. In Mexico today there are small numbers of liberals who understand the situation and make a stand against the kind of cronyism and bureaucratic interventionism that pervades Mexico.

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**About the Author**

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Foreword to
“Glimpses of Adam Smith”

On May 21, 2015, Ian Simpson Ross passed away in Vancouver at the age of 84. A tender, informative notice in Herald Scotland (1 June 2015), by Harry McGrath (link), says that Ross “was a Scots-born academic, lecturer and writer who became Professor Emeritus of English at the University of British Columbia. He was also the author of the much-lauded Life of Adam Smith, which was the first full-scale biography of Smith in a century when it was published in 1995.” Ross was a student of Ernest Mossner, who enlisted Ross to co-edit, with Mossner, Adam Smith’s correspondence, for the Glasgow Edition of Smith’s works published by Oxford University Press and later reprinted by Liberty Fund. Ross’s The Life of Adam Smith (Oxford University Press, 1995, 2nd ed. 2010) is one of the great biographies of Adam Smith, and by far the longest, consisting of 589 rather dense pages. It is meticulously packed with detail. Here we present selections from the second edition (2010), enumerated with Roman numerals. In reproducing material, we have sometimes inserted information to provide context; since Ross himself sometimes used brackets [like these], we instead use braces {like these}. Omitted intermittent material is replaced with an ellipsis. All of the ellipses in what follows are our insertions, except those that appear inside the quotations of Smith within excerpts I and XXVI, which are Ross’s own ellipses. We have retained Ross’s footnotes and in-line citations (but reformatting them, and in a few cases correcting, clarifying, or adding them), collecting the published sources cited in a References section that appears at the end of this article (archival sources used by Ross are not listed in the References here, but details on those can be found in the book).

Daniel B. Klein
January 2016
Glimpses of Adam Smith:
Excerpts from the Biography by Ian Simpson Ross

Ian Simpson Ross

LINK TO ABSTRACT

I. (p. 22)

In January 1736 {Adam Smith at the time being 12 years old} there was excitement over the apprehension of the ‘free-trader’ Andrew Wilson, who had attempted to recoup his smuggling losses by robbing an excise collector at nearby Pittenweem. Subsequently he failed in an attempt to escape from the Tolbooth in Edinburgh, and tried again to escape during morning service in the Tolbooth Kirk, a scene witnessed by Smith’s friend, Alexander Carlyle. At Wilson’s execution, Captain Porteous of the Edinburgh City Guard ordered his men to fire on the mob. When Porteous was pardoned by the Government for this crime, a disciplined mob, said to have included many men from Fife, seized him on the night of 7 September 1736 and hanged him at the scene of Wilson’s death, showing their detestation of the revenue system Wilson fought, and their utter defiance of official authority (Scott 1818, ch. vii; Carlyle 1973, 18–20; Roughead 1909). In WN, Smith considers the lot of the smuggler with some sympathy and understanding, representing him as a ‘person who, though no doubt highly blameable for violating the laws of his country, is frequently incapable of violating those of natural justice, and would have been, in every respect, an excellent citizen, had not the laws of his country made that a crime which nature never meant to be so’. We might think that the fate of Alexander Wilson fits precisely what Smith paints as typical of the smuggler: someone who ‘from being at first, perhaps, rather imprudent than

1. Econ Journal Watch gratefully acknowledges Oxford University Press for its grant of permission to reprint these excerpts from The Life of Adam Smith, 2nd ed., 2010 (link).
criminal...at last too often becomes one of the hardiest and most determined violators of the laws of society’ (V.ii.k.64).

II. (p. 52)

Regarding {Francis} Hutcheson’s teaching of politics as part of the moral philosophy course, an inspiration for Smith must have been his professor’s stress on the ‘Old Whig’ and civic humanist theme of the importance of civil and religious liberty for human happiness:

as a warm love of liberty, and manly zeal for promoting it, were ruling principles in his {that is, Hutcheson’s} own breast, he always insisted upon it at great length, and with the greatest strength of argument and earnestness of persuasion: and he had such success on this important point, that few, if any, of his pupils, whatever contrary prejudices they might bring along with them, ever left him without favourable notions of that side of the question which he espoused and defended. (Leechman 1755, xxxv–xxxvi)

Smith seems to have absorbed his teacher’s arguments for economic and political liberty, as we shall see, but he never pushed them as far as Hutcheson.

III. (pp. 114–115)

The teaching of moral philosophy was at the core of the Scottish university education of Smith’s time, and of the Scottish Enlightenment as a movement, as much recent scholarship has demonstrated (Stewart-Robertson 1983; Emerson 1990; Sher 1990; Wood 1990; Haakonssen 1996). Though there was a measure of philosophical and religious freedom and diversity in Scotland, the kirk could still exercise control over appointments, as Hume’s failure to get a Chair at Edinburgh and Glasgow illustrates. But absent from the Scottish academic scene were the monolithic tendencies in the state-administered universities of absolutist Protestant Germany, for example, Jena, Leipzig, Halle, and, from 1737, Göttingen (Nissen 1989). Men of letters were certainly supported in these institutions, as VN notes (V.i.g.39), but they faced political and religious restrictions, and also, for many decades, the intellectual strangehold of Christian Wolff’s philosophy (Boyle 1992, 17–18).

