

THE LIBERAL DEMOCRATIC STATE: DEFENCES AND DEVELOPMENTS

RICHARD BELLAMY

The allies portrayed their defeat of Germany in 1918 as the triumph of liberal democracy over authoritarianism, a victory marked by the establishment of the League of Nations and the creation of the Weimar Republic. However, the Russian Revolution, the rise of fascism and the economic depression of the 1930s almost immediately placed liberal democrats on the defensive. Critics argued that mass democracy and the spread of bureaucracy within both the private and public sectors had rendered the liberal ethic of the autonomous individual an anachronism. The corporate manager had replaced the entrepreneur within the economy, and the manipulation of popular opinion by the media and party machines had supplanted rational debate between disinterested individuals in politics. Individual identity and will were shaped by functional, ethnic and cultural group membership rather than innate preferences and capabilities, the exercise of reason, or effort. New social and economic conditions required novel forms of political and industrial organisation that combined decisive and expert leadership with efficient administration, thereby harnessing popular support and energy to the collective good in a manner supposedly unavailable to liberals. The economic crisis was taken as confirming this diagnosis of liberal democracy's malaise.

The challenge to liberal democracy was threefold, therefore, involving an attack on the contemporary relevance of the market, representative democracy, and the values underlying them. In their various defences against such criticisms, the divisions amongst liberals were often as sharp as (and frequently mirrored) those between them and their opponents. Like the pre-war debates, disagreement centred on the role and nature of the state, the legitimacy and efficacy of its interventions in social life, and the roles played by democracy and leadership within its operations. Progressive liberals continued the attempt to find a *via media* between individualism and collectivism in economics, democracy and expertise in politics, and religion and scientific humanism, on the one hand, and between universalism and a progressive and pragmatic historicism, on the other, in ethics and epistemology (Kloppenber 1986). They conceded certain

of their critics' objections but argued the liberal ethos could be preserved and rethought in ways suited to the new circumstances of the mass, corporate age. However, others counter-attacked with a robust defence of *laissez-faire* and individual rights, many simply equivocated, combining elements of both these strategies in occasionally inconsistent ways, whilst an appropriately small camp adopted a somewhat elegaic and often elitist tone, whereby liberalism became the creed of a happy few. Finally, a number of liberals, with varying degrees of enthusiasm, changed their allegiance to either fascism or communism. Which position predominated was as much a reflection of the political and social environment as the predilections of individual thinkers. We shall first examine the established liberal democracies of Britain and the United States, therefore, where a more social democratic liberalism prevailed, and then turn to countries such as Germany, Austria, and Italy, where liberal democracy was under threat and a sharper division between liberalism, on the one hand, and socialism and democracy, on the other, appeared appropriate.

1. TOWARDS SOCIAL DEMOCRACY: BRITAIN AND THE UNITED STATES

The liberal grounds for state planning and welfare had been largely laid out at the turn of the century by British new liberals, such as L. T. Hobhouse, the French Solidaristes, such as Leon Bourgeois, and American progressives, such as John Dewey (Bellamy 1992; Kloppenberg 1986). Though the war led some of these thinkers to distance themselves from any possible charge of neo-Hegelian state worship and to stress their differences with non-liberal versions of collectivism (Hobhouse 1918), they remained remarkably settled in their views.

The following summary of their case from Dewey's 1935 tract *Liberalism and Social Action* could easily have come from Hobhouse's *Liberalism* of 1911, for example. Dewey argued that:

Since liberation of the capacities of individuals for free, self-initiated expression is an essential part of the creed of liberalism, liberalism that is sincere must will the means that condition the achieving of its ends. Regimentation of material and mechanical forces is the only way by which the mass of individuals can be released from regimentation and consequent suppression of their cultural possibilities . . . The notion that organised social control of economic forces lies outside the historic path of liberalism shows that liberalism is still impeded by remnants of its *laissez-faire* phase, with its opposition of society and the individual. The thing which now dampens liberal ardour and paralyzes its efforts is the conception that liberty and the development of individuality as ends exclude the use of organised social effort as means. Earlier liberalism regarded the separate and competing economic action of individuals as the means to social well-being as the end. We must reverse the perspective and see that socialised economy is the means of free individual development as the end. (Dewey 1935 [1987: 63])

