FEBRUARY 7th

The Roads to Mont Pèlerin: Parallel Quests for Order in “Old Chicago” and Freiburg

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The deceased Professor Henry C. Simons may have played, and stills plays, a role in the US as the one of Walter Eucken in our country. At Chicago, he increasingly evolved into the head of an entire “School”.

Rittershausen (1951), p. 426
in a review of Simons’ “Economic Policy for a Free Society” (1948)
ORDO Yearbook of Economic and Social Order, Vol. 4.

1. Introduction: Ordoliberalism’s Renaissance – Is German Exceptionalism Back?

The past decade has witnessed a curious development regarding the political economy of ordoliberalism. Ordoliberalism still constitutes a challenging artefact for historians of economics, but the most recent abundant literature published at some of the best international presses stems from disciplines as diverse as macroeconomics, political theory, law, sociology of science, literary studies, or finance (e.g., Feld, Köhler, and Nientiedt 2015; Brunnermeier, James, and Landau 2016; Nientiedt and Köhler 2016; Bonefeld 2017; Beck and Kotz 2017; Biebricher and Vogelmann 2017; Hien and Joerges 2017; Köhler and Nientiedt 2017; Commun and Kolev 2018; Fèvre 2018; Slobodian 2018; Biebricher 2019; Dold and Krieger 2020).

However, since this renewed interest has been mostly triggered by Germany’s fiscal and monetary policy positions during the Eurozone crisis, the perennial claim that ordoliberalism has been a “German oddity” (Beck and Kotz 2017) or even an “irritating German idea” (Hien and Joerges 2017) remains in the air, perhaps even a fortiori.

This paper challenges precisely this “exceptionalism”/“Sonderweg” claim. We provide new evidence about the parallel emergence of the political economies in Freiburg – especially as seen from the research program of Walter Eucken –, and in Chicago – especially as seen from the research program of Henry C. Simons – in the course of the 1930s and 1940s. These scholarly communities are reconstructed to belong to the “laissez-faire within rules” research program (Buchanan 2010) as embedded within the “thinking-in-orders” tradition that has been classified as formative for the German and other European economic

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discourses from cameralism to ordoliberalism (Tribe 1995). By analyzing publications and archival evidence, we aim to shed light on transmission channels across the Atlantic which have hardly been studied before, most prominently Friedrich A. Lutz, arguably Eucken’s academically most successful student who joined Princeton’s faculty in 1938 – a trace hardly explored in previous literature (Van Horn 2009; Van Horn and Mirowski 2009; Van Horn 2011a) but one that appears to be truly essential based on archival evidence from the Walter Eucken Papers which have become accessible only very recently.

The paper starts out in the 1920s with the earlier generation of Ludwig von Mises and Frank Knight (Section 2), contextualizes the theories of order as they emerged during the 1930s and 1940s in the Eucken-Simons generation (Section 3), and culminates in discussing the Eucken-Lutz correspondence as well as the founding meeting of the Mont Pèlerin Society in 1947 devised by Hayek as a convention of these different strands of transatlantic liberalism, with Lutz’ continuous role as a lifeline for Freiburg amid the WWII-related isolation (Section 4).

2. Mises and Knight in the 1920s: Claiming Space for Economic Theory

Ludwig von Mises (1881–1973) and Frank Knight (1885–1972) serve as the initiation of this narrative.

The cohort of juniors that is at the heart of this paper are younger and very homogenous agewise: Hayek, Röpke, and Simons were all born 1899, and while Eucken was eight years their senior, his student Lutz was born 1901. We name these scholars the “fin-de-siècle generation”. At least on the European side of the Atlantic, their youth was scarred by the tragic commonality that Eucken, Hayek, and Röpke all fought in the Great War. In the very first years after coming home from the front, Hayek and Röpke, but also several of their international generation peers like Lionel Robbins (born 1898) and Bertil Ohlin (born 1899), shared a formative experience: They all read Mises’ “Nation, State and Economy” (Mises 1919) and especially “Socialism” (Mises 1922) (Hayek [1956] 1992, p. 133). We argue that Mises’ books taught the European “fin-de-siècle generation” what they should not aim at, in other words he shaped what could be called the negative part of their politico-economic agenda.