The Glasgow tradition of a broad approach to moral philosophy went back to the sixteenth century, when in the early decades John Mair taught the Ethics of Aristotle, publishing an edition of this text in 1530, as well as taking up economic issues in lectures on the Sentences of Peter Lombard. In addition, Andrew Melville
and his nephew James Melville in the 1570s taught the moral philosophy of Aristotle (Durkan and Kirk 1977, 158, 279). Gershom Carmichael and Hutcheson had broken away from neo-Aristotelianism to introduce, between them, the natural-law tradition of {Hugo} Grotius and {Samuel} Pufendorf, Stoic ethics, and Shaftesbury’s philosophy of benevolence and moral sense. The distribution of {Thomas} Craige’s duties, in which Smith participated, indicated the range—and liberal nature—of the public course in moral philosophy at Glasgow by 1751.

IV. (p. 116)

Orthodox religious opinion was not impressed by Smith’s handling of the first part of his course, a state of affairs reflected in the comments of the anecdotalist John Ramsay of Ochtertyre:

{Smith’s} speculations upon natural religion, though not extended to any great length, were no less flattering to human pride than those of Hutcheson. From both the one and the other presumptuous striplings took upon themselves to draw an unwarranted conclusion—namely, that the great truths of theology, together with the duties which man owes of God and his neighbours, may be discovered by the light of nature without any special revelation.

Ramsay also mentioned that doubts were entertained about the soundness of Smith’s principles, in view of the company he kept, an allusion to his friendship with Hume. Smith was also described as being ‘very guarded in conversation’, and Ramsay noted that he seemed to find it disagreeable to pray in public when opening his class, also that he petitioned unsuccessfully to be excused from this duty. The prayer he offered ‘savoured strongly of natural religion’, and it was further reported that Smith gave up Hutcheson’s practice of convening the moral philosophy class on Sundays for an improving discourse (Ramsay 1888, i.461–462).

V. (pp. 124–125)

{John} Millar also noted in Smith that crucial interest in his subject which ‘never failed to interest his hearers’. Very likely recalling the ethics or jurisprudence courses he attended, Millar described a characteristic pattern of organization which seems to reflect Smith’s account of ‘didactic eloquence’ (LRBL, ii.125–126), also a love of paradox which Smith claimed in his ‘History of Astronomy’ (iv.34) was ‘so natural to the learned’: 
Each discourse consisted commonly of several distinct propositions, which
Smith] successively endeavoured to prove and illustrate. These propositions,
when announced in general terms, had, from their extent, not unfrequently
something of the air of a paradox. In his attempts to explain them, he often
appeared, at first, not to be sufficiently possessed of the subject, and spoke
with some hesitation. As he advanced, however, the matter seemed to crowd
upon him, his manner became warm and animated, and his expression easy
and fluent. In points susceptible of controversy, you could easily discern, that
he secretly conceived an opposition to his opinions, and that he was led upon
this account to support them with greater energy and vehemence. By the
fulness and variety of his illustrations, the subject gradually swelled in his
hands, and acquired a dimension which, without a tedious repetition of the
same views, was calculated to seize the attention of his audience, and to afford
them pleasure, as well as instruction, in following the same object, through all
the diversity of shades and aspects in which it was presented, and afterwards
in tracing it backwards to that original proposition or general truth from which
this beautiful train of speculation had proceeded. (Millar, quoted in Stewart
1980/1793, I.21)

We might think of Smith expounding his ethical doctrine concerning the objects
of reward and punishment in this fashion, or the economic one of free trade (on
6 April 1763, for example, see LJ(A) vi.87). There could be added to this picture
in our mind’s eye details of Smith’s reliance on signs of the sympathy or lack of it
of a selected hearer for gauging the effect of what he was saying. Smith described
his practice thus to Archibald Alison the elder, an Edinburgh magistrate and Lord
Provost:

During one whole session a certain student with a plain but expressive coun-
tenance was of great use to me in judging of my success. He sat conspicuously
in front of a pillar: I had him constantly under my eye. If he leant forward to
listen all was right, and I knew that I had the ear of my class; but if he leant back
in an attitude of listlessness I felt at once that all was wrong, and that I must
change either the subject or the style of my address.2

Thus, all the contemporary reports we have suggest that Adam Smith found the
best situation for his abilities as a professor at Glasgow. His years of study, and
preliminary experience as a lecturer at Edinburgh, came to fruition in excellent and
appreciated teaching of seminal ideas. Of particular significance was his growing
sophistication of economic analysis in the jurisprudence lectures, as he extended
the natural-law tradition of Grotius and Pufendorf, relayed through Carmichael

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2. Anecdote told by Smith’s student Archibald Alison to Archdeacon John Sinclair, reported by him (1875, 9).
and Hutcheson, in discussing value and exchange, and added his perspective to the comparative vision of Montesquieu and Hume concerning social and institutional transformation. It must indeed have been inspiring for his students to hear Smith expound his views on the dynamics of the creation of civil society and the alteration of values in its successive stages.