Like the pre-war new liberals, Dewey's argument (and those of similarly minded contemporaries) elaborated a line of reasoning with its origins in T. H. Green but adapted it to a world of organised labour, mass industrial production and bureaucratic management (Ryan 1995: 89–97). The crux of their case was to counter criticism of the egoism and atomism of liberal individualism via a more holistic and positive view of individual liberty (Bellamy 1992: ch. 1, 2000: ch. 2). According to this analysis, an individual's freedom resulted not only from the absence of intentionally imposed, coercive constraints resulting from particular individual actions, such as physical assault, but also required the elimination of social and economic constraints that were the cumulative effect of numerous, and otherwise innocuous, individual decisions. Though these consequences were unintended by the individuals themselves, they were entirely predictable outcomes of a certain kind of social system. We were morally responsible, therefore, to take what Dewey called 'intelligent action' to avoid them.

At one level, this argument neatly placed welfare and especially unemployment insurance on a par with a police force and a regular legal system. Both involved the removal of humanly imposed limitations on liberty. This stratagem allowed its proponents to stress the continuity of the new with the old liberalism. However, the thesis that freedom had a social dimension cut deeper. It was not just disadvantages that were produced by social forces; so were most of the advantages people had hitherto ascribed to their own efforts. To cite Hobhouse's notorious example: 'the value of a site in London is something essentially due to London, not to the landlord' (Hobhouse 1911 [1964: 100]). Two important corollaries were held to follow from this supposed fact. First, the opportunities and even the capacity for autonomous choice on which individual freedom depended were now portrayed as social products. As the representative of the collectivity, the state had a responsibility not only to ensure equal protection from such socially created bads as crime, unemployment, and poverty, therefore, but also to ensure access to the social goods necessary for the exercise of freedom, such as schooling and libraries. To omit to open the requisite doors by denying access to social resources hindered an individual's liberty as much as deliberately closing them by coercive action. Second, progressive taxation to pay for public education and welfare was not so much a tax on individual effort as a reclaiming of the social contribution to that person's success.

Liberal state intervention was distinguished from socialist planning and redistribution on the grounds that the former merely aimed at securing the conditions for individual freedom. It did not seek to substitute for or to take away from the individual's own attempts to make the best of him or herself. A progressive teleology underlay this argument, whereby the self-development of each was deemed to be ultimately compatible with and supportive of the freedom of others.

New liberals, however, divided over the role of the state in promoting this goal. The radicals argued that the very nature of the state had to be changed if some of the authoritarian aspects of collectivism were to be avoided. Moderates maintained it was sufficient simply to change the goals of state policy (Freeden 1986).

Radical progressive liberals advocated a system of industrial democracy. They believed patterns of ownership and class struggle were not the source of the oppression of workers and the poor, so that state control of industry *per se* could not resolve it. The problem lay in the prevailing type of economic government, which allowed certain interests to be ignored. Self-determination in the economic sphere fostered and preserved liberty in much the same way as it did in politics. Political discussion and the need to reach agreement made all aware of their mutual dependence and ensured each contributed to the common goods on which their respective liberties depended. This system was claimed to be essentially open, allowing individuals to innovate whilst at the same time accommodating the evolving needs and changing choices of others (e.g. Dewey 1927; Hetherington and Muirhead 1918).

This scheme had certain similarities with fascist corporatism and communist 'workers' councils', even if these were never more than paper realities. Progressive liberals were nonetheless keen to stress their distance from such arguments. Thus Dewey argued that 'an immense difference' existed between the fascist and communist notion of a 'planned society' and the 'democratic liberal' ideal of 'a *continuously* planning society':

The former requires fixed blue-prints imposed from above and therefore involving reliance upon physical and psychological force to secure conformity to them. The latter means the release of intelligence through the widest form of cooperative give-and-take. The attempt to *plan* social organisation and association without the freest possible play of intelligence contradicts the very idea in *social* planning. For the latter is an operative method of activity, not a predetermined set of final 'truths'. (Dewey 1939 [1988: 321])