Regarding the positive part of that agenda, Mises also played an important role, but a rather different one. In the second half of the 1920s, he published a series of essays in which he formulated his theory of interventionism (Mises 1929), i.e., his critique of state interventions in the context of a market economy.
Unlike his theory of socialism which was largely accepted by the “fin-de-siècle generation”, our narrative shows that Mises’ take on interventionism was met much more skeptically, and that his sketchy and vaguely demarcated domain of what the state should and should not do was perceived by the juniors as a genuine challenge, as a theory they had to reach beyond (Kolev 2017, pp. 19-21). As seen from the 1940s reconstructed in the final sections of the paper, this challenge proved a very productive one. From the 1930s onwards, the “fin-de-siècle generation” developed a pattern of theorizing political economy which some of them labelled as neoliberalism.\(^3\) This development took place in the context of a historically high degree of interpersonal exchange, within the generation but also with seniors like Mises and Knight, in the form of transatlantic correspondence and even semi-regular meetings.

Knight, even though critical of Mises’ positions (Knight 1938; Knight 1941), played a role comparable to that of Mises in a number of ways. Apart from a similar fascination for Max Weber’s legacy,\(^4\) both Knight and Mises were surrounded by a mainstream in their respective geographical area which was not overly friendly to their approaches to economics. Knight joined the faculty of the University of Chicago in 1927 during years of fundamental transformation in US economics (Morgan and Rutherford 1998). Institutionalism, especially as practiced in and spreading from Wisconsin in the spirit of Richard T. Ely and John R. Commons (Rutherford 2006), was formative for the intellectual landscape of the time – including the American Economic Association founded to explicitly resemble the aims and organizational structure of the German Verein für Socialpolitik (Ely 1910, pp. 70-72; Johnson 2014, pp. 2-17). In contrast, from his Cornell dissertation onwards (Knight 1921) and despite all his idiosyncrasies, Knight constituted an important strand within the neoclassical paradigm of the 1920s before the formalization of neoclassical economics as it started especially in the 1930s (Boettke 2018, pp. 125-128). Similarly, in 1932

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\(^3\) To avoid the ambiguities of the usage of this term today, our exposition employs a distinct definition of neoliberalism. As opposed to *substantive* definitions aiming at identifying commonalities in theories and policy proposals, the notion employed here is founded on a *procedural* view of neoliberalism. In this perspective, this generation stands for only one neoliberalism out of many: The history of liberalism is conceptualized here as a sequence of neoliberalisms, and in such a reading Smith was a neoliberal vis-à-vis Locke, while Mill was a neoliberal vis-à-vis Smith (Kolev 2018, pp. 66-68).

\(^4\) Biographically, Mises intersected with him during Weber’s Viennese tenure in 1917 and his works on monetary theory and socialist calculation were referenced in “Economy and Society” (Weber [1922] 1978, p. 78, p. 107), while Knight was crucial for initiating the US reception of Weber by his involvement in the very first translation projects (Derman 2012, pp. 36-42). *Substantively*, both Knight and Mises wrestled with Weber’s epistemological legacy – especially with the notion of ideal types – while formulating their own systems (Lachmann [1951] 1977, pp. 94-95; Emmett 2006, pp. 106-109; Tribe 2007, p. 214).
at the last meeting of the Verein für Socialpolitik ahead of the “annus horribilis” of 1933, Mises declared how at the time “modern subjectivist economics” consisted of “the Austrian and the Anglo-American Schools and the School of Lausanne” (Mises [1932] 2003, p. 228). In the German-language area, however, the Youngest Historical School’s demise lasted even beyond the end of WWII (Rieter 2002, pp. 154-162). At the end of the Roaring Twenties, economics in general and economic theory in particular remained to yet prove their relevance amid the most severe crisis of capitalism, and immediately afterwards during the most fundamental crisis of Western civilization.