VI. (p. 160)

An anecdotal obituary of Smith in the *St James's Chronicle* (31 July 1790) recorded that he took {Charles} Townshend on a tour of manufactures in Glasgow, and they visited a tannery. Smith fell into the pit—a noisome pool containing fat from hides, lime, and the gas generated by the mixture. He was dragged out, stripped, covered in blankets, placed in a sedan chair, and sent home. The anecdote alleges that he was ‘talking warmly on his favourite subject, the division of labour’, and forgot the dangerous nature of the ground on which he stood.

VII. (p. 162)

Regarding Smith’s influence at this time, his former pupil and colleague, John Millar, testified as follows: ‘those branches of science which [Smith] taught became fashionable at [Glasgow], and his opinions were the chief topics of discussion in clubs and literary societies. Even the small peculiarities in his pronunciation or manner of speaking, became frequently the objects of imitation’ (Millar, quoted in Stewart 1980/1793, I.22).

VIII. (p. 178)

Smith…finds the same outlook in the black people of the coast of Africa, suggesting that their magnanimity far exceeds any conception of their ‘sordid’ slave-masters. His indignation then flashes out against the enslavement of these people by the Europeans:

Fortune never exerted more cruelly her empire over mankind, than when she subjected those nations of heroes to the refuse of the jails of Europe, to wretches who possess the virtues neither of the countries which they came from, nor of those which they go to, and whose levity, brutality, and baseness, so justly expose them to the contempt of the vanquished. (*TMS* 1759, 398; 1790, V.2.9)
It is to be hoped that the withers were wrung of readers in Glasgow and elsewhere engaged in business ventures profiting from slavery, and no doubt Smith as a moralist was helping to build the case of the anti-slavery movement.

IX. (p. 224)

Smith…felt that Hume should not publish anything about it {Rousseau’s quarrelsomeness toward Hume}. Smith begins a letter to Hume, then in London, on 6 July by teasing him that he is ‘great a Rascal’ as Rousseau, then continues with characteristically prudent advice not to ‘unmask before the Public this hypocritical Pedant’…

X. (p. 240)

While in London, Smith moved in the same social circle that welcomed David Hume…. One of Hume’s and Smith’s hostesses of this period was Lady Mary Coke…. She kept a lively journal of her life, and her entry for Sunday 8 February 1767 paints Smith in a characteristic domestic scene:

While Lady George Lennox was with me Sir Gilbert Elliot came in: they talked of Mr Smith, the Gentleman that went abroad with the Duke of Buccleugh, I said many things in his praise, but added he was the most Absent Man that ever was. Lady George gave us an instance that made me laugh. Mr Damer [son of Lord Milton, who married the sculptress, Anne Conway, encouraged by Hume] She said, made him a visit the other morning as he was going to breakfast, and falling into discourse, Mr Smith took a piece of bread and butter, which, after he rolled round and round, he put into the teapot and pour’d the water upon it; some time after he poured it into a cup, and when he had tasted it, he said it was the worst tea he had ever met with. (Coke 1889, 141)

XI. (p. 243)

Smith explained his situation in Kirkcaldy thus to Hume: ‘My Business here is Study in which I have been very deeply engaged for about a month past. My Amusements are long, solitary walks by the Sea side. You may judge how I spend my time. I feel myself, however, extremely happy, comfortable and contented. I never was, perhaps, more so in all my life’.
The letter ends with requests for information about Rousseau’s activities: ‘Has he gone abroad, because he cannot get himself sufficiently persecuted in Great Britain?’

XII. (pp. 250–251)

One anecdote has it that in his study in his mother’s home in Kirkcaldy Smith dictated sections of *WN* to an amanuensis, either Reid or Gillies perhaps. He did so standing and had the curious habit of rubbing his head against the wall above the chimney-piece. This is supposed to have left a mark on the wall from the pomatum of his wig, and the reporter of this anecdote, Robert Chambers, alleged in his *Picture of Scotland* (1827) that the traces remained until the wall was repainted.

XIII. (p. 254)

As this state of affairs was protracted his health seems to have suffered, and he fought against this by going on long walks. Also, it is reported that he took up swimming again in the Firth of Forth. This pursuit very likely gave rise to the anecdote of his arriving in Dunfermline in his dressing gown, one Sunday morning as the bells were ringing and people were going to the kirk. He may have walked the fifteen miles from Kirkcaldy in a fit of abstraction, perhaps upon taking a wrong turning after a douse in the North Sea (Scott 1937, 325 n.1; Rae 1965, 259–260).

XIV. (p. 257)

…Hume on returning to Scotland in 1769 sought to draw his friend into some relaxation and refreshing companionship. On 20 August, he wrote to Smith that he was ‘glad to have come within sight’ of him by having a view of Kirkcaldy from his window in James’s Court, but he also wished to be on speaking terms, and since he declared himself to be as tired of travelling as Smith ‘ought naturally to be, of staying at home’, he suggested that Smith should come to join him in his ‘Solitude’ in Edinburgh:

I want to know what you have been doing, and propose to exact a rigorous Account of the method, in which you have been employed yourself during your Retreat. I am positive you are in the wrong in many of your Speculations, especially where you have the Misfortune to differ from me. All these are Reasons for our meeting, and I wish you would make me some reasonable Proposal for the Purpose.
He then pointed out that there was the island of Inchkeith in the ‘great Gulph’ that lay between them, but it was uninhabited otherwise he would challenge Smith to meet him there, and ‘neither [of] us ever to leave the Place, till we were fully agreed on all points of Controversy’ (Corr., No. 121).