This 'democratic liberalism' had much in common with the Guild Socialism of G. D. H. Cole and Harold Laski as well as the theories of certain syndicalist writers (Ryan 1995: 179, 309–10). They too were motivated by a desire to find a middle way between state collectivism and market individualism (Hirst 1989). As Bertrand Russell approvingly remarked, their ideas had a strong appeal for 'all those who still care for the ideals which inspired liberalism, namely the problem of combining liberty and personal initiative with organisation' (Russell 1916). Like them, Dewey saw the extension of democracy throughout society as a way of remedying the apparent impotence of both the state and the individual to control the numerous private as well as public bodies influencing people's

lives (Dewey 1927 [1984: 295–7]). Though sympathetic to such ideas, which in Britain influenced the setting up of the Whitley Councils, most new and progressive liberals were nonetheless unwilling to embrace them fully. They feared that it was unworkable since planning required expertise, and gave too much power to producers. Only the state had the capacity to act in the general interest (Freeden 1986: 66–77; Hobson 1934: 89–92). Much as before the war, more moderate new liberals sought to influence policy without greatly changing the character of the political system.

J. M. Keynes and William Beveridge are often taken as emblematic figures of this centrist liberal position, with Roosevelt's New Deal in the United States and the British Liberal Party's 'Yellow Book' and the Beveridge Report the chief fruits of the moderate progressive programme (Freeden 1986: 154–73, 366–72). Certainly both thinkers stressed their liberal as opposed to socialist sympathies and Keynes in particular had some intellectual influence within the British Liberal Party between the wars, notably via the Liberal Summer Schools (e.g. Keynes 1925; Beveridge 1945). Their relationship to liberalism is ambivalent nonetheless and highlights certain problems within the progressive position when moving from theory to practice.

Keynes, a Treasury representative at the Paris Peace Conference, had, in *The Economic Consequences of Peace* (1919), offered a prescient analysis of the dilemmas confronting liberal capitalism in the aftermath of the war. He identified a chief cause of war in the 'competitive struggle for markets', the origins of which he traced to the inadequacy of traditional liberal economic policies in tackling unemployment by stimulating growth. His remedy, however, was an extension of the old liberalism more than a move towards the new. Keynes regarded the 'main political problem of today' as 'the establishment of an economically efficient and economically just society in the changed conditions' arising from 'the new organisation of the wage-earning classes' and the 'arrival of a new industrial revolution' (Keynes 1927 [1981: 639]). However, his concern was principally with efficiency rather than social justice. Indeed, he believed the removal of unemployment via an efficient economy was all workers were entitled to demand. Moreover, his arguments for strategic state intervention were classical rather than new liberal. His famous essay 'The End of Laissez-Faire', for example, raised not moral but technical objections to a totally free market that echoed public goods arguments familiar to Smith, Bentham, and J. S. Mill. He stressed the state's function was 'not to do those things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all' (Keynes 1926 [1972: 291]).

Where traditional economic liberals went wrong was in their 'hopelessly out of date' view of the economic world, since 'the picture of numerous small

capitalists, each staking his fortune on his judgement, and the most judicious surviving, bears increasingly little relation to the facts' (Keynes 1927 [1981: 641]). For reasons familiar to students of social choice, individuals had little or no incentive to implement the measures Keynes deemed necessary to ensure the optimal output needed to secure as full employment as practicable – namely currency and credit controls and encouragements to save and invest. On the contrary, many had good self-interested reasons to aggravate the very problems these mechanisms sought to overcome. Though he thought the volume of output was 'determined by forces outside the classical scheme', he raised 'no objection . . . against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportions the factors of production will be combined to produce it, and how the value of the final product will be distributed between them' (Keynes 1936 [1973: 378–9]). 'Intelligent control' of the economy was some distance, therefore, from 'State Socialism' and did not entail either the direction or ownership of the means of production (Keynes 1936 [1973: 378]).