3. “Old Chicago” and Freiburg: Communities of Dissidents Debating Order

When the “fin-de-siècle generation” grew out of the shadow of the Knight-Mises generation, and we locate that to be the case by 1930, the terrain they entered was most difficult. The scars and traumas of the Great Depression were pushing several countries, especially in Central Europe, towards a fundamental transformation not “only” of their economic order, but instead of the overall order of economy and society. Thus the preoccupation with economic theory understood as technical economics which focused on issues of (dis-)equilibrium were assessed to be less topical, as compared to political economy and social philosophy which focused on issues of (dis-)order (Blümle and Goldschmidt 2006).

In addition, instead of primarily studying the object of their inquiries, the “fin-de-siècle generation” increasingly turned to issues of normativity: In line with Walter Lippmann’s book which was formative for the discourses of this generation (Lippmann 1937; Goodwin 2014, pp. 245-260), they went on to examine what constituted a “good society”, hoping that this would enable them to defend the order of Western civilization at the brink of extinction (Dekker 2016).

This double transformation – from studying equilibrium to studying order, and from students of positive orders to defenders of a specific normative order – is the discursive context for the following analysis of the emergence of the order-focused political economies on both sides of the Atlantic. They moved away from academia to the agora of society and devised political economies of openly political character that were targeted at setting up sustainable “good societies” in the postwar world.

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5 This is aptly illustrated by the failure of the “German Ricardians” around economists of the “fin-de-siècle generation” in the mid-1920s who attacked the legacy of the Historical School and aimed to reestablish a legitimate domain for theory (Janssen 2009, pp. 107-112).
3.1 Formation of the “Old Chicago” and Freiburg Schools

The term “school” which is always to be used with special care, given its inflationary proliferation in the historiography of the social sciences, seems applicable both to the group in Chicago and the one in Freiburg. We join Karsten von Blumenthal’s threefold criteria that have to be sufficiently fulfilled so that a community can legitimately be called a school:

• Substantive dimension: Along with Ludwik Fleck’s concept of the thought style, as well as Larry Laudan’s extension of Kuhn’s paradigm concept, the substantive dimension postulates that the scholarly process within a group follows similar epistemological paths and potentially a common ontology. A shared appreciation of scholarly tradition(s) can further fortify the common understanding of epistemology and ontology (Blumenthal 2007, pp. 27-30).

• Social dimension: Along with Ludwik Fleck’s concept of the thought collective, as well as Schumpeter’s emphasis on action against outsiders and mutual confirmation of insiders, the social dimension postulates that schools are stable thought collectives, united by vertical teacher-student and horizontal student-student connections. The emancipation and differentiation vis-à-vis outsiders incorporate a sense of belonging to the collective, felt both by the insiders and by the outsiders (Blumenthal 2007, pp. 30-32).

• Structural dimension: The thought collective has to share a common institutional infrastructure and material resources. These resources are typically “intramural”, i.e., within the boundaries of universities like the power over the succession to influential chairs or joint possibilities to supervise graduate students. A prestigious book series as well as a journal can promote the structural cohesion. However, also “extramural” infrastructure outside the official university can play an important role like establishing informal colloquia or seminars (Blumenthal 2007, pp. 32-33).

I. Cohesion at the Interface of Economics and Law

The first accounts of the schools appeared early on, from the inside (Director 1948; Böhm 1957) as well as from the outside (Miller 1962; Moeller 1950). In those accounts, the existence of social and structural cohesion is more contested in the case of Chicago: The department was larger than Freiburg’s and, unlike Freiburg, it expanded significantly over time. In both cases there was a distinct sub-section within the
economics department which is classified by most accounts as a sufficiently cohesive group: In the case of Chicago, a group centered around Knight as the senior and, as the “crown prince’ of Chicago economics” (Tavlas 2015, p. 101), around Simons (Director 1948); in the case of Freiburg, a group centered around Eucken (Böhm 1957). In both cases there were other members of the economics department who oscillated around the cohesive thought collective but did not belong to it: In the case of Chicago, prominently Jacob Viner (Samuelson 1972; Van Horn 2011b); in the case of Freiburg, prominently Constantin von Dietze and Adolf Lampe (Blumenberg-Lampe 1973, Goldschmidt 2013, pp. 142-143).