XV. (p. 258)

Writing on 28 January 1772, Hume mentions a promise from Smith to visit him at Christmas, whose performance he had not ‘challenged’ because his sister Katherine, who lived with him and of whom he was very fond, had fallen ‘dangerously ill of a Fever’. She has now recovered and Hume looks for Smith’s ‘Company’, teasing him about his pleas of ill health:

I shall not take any Excuse from your own State of Health, which I suppose only a Subterfuges invented by Indolence and Love of Solitude. Indeed, my Dear Smith, if you continue to hearken to Complaints of this Nature, you will cut Yourself out entirely from human Society, to the great Loss of both Parties. (Corr., No. 129)

XVI. (p. 262)

Smith and Hume labored the point of the solitude of Kirkcaldy, perhaps dwelling on a Rousseauistic theme, but Smith had the companionship of his cousin Janet Douglas and his mother, both women of character who were well connected with the Fife gentry, and there were neighbours such as Robert Beatson of Vicars Grange, who were certainly capable of instructive conversation about economics (Corr., No. 266). Also, there is a report that during his evening walks along the Kirkcaldy foreshore, Smith had the company of a blind boy from the neighbourhood, Henry Moyes, who displayed great intellectual ability. Smith adopted the role of teacher of this boy, and sent him on to Hume, who secured a bursary for him at Edinburgh University, thus paving the way for a notable career as a popular lecturer on chemistry and the philosophy of natural history (Viner 1965, 74–77).

XVII. (p. 268)

On 14 September 1779, Boswell confided in his Journal: ‘Since [Smith’s] absurd eulogium on Hume, and his ignorant, ungrateful attack on the English Uni-
versity education, I have no desire to be much with him. Yet I do not forget that he was very civil to me at Glasgow’ (Middendorf 1961; Boswell 1976, xc–xcii).

XVIII. (pp. 272–273)

There is circumstantial evidence that {Smith} was often in {Benjamin} Franklin’s company at this time, and even that he showed chapters of *WN* to him (see Viner 1965, 44–47). This is not impossible. … Certainly, Smith and Franklin had views in common. The theory of free trade is to be found in an unsystematic way in the economic writings of Franklin, and Smith shared the American’s vision of an incorporating political union to end the disputes between their respective countries. Franklin left London in March 1775 to begin his career as one of the founding fathers of revolutionary America. This included taking a hand in drafting the Declaration of Independence of 4 July 1776, four months after Smith had struck his blow for economic independence with the publication of *WN*.

XIX. (p. 306)

Another of the literati who congratulated Smith was {William} Robertson the historian, writing on 8 April to give his views on *WN*. Like {Hugh} Blair, he commented on Smith’s achievement in forming ‘into a regular and complete system one of the most important and intricate parts of political science’, and ventured the opinion that ‘if the English be capable of extending their ideas beyond the narrow and illiberal arrangements introduced by the mercantile supporters of the {Glorious} Revolution, and countenanced by Locke and some of their favourite writers’, then *WN* will bring about a ‘total change’ in economic policy and finance.

XX. (pp. 329–330)

Within a few months of Smith’s removal to Edinburgh in 1778, he took into his care David Douglas, the 9-year-old youngest son of another cousin, Col. Robert Douglas of Strathendry (Rae 1965, 326). Smith delighted in the company of this boy, occupied his leisure hours in helping to educate him (Stewart 1980/1793, V.18), and secured the mathematician and natural philosopher John Leslie to be his tutor, 1785–7 (*Corr.*, No. 275). David Douglas would be a blink of sunshine in that house of elderly people, and perhaps recreated for Smith what he seems to have enjoyed at Glasgow, contact with the expanding mind of youth.
It is from this period that we have some images of Smith and can visualize him in his Edinburgh surroundings (Pl. 10). In general terms, we are told by William Smellie the antiquarian printer and naturalist, who knew him well, that ‘in stature he somewhat exceeded the ordinary size; and his countenance was manly and agreeable’. He was not an ostentatious man, and remarked once, ‘I am a beau in nothing but my books’ (Smellie 1800, 297).