Such control was a matter for experts, however, rather than democracy. Keynes was not an advocate of Deweyan democratic 'social planning'. Rather, he shared the traditional liberal concerns about the newly enfranchised masses, fearing that 'in the ignorant blind striving after justice Labour may destroy what is at least as important and is a necessary condition of any social progress at all – namely, efficiency' (Keynes 1927, 1981, p. 639). Nothing could be further from the progressive's credo than Keynes's suspicion 'that some measure of social injustice has often been the necessary condition of social progress' (Keynes 1927 [1981: 639]). Not surprisingly, his view of liberty remained narrowly negative, its purpose largely to preserve the dynamism of society. The new liberals had also abhorred the contemporary authoritarian state systems and stressed the need for personal liberty and choice. But their understanding of freedom embraced a concern for social issues absent from Keynes' analysis. Far from sharing their desire for an ethical liberalism that would unite individuality and solidarity, he worried that 'the reaction against the appeal to self-interest may have gone too far' (Keynes 1936 [1973: 380]).

If Keynes departed from progressive liberalism in ignoring their social agenda, Beveridge was distinctive in remaining outside the debates over economic planning that had preoccupied the inter-war generation. Instead, he explicitly linked his Report to the pre-war Social Insurance policies of Lloyd George. His defence of the liberal character of his proposals echoed the characteristic new liberal tactic of justifying social justice in terms of an extended view of liberty as 'more than freedom from the arbitrary power of governments. It means freedom from economic servitude to Want and Squalor and other social evils; it means

freedom from arbitrary power in any form' (Beveridge 1945: 10). Similarly conventional arguments led him to distinguish his position from that of socialists. Making liberty rather than equality the basis of greater state intervention meant that his policy was not a matter of levelling to benefit certain sectional interests, but aimed at offering all citizens the opportunities 'of service and earning in accordance with their powers' (Beveridge 1945: 38).

Beveridge claimed to avoid the authoritarianism of socialist planning by allowing individuals the liberty to contribute in a manner most conformable to their own talents. However, he did insist that a duty to cooperate with others for the common good was an entailment of a claim to social rights. Moreover, he shared Keynes's belief that such a system favoured efficiency. This association of freedom with social duty and efficiency raises many of the traditional worries concerning positive accounts of freedom: namely, that individuals are only deemed genuinely free if they pursue ends of a socially useful and morally approved kind. Before the war this aspect of new liberalism had surfaced in debates about eugenics. The insistence by radical liberals on the democratic negotiation and setting of society's goals was intended to counter these sorts of dangers. Of course, Keynes and Beveridge assumed that the state was democratic in the sense of holding regular elections and having certain standard constitutional safeguards for individual civil liberties. But where such liberal mechanisms could not be taken for granted, liberals were unsurprisingly more sceptical about the likelihood of state action fostering rather than hindering freedom.

2. LIBERALISM UNDER THREAT: CONTINENTAL EUROPE

Though a few diehards in Britain and the United States bemoaned the way progressive and centre liberal measures 'day by day, in the well-meaning effort to ease somebody's little trouble, . . . take away a little bit of discretion or liberty from the rest of the 40 millions of us' (Ernest Benn, quoted in Freedman 1986: 267), such complaints were in a minority. In the relatively recent liberal democracies of continental Europe, by contrast, liberals found themselves ousted from power by mass socialist parties and confronted by a growing communist and fascist threat. Here democracy appeared a danger to liberalism and the surest rationale for liberty lay with the market. Indeed the most powerful criticisms of social liberalism came from political economists and social theorists such as Ludwig von Mises and F. A. Hayek in Austria, Luigi Einaudi and Vilfredo Pareto in Italy, and Max Weber in Germany.

These thinkers contended that notions of a common good or general will were meaningless. Individuals pursued a plurality of goods and held very different evaluative standpoints and moral codes. There were no social goals or public

purposes, only the diverse ideals and interests of a society's individual members. The market's genius – indeed its very functioning – lay in its harnessing of people's capacity to choose autonomously and pursue a plurality of goods. Any attempt to constrain that capacity via central planning would prove both economically less efficient than the market and entail coercion on a totalitarian scale.

The development of this argument by the Austrians in particular was highly original. Their case was essentially epistemic. Its basic elements were first developed by von Mises in the context of the socialist calculation debate of the 1920s (Hayek 1935; Lavoie 1985). He argued that rational economic planning required an efficient allocation of resources and that this in turn depended upon a knowledge of prices, which provide information on the relative scarcities of capital goods. In a market of any size and complexity, these prices are determined by the innumerable interactions between buyers and sellers and are in constant flux. He believed it would be impossible for socialist planners to solve millions of simultaneous equations in order to determine the relative value of productive resources. Such information could only be provided by a market based on private property in the means of production.