In both cases, the school-generating group extended beyond the formal economics department: In 1939, Simons was the first economist to be employed by the Law School (Stein [1987] 2018, pp. 12331-12332), while the legal scholars Franz Böhm and Hans Großmann-Doerth were constitutive for the Freiburg School from its very initiation around 1933 within the typically German, rather broad Faculty of Law and State Sciences (Vanberg 2001, pp. 37-39). Due to this structural interdisciplinarity, Freiburg and Chicago have been seen as incubators of Law and Economics as a specialized domain in the postwar decades (Streit 1992, pp. 675-678; Möschel 2001, pp. 4-10). Diverse reasons, also the (self-)censorship in the German academic journals landscape during National Socialism, led to the Freiburgeans’ lacking the precise equivalent of the JPE as a periodic outlet, but they established two book series: In 1932 the series “Problems of Theoretical Economics” with Jena publisher Gustav Fischer, and in 1936 the series “Order of the Economy” with Stuttgart publisher Wilhelm Kohlhammer. The ORDO Yearbook of Economic and Social Order was founded only after WWII, in 1948.

The appreciation within a school for an earlier scholarly tradition, identified as a substantive criterion by Blumenthal, also plays a social role in our case: It is documented that Simons visited Germany in 1928 (Kasper 2003, p. 31; Shaviro 2013, p. 5). For a student of Knight whose German had the level to translate Weber, visiting Germany may not be surprising, also because knowledge of German was still a common requirement for receiving a PhD in many fields in the US, and we assume that it made Simons susceptible to a specific language and scholarly culture. Both the language and the scholarly culture became increasingly isolated after 1933, but a certain connectivity – mostly through émigrés, as discussed in
Section 4.1 – could persist for scholars like Simons. Two final indications of Simons’ connectivity to Germany. Richard Musgrave, one of the postwar public finance pioneers, reflected on his own combination of German and American influences:

“The thinking of Henry Simons, the intellectual father of the American income tax tradition, was influenced greatly by the extensive German literature on income concepts and in particular the writings of Georg Schanz (Musgrave 1983, p. 12).

And the Simons Papers contain a short 1939 correspondence in English with Tübingen-based publisher Mohr Siebeck: Simons enthusiastically thanks for the superb review of his “Personal Income Taxation” in FinanzArchiv, one of the leading German journals – and the review was conducted by Günter Schmölders, with whom Eucken cooperated heavily during the war years (Schmölders 1940).

II. Dissidents with Distance to the National Capitals

Moreover, a sense of opposition or even resistance was present in both groups and helped their social cohesion in the sense of Blumenthal’s process of emancipation and differentiation vis-à-vis outsiders: Opposing the zeitgeist was formative for both groups, despite all fundamental differences between the two countries at the time. Fighting the New Deal as a dire threat to both economic and political liberty was the immediate occasion for Simons’ “Positive Program” to appear in the format of a public policy pamphlet in 1934 (Kasper 2010, pp. 332-333), while Eucken’s outspoken opposition in the university senate in 1933 and 1934 vis-à-vis Martin Heidegger’s highly problematic behavior as rector led to Eucken’s 1936 lecture “The Battle of Science” and to meetings that, after 1938, transformed into the “Freiburg Circles” of resistance against National Socialism (Goldschmidt 2013, pp. 142-143). The distance to Washington and Berlin may have contributed to this spirit, since effective policy consultancy was less required as compared to East Coast or Berlin-based economists. This should not mean that relevance for economic policy was not topical for the type of political economy which emerged in Chicago and Freiburg.

6 A further hint at the importance of German in the Knight-Simons context are the letters in the Simons Papers which Knight sends to Simons from Vienna and