XXI. (p. 332)

John Kay, whose engraver’s shop was at the corner of Parliament Close, and who must have seen Adam Smith many times going towards the Royal Exchange opposite, on whose upper floors was the Custom-house, issued a print dated 1787 showing him in a broad-brimmed hat, wearing a light linen coat and carrying in his left hand a bunch of flowers, perhaps to ward off the notorious Edinburgh effluvia (Pl. 11: Kay 1842, i.72, 75; Evans and Evans 1973). In his right hand he grasps his cane by the middle, sloping it against his shoulder, according to Smellie, ‘as a soldier carries his musket’. He also described Smith’s strange gait, his head moving in a gentle manner from side to side, and his body swaying ‘vermicularly’ (a nice touch from a naturalist) as if with each step ‘he meant to alter his direction, or even to turn back’. Meantime, his lips would move and form smiles as if he were deep in conversation with persons unseen (Smellie 1800, 293). Edinburgh anecdote had it that an old market-woman observing him in these oddities exclaimed:

‘Hegh, sirs!’ and shook her head, to which a companion answered by sighing compassionately, then observed: ‘and he is well put on too’, thus expressing surprise that an obviously well-to-do lunatic would be allowed to wander freely. (Scott 1887/1827, 388)

XXII. (pp. 332–333)

At the entrance of the Exchange in Smith’s time, to convey visitors on Custom-house business to what is now denominated the Old Council Room (Gifford et al. 1988 rpt.), was the doorkeeper, Adam Matheson. He appears in the official records, desiring on Christmas Eve 1778 more accommodation for his family in the garrets (SRO, Customs Board Minutes vol. 16), and getting a replacement for his scarlet gown bedecked with frogs of worsted lace. He was armed with a seven-foot wooden staff, and when the Board sat he saluted each arriving Commissioner with the kind of drill infantry officers used to perform with their spontoons or halberds, then conducted them up the great staircase to
the first floor boardroom to deliberate on Customs business. Walter Scott heard from one of the other Commissioners a tale of Smith being so mesmerized by the doorkeeper’s salute that he returned it compulsively with his cane, to the servant’s amazement (Scott 1887/1827, 388–389).

A suggestion has been made that this happened because Smith had been subjected to drill routine after becoming an Honorary Captain of the Trained Bands of Edinburgh—the City Guard—on 4 June 1781 (Graham 1908, 169; Rae 1965, 374). It is more likely, however, that Smith was deep in thought coming up the High Street and simply entranced by a military manoeuvre. The story is of a piece with another one Scott presents of Smith taking a long time to sign a Customs document, and being found to have imitated laboriously the signature of the colleague going before him.

XXIII. (pp. 342–343)

A point to be made about this {that is, Smith’s work as a Customs Commissioner}, however, is that Smith was one member of a Board guided by government and office policy and tradition, and he would have limited room for swaying his colleagues in the direction of putting into practice his own ideas about revenue collection and economic policy. The letters to {Henry} Dundas and {Lord} Carlisle about free trade for Ireland (Corr., Nos. 201, 202), also to {William} Eden about raising revenue and American commerce (Nos. 203, 233), and to {John} Sinclair of Ulbster about the economic drain of empire and realistic duties (Nos. 221, 299) all indicate that Smith made no secret of his views to influential people asking for his comments and advice which, if taken, would affect practice in the Customs service.

He was invited to present his ideas about reducing smuggling to a House of Commons Committee dealing with this topic in 1783, and there is some evidence that {William} Pitt’s Commutation Act of 1784 did embody Smith’s principles in part at least in connection with duty on tea, also that by 1789 the contraband trade in that commodity had been dealt a severe blow (Corr., app. D, p. 411). When Smith had a free hand to negotiate reformation of Customs duties, as we shall hear, he certainly did uphold his principles, but he also showed sensitivity about the effect of such a reformation would have on the livelihood of the Customs officers in Scotland. Moreover, as a Commissioner he did hear representations from concerned bodies that reflected the ideas expressed in IFN.
XXIV. (p. 347)

Regarding answers to the evil of smuggling, the Excise Board, with tact but nevertheless at the outset of their recommendations, suggests that lowering duties would reduce the temptation to smuggle. Smith was thus not alone in thinking along these lines, and later on firm support for free trade even came from members of official bodies enforcing monopolies, the tariff system, and the Navigation Acts.3

The Customs Board effected some of these suggestions to control smuggling in the south-west of Scotland, as appears from a letter co-signed by Adam Smith on 7 April 1785.

XXV. (pp. 348, 349)

{One} proposal Smith made for reforming the customs, that of warehousing imports under close inspection, with duty to be paid on goods when drawn out for home consumption, and to be duty-free if exported, was an extension of the excise practice in levying duties on rum (WN, V.ii.k.37). …

In connection with the warehousing proposal, Smith acted in concert with his colleagues, though we may think the wording of their report has something of the flavour of his style, and may in part have been composed by him. On at least one occasion, however, he had a free hand in making recommendations about Custom-house practice in Scotland, and apparently altering policy in the direction of his reforming and even free-trade principles.

XXVI. (p. 350)

{Smith} believed that what the Royal Burghs wanted was freedom of trade in the inland waters from variable fees for certificates relating to taxable goods. Agreeable to his principles, he finds no difficulty with this:

I have always been of opinion that not only the Trade within such Rivers and Firths but the whole Coasting Trade of Great Britain so far as it is carried on in Goods [not prohibited to be exported, or not liable to any duty…upon

3. Mathias (1983, 91, 269), citing James Mill (East India Co.), James Deacon Hume (Customs Service and Board of Trade), and John McGregor (Board of Trade); account of abolition of the Navigation Acts in 1849 (p. 275); Rule (1992, 316).
exportation], may with great conveniency to the Merchants and with Security to the Revenue of the Customs be exempted from the formality of Bonds and Cocks.