In fact, economists now believe that in principle the relevant equations could be solved. However, Mises's writings also contain a more profound thesis that suggests that monetary prices act as necessary 'aids to the human mind' that could only be generated within the context of a market-exchange system based on private property. According to this view, the requisite knowledge needed by planners would not exist outside of a free market economy. Hayek and later Austrian theorists picked up on this aspect of his work but gave it a somewhat different epistemological basis (Hayek 1935). Hayek pointed out that the difficulty confronting planners is not computational but practical. It relates to the problem of how one central agency could gather the huge amount of information necessary for accurate pricing, much of it of a concrete and contextual nature, such as the capacity of the available machines and workforce in a given locale, which is hard to represent in statistical form and which is in any case constantly changing. Moreover, much of this knowledge is tacit, embodied in practices, dispositions, and intuitions that are unformulatable and often not fully conscious to the individuals concerned. Central planning not only cannot employ such knowledge, it would also probably destroy it by attempting to articulate it in an explicit manner. The achievement of the market was its ability to collect and transmit this dispersed, local, and largely transient knowledge in an intelligible and undistorted form through price signals. By contrast, a planned economy severed the connection between rewards and services essential to the market's efficiency, replacing it with a set of inevitably distorted incentives that have more

to do with the whims of bureaucrats than with what people wanted or might have desired in a world where entrepreneurs can invent new products.

Planning by socialist or social democratic states was not only inefficient, however, but also tyrannical (Mises 1932; Hayek 1944). For it involved substituting the free choices of individuals for those of the planner. Indeed, the plan would only have a chance of success if the innovations and changing preferences of producers and consumers were deliberately suppressed. Invoking social justice to justify such interventions did not change their arbitrariness for the plurality of opinions meant that there could be no settled criteria. The chief candidates, need and desert, not only clashed themselves but each could be interpreted in a variety of ways that produced rival outcomes when applied to particular cases. However well-intentioned, appeals to the collective welfare always reflected the partial perspective of their proponents and so inevitably entailed imposing their vision on others. Moreover, redistributive taxation and public social services reproduced all the distorted incentives of planning and involved a similarly coercive interference with people's own choices.

Democracy did not enhance either the legitimacy or effectiveness of planning and welfare. It merely increased the risk of such mistaken policies being pursued. Pareto in particular devoted considerable energy to investigating how political elites wooed the voters with illusory appeals to social justice and the common good (Pareto 1902–3, 1916, 1921; Bellamy 1992: ch. 3). In fact, the only beneficiaries of these policies were the politicians themselves and the various special-interest groups which surrounded them. The taxation required to fund this expanded state sector was in effect a rent imposed on the efforts of others. Unrestrained, democracy replaced economic with political incentives, encouraging groups to organise and influence the machinery of government towards their ends with ultimately devastating effects for freedom and prosperity.

These thinkers attributed the electoral success of socialist parties to an atavistic herd instinct and yearning for organic community that was totally at odds with modern societies (Pareto 1902–3). Whereas the new liberals accepted that the trend within modern societies was towards big government, corporate business, and mass organisations, these neo-classical liberals held on to the notion that entrepreneurship and individual initiative remained crucial and that these developments must and could be resisted (Mises 1927). They advocated a minimal constitutional framework to uphold civil and especially property rights within which individuals could freely contract with each other. Hayek, the chief elaborator of this doctrine, went so far as to castigate all departures from fixed, known, and general laws as arbitrary acts at variance with the Rule of Law that disturbed and distorted the spontaneous order emerging from numerous individual interactions (Hayek 1944). He believed these criteria rendered planning

and redistributive taxation illegitimate, since both entailed formulating ever more special regulations aimed at particular groups of people. Government, on his account, was to be limited to policing infractions of the Rule of Law not breaking it itself, with democracy serving the purely protective function of allowing the peaceful removal of tyrannical or incompetent governments. An exile to Britain and an admirer of the British liberal tradition, Hayek saw the New Liberalism as but a step along the road to serfdom, with little differentiating it from socialism or fascism – themselves equated with each other in this view.