He noted that a Bill to this end had been drafted for the Customs Board applicable to the Firth of Forth, and accordingly he argued that ‘it would be not only much shorter, but much more just and equal, to extend this exemption at once to the whole Coasting Trade of Great Britain’ (PRO, Kew, Treasury T1/570).

Predictably, the officers of the Customs service petitioned against the loss of income threatened by these proposals; but they did go into effect in large part….

XXVII. (p. 351)

On 23 January 1781, the physician and merchant, also confidant of Lord Shelburne, Benjamin Vaughan, gave his Lordship an account of a visit to Edinburgh. He reported that he found Adam Smith ‘more to his relish than I know some hold he ought to be in the South…he is among the best of them [the Edinburgh literati], though with peculiarities of manners well enough known here’. He continued: ‘[Smith] is very well provided for in the customs, where he does not innovate; but I believe he at times wishes he had kept in his college, where he had both more time and more respect and perhaps more company’ …

Despite the disclaimer about Smith as an innovator in the Customs service, we have some evidence that in the course of his career as a Commissioner, his insights as an economic theorist, as well as his knowledge of practical affairs, led him to promote changes he viewed as both useful and just. It may be observed also that he was as scrupulous in his attention to his civil service duties, and role as a Commissioner, as he had been as a Glasgow professor.

XXVIII. (p. 358)

Yet the publication of Smith’s supplement to Hume’s My Own Life, in the form of a letter to {William} Strahan detailing Hume’s last illness, had aroused a storm of protest from Christians. They were infuriated because Smith had adapted as an epitaph for Hume the last sentence of the Phaedo (Corr., No. 178; quoted Ch. 17). The most unchristian fury evoked in England by this linking of Hume to Socrates as truly virtuous and wise men in secular terms is well represented by A Letter to Adam Smith, LL.D. on the Life, Death, and Philosophy of His Friend David Hume Esq. By One of the People Called Christians, published anonymously by the Clarendon Press, Oxford, in 1777 (4th ed., 1784), by no less a personage than the President
of Magdalen College, George Horne (Aston, ODNB-O, 2004), who ended his career as Bishop of Norwich. . . . In so many words (p. 7), Horne accuses Smith of promoting atheism and denying there is a life to come of rewards and punishments, but he must have overlooked Smith’s passage on the Atonement and Calvinist penal substitution theory retained in TMS until 1790 (Ch. 12 above). As for the shock felt in Scotland by ‘every sober Christian’ about Smith’s Letter to Strahan, this was registered by the anecdotalist Ramsay of Ochtertyre (1888, i.466–467). Attacks such as Horne’s led Smith to make his sardonic remark of October 1780: a ‘single, and as, I thought, a very harmless Sheet of paper, which I happened to Write concerning the death of our late friend Mr Hume, brought upon me ten times more abuse than the very violent attack I had made upon the whole commercial system of Great Britain’ (Corr., No. 208).

XXIX. (pp. 374–375)

To be sure, Smith could be critical of {Edmund} Burke’s efforts as a legislator. Thus, in the first edition of W N he had commented adversely on a Bill that Burke had devised to improve but essentially maintain bounties on the export of a grain, a subject still exercising him in preparing the third edition. Concerning certain features of what was enacted (13 Geo. III, c. 43, 1772), Smith wrote: ‘The bounty ought certainly either to have been withdrawn at a much lower price, or exportation ought to have been allowed at a much higher. So far, therefore, this law seems to be inferior to the antient system’ (IV.v.b. 52–53). Burke is said to have answered this criticism of not bringing about a repeal of the corn bounty with one of those metaphorical flights for which he was famous. He neatly distinguished between Smith’s role as theorist with a tendency to model his systems on geometry, as Dugald Stewart perceived, and his own role as the practical man seeking to get a law through Parliament:

it was the privilege of philosophers to conceive their diagrams in geometrical accuracy; but the engineer must often impair the symmetry as well as the simplicity of his machine, in order to overcome the irregularities of friction and resistance. (quoted in Horner 1957, 98; Viner 1965, 23)

Smith allowed the justice of this answer, and had added to the second edition of W N (1778) a balanced comment on Burke’s legislation:

With all its imperfections, however, we may perhaps say of it what was said of the laws of Solon, that, though not the best in itself, it is the best which the interests, prejudices, and temper of the times would admit of. It may perhaps in due time prepare the way for a better. (IV.v.b.53)
In the final revisions for the 1790 *TMS*, Smith included in the new section on Virtue a discussion of the ‘man of system’, making clear that the point Burke brought up about the Corn Bounty Act was germane to his own outlook:

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 [this being the drive of *WN*]. 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.

As in the 1778 *WN*, Smith evokes in the last edition of *TMS* the example of Solon as a legislator who, short of establishing the best system of laws, enacted the ‘best the people can bear’ (VI.i.2.16, 18).