Not all continental liberal theorists were so pessimistic or economistic in their views. Debating the nature of liberalism with Luigi Einaudi in Italy, for example, Benedetto Croce argued that his compatriot had confused the market mechanism with the liberal ethic that animated *laissez-faire* accounts of it (Einaudi 1928; Croce 1928; Bellamy 1992: ch. 3). The liberal ethic endorsed the free market only to the extent that it offered the best means of preserving the liberal values of human inventiveness and autonomy. He believed it simple dogmatism to exclude a priori the possibility of a ‘liberal socialism’ such as Hobhouse’s. Nonetheless, Croce objected equally strongly to those fellow Italians, such as Guido de Ruggiero, who advocated a social liberalism involving the reconciliation of liberty and justice (De Ruggiero 1925 and 1946; Bellamy 2000: ch. 3; Calogero 1940–4). Once again, he argued that this confused the practical need to accommodate the demands of the working classes for the liberal ideal motivating such policies (Croce 1943). Democracy was similarly a contingent means, of value only to the extent that it furthered liberal ends. Croce followed the youthful Pareto and Gaetano Mosca in rejecting the democratic principle of equality as a socialist denial of the importance of individuality whilst seeing democratic procedures as potentially useful for ensuring a circulation of ideals and elites. Ultimately, Croce conceived liberalism as a ‘metapolitical’ philosophy, to be identified with his historicist view of history as the product of autonomous individual thought and action, rather than a specific set of policies (Croce 1928).

In Germany, Weber similarly believed that the classic liberalism invoked by the Austrians and others was unrealistic in modern societies (Beetham 1985; Bellamy 1992: ch. 4). Weber contended that the liberal faith in legal formalism implied by notions of the Rule of Law such as Hayek’s was as impossible within today’s complex societies as the bureaucratic proceduralism advocated by socialist planners (Weber 1918a and b, 1919). Just as entrepreneurs remained important in the economic sphere to innovate and direct commercial activity, so leadership was vital within the political sphere. Pluralism rendered coherent collective choice impossible and meant that general norms covering all spheres of activity could not be formulated. Even a regulative as opposed to a planning state would need to make special and particular directives to meet the peculiar

circumstances of different functions, communities, and locations. Meanwhile, events were always likely to throw up exceptional cases calling for decisive executive action. With the mass of the population locked into the organisational 'iron cage' of modernity, only charismatic leaders could make the requisite existential decisions capable of giving an organisation and its members a sense of purpose. He reconceived competitive elections as an electoral market aimed at producing such individuals. He believed such mechanisms explained why the liberal democratic Allies had defeated authoritarian Germany's more efficient military machine, which had failed to prevail due to an absence of leadership and an over-reliance on formal rules and procedures (Weber 1918a). Weber was nonetheless all too aware that even such a realist view of liberal democracy would only prove beneficial within a culturally liberal environment that modernity tended to undermine rather than foster. Though the Austrian economist Joseph Schumpeter (1943; Bellamy 2000: ch. 5) later developed his model into an influential characterisation of post war liberal democratic politics, the immediate social and political reality proved rather different from the ideal. The leader thrown up in Weber's native Germany lacked almost all the qualities he had hoped for and plunged both liberalism and democracy into a deeper crisis than ever before.

3. CONCLUSION

If declarations of the death of liberalism by socialists and fascists were premature in intellectual terms, they proved all too accurate a description of its status as a political force. The inter-war years saw the dramatic decline if not the demise of liberal political parties across Europe and on the continent the brief eclipse of all liberal democratic regimes. By 1945, most liberal intellectuals and politicians together with the bulk of their electoral following had deserted to either social democratic or conservative parties. However, their arguments shaped ideological debates within Western democracies for the rest of the century. If centrist liberal economic and welfare policies dominated until the mid-1970s, the challenge of the New Right in the 1980s and 1990s was largely inspired by the ideas of economic liberals such as Hayek. Meanwhile, the contemporary search for a 'third way' between these two positions has frequently involved exploring the various alternatives of fifty years ago, with Dewey and Hobhouse amongst others becoming fashionable once again.