XXX. (p. 377)

But after the merriment and stimulation of Burke’s visit, and the excitement of the general election, came a sad event for Smith, the death of his mother on 23 May {1784}. He writes of this in a letter to Strahan dated 10 June, in which he comments on receiving the proofs of the new third edition of *WN* by the cheaper conveyance of the coach, when he would have preferred the proofs of the MS ‘additions’, at least, to have been sent by post:

I should immediately have acknowledged the receipt of the fair sheets; but I had just then come from performing the last duty to my poor old Mother; and tho’ the death of a person in the ninetieth year of her age was no doubt an event most agreeable to the course of nature; and, therefore, to be foreseen and prepared for; yet I must say to you, what I have said to other people, that the final separation from a person who certainly loved me more than any other person ever did or ever will love me; and whom I certainly loved and respected more than I ever shall either love or respect any other person, I cannot help feeling, even at this hour, as a very heavy stroke upon me. (Corr., No. 237)

XXXI. (p. 379)

To be sure, {Jeremy} Bentham claims in the *Defence of Usury* that in refuting Smith’s arguments about the ‘policy of the laws fixing the rate of interest’, he is turning his master’s weapons against himself (Corr., No. 388). He means that the tendency of *WN* is to show that economic growth has been created in spite of the laws made by governments, rather than as a result of them, and that this
demonstration can be extended to interest-rate controls against which the ‘prudent projectors’ who sustain growth have struggled with varying degrees of success (Corr., No. 391).

It is difficult not to agree with Bentham’s reading of *WN* and even to see the message about the detrimental effect of most economic legislation intensified in the third edition.

XXXII. (p. 399)

It was in this letter {of 23 September 1788} that Smith wrote movingly of his grief at the impending death of his cousin Janet Douglas, who had looked after his mother and him for so many years (Corr., app. E, p).

XXXIII. (pp. 402–403)

There was an Edinburgh tradition that on one occasion during this London visit Smith was one of the last gentlemen to come into the room in Dundas’s Wimbledon villa, where Pitt, {William Wyndham} Grenville, Henry Addington, and William Wilberforce were other guests. The company rose to receive Smith, and he asked them to be seated. Pitt is represented as saying: ‘No, we will stand till you are first seated, for we are all your scholars’ (Kay 1842, i.75; Rae 1965, 405). Smith had advance notice of Pitt’s good opinion of him, and had come round to valuing his ministry, despite his own adherence to the remnants of the Rockingham Whigs. Answering on 14 November 1786 a letter from the reform-minded MP Henry Beaufoy, he wrote:

I think myself much honoured by the slightest mark of Mr Pitts approbation. You may be assured that the long and strict friendship in which I have lived with some of his opponents, does not hinder me from discerning courage, activity, probity, and public spirit in the great outlines of his administration. (Piero Sraffa Collection B5/3, Trinity College, Cambridge)

Addington, later to be Grenville’s successor as Speaker of the House of Commons, 1789–1801, and thereafter a stopgap Prime Minister until Pitt regained control of affairs in 1804, is said to have returned home after the Wimbledon meeting and composed verses to the ‘author of the Wealth of Nations, etc.: on his visit to London and its neighbourhood in the month of June, 1787’:

I welcome you, whose wise and patriot page The road to wealth and peace hath well defin’d,
Hath strove to curb and soften hostile rage,
And to unite, with int’rest’s tie, mankind:
Dragg’d from his lonely den, and at thy feet
The bloated fiend Monopoly is thrown:
And with thy fame, its splendor to compleat,
The pride and hope of Britain blends his own.
Proceed, great soul, and error’s shades disperse,
Perfect and execute the glorious plan;
Extend your view wide as the Universe,
Burst every bar that sep’rates man from man,
And ne’er may war’s curst banner be unfurled,
But commerce harmonize a jarring world!

This effusion was communicated to Smith early in 1790, and since the great man was a sound critic of poetry, Ernest Mossner once claimed it ‘may well have hastened the end’ (1969, 20–21).

XXXIV. (pp. 428–429)

The talk then turned to French writers, in particular Voltaire and Turgot. It was on this occasion that Smith would not hear of some ‘clever but superficial author’ being called by {Samuel} Rogers ‘a Voltaire’. Smith banged the table and declared energetically, ‘Sir, there is only one Voltaire.’ Regarding Turgot, he was described to Rogers by Smith as an excellent, absolutely honest, and well-intended person, who was not well-versed in human nature with all its selfishness, stupidity, and prejudice.

XXXV. (p. 430)

{Samuel} Rogers was greatly impressed with Smith’s kindness: ‘he is a very friendly, agreeable man, and I should have dined and supped with him every day, if I had accepted all his invitations’. He seemed quite oblivious to the disparity in age between himself and the poet, who was then 23, and he was free with information and opinions. His manner Rogers described as ‘quite familiar’; he would ask, for example: ‘Who should we have to dinner?’ Rogers did not see in him the absent-mindedness others stressed. Compared to Robertson, Smith seemed to Rogers far more a man of the world (BL Add. MSS 32,566; Dyce 1856, 45; Clayden 1887, 90, 96).
XXXVI. (p.432)

Smith anticipates that after the death {in 1788) of his cousin {Janet Douglas} he will suffer emotional destitution, and this is an indication that she had partly filled the gap in his life left by the death of his mother, to whom he was so strongly attached. As for other ladies in his life, Dugald Steward tells us that as a young man Smith was in love with a beautiful and accomplished young woman, but unknown circumstances prevented their marriage, and both apparently afterwards decided not to marry (Stewart 1980/1793, n. K). Anecdote reports that Smith beamed at her in company later in life, and his cousin Janet Douglas is supposed to have said: ‘Don’t you know, Adam, this is your ain Jeannie?’ But the smile was one of general kindness rather than special favour, and nothing came of the re-encounter (Mackay 1896, 209). In France he had sighed unavailingly for an Englishwoman named Mrs Nichol, and a French marquise pursued him without success, as far as we know, but he seems to have been entirely content with his existence as a bachelor.

XXXVII. (p. 436)

In any event, satisfied about the protection of his reputation or the safeguarding of moral and political truth, after the burning of his papers on that long-ago July Sunday in Panmure House, Smith felt well enough to welcome his friends in the evening with his usual equanimity. A considerable number of them came to be with him then, but he did not have strength to sit with them through supper, so he retired to bed before it. Henry Mackenzie recorded his parting words in the form: ‘I love your company, gentlemen, but I believe I must leave you to go to another world’ (quoted in Clayden 1887, 168). {James} Hutton gave Stewart some different wording: ‘I believe we must adjourn this meeting to some other place’ (quoted in Stewart 1980/1793, V.8 n., p. 328).

XXXVIII. (p. 437)

Since Smith lived in a hospitable but modest way, his friends wondered at the limited nature of the bequests, though no one has been detected censuring the will, as Beatson feared. We may believe that Smith left instructions to his heir that his servant was to be looked after properly, also that he had given away generous sums from his income in secret charity, hence his slender resources at the end. The instance has been mentioned of Smith giving £200 in 1783 to a ‘Welch nephew’ to save him from having to sell his army commission (Corr., No. 231). Stewart
obtained first-hand information that strengthens belief that Smith was markedly generous in an unostentatious fashion:

Some very affecting instances of Mr Smith’s beneficence, in cases where he found it impossible to conceal entirely his good offices, have been mentioned to me by a near relation of his, and one of his most confidential friends, Miss Ross, daughter of the late Patrick Ross, Esq., of Innermeh. They were all on a scale much beyond what might have been expected from his fortune; and they were accompanied with circumstances equally honourable to the delicacy of his feelings and the liberality of his heart. (Stewart 1980/1793, V.4 n., p. 326)

XXXIX. (p. 438)

...Samuel Romilly, then a young barrister concerned with law reform, who had been added to the group of Whig liberals surrounding Lord Shelburne, and who was an admirer of Smith’s advanced ideas, wrote {on 20 August 1790} to a French lady in response to her request for a copy of the latest edition of TMS:

I have been surprised and, I own, a little indignant to observe how little impression [Smith’s] death [17 July 1790] has made here. Scarcely any notice has been taken of it, while for above a year together after the death of Dr Johnson [1784] nothing was to be heard but panegyrics of him,—lives, letters, and anecdotes,—and even at this moment there are two more lives of him to start into existence [possibly Boswell’s, 1791; and Arthur Murphy’s, 1792]. Indeed, one ought not perhaps to be very much surprised that the public does not do justice to the works of A. Smith since he did not do justice to them himself, but always considered his TMS a much superior work to his [IFN]. (Romilly 1840, i.403)

XL. (pp. 444–445)

Nature did not favour Smith in his mode of expression, it seems, for we read of his harsh voice with an almost stammering impediment, and a conversational style that amounted to lecturing (Carlyle 1973, 141). His friends understood this, and made allowances for his disposition. According to Stewart, they ‘were often led to concert little schemes, in order to engage him in the discussions most likely to interest him’. They were greatly diverted when he expatiated in his social hours in his characteristically original way on subjects relatively unfamiliar to him, or advanced extreme positions or judgements on relatively slight grounds, and then
just as readily withdrew them when countervailing views were put to him. When with strangers, apparently, his manner was sometimes an embarrassed one, because he was conscious of, and perhaps on guard about, his customary absence of mind; also, he had very high speculative notions of propriety, yet an imperfect ability to live up to them. What shines through all accounts of his character and characteristics, particularly as they were displayed in his relationships with young people, was his essential kindness. Samuel Rose, grieving for the death of his father William, an old friend of Smith’s from the time of his notice of TMS in the Monthly Review in 1759, wrote to a relative that ‘Commissioner Smith has treated me with uncommon tenderness’ (GUL MS Accession No. 4467 to Edward Foss, 19 July 1786). Somewhat in the same vein, Stewart wrote of Smith that ‘in the society of those he loved, his features were often brightened with a smile of inexpressible benignity’ (Stewart 1980/1793, V.17).

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About the Author

**Ian Simpson Ross** (1930–2015) was Professor Emeritus of English at the University of British Columbia. A native of Scotland, he was educated at St. Andrews and Oxford prior to earning his Ph.D. at the University of Texas. Ross authored not only the biography of Adam Smith, excerpted here, but also biographies of the poet William Dunbar and Henry Home, Lord Kames. Ross’s many works of scholarship related to Smith include his editorship of *The Correspondence of Adam Smith* (1977, with Ernest Mossner) and *On the Wealth of Nations: Contemporary Responses to Adam Smith* (1998).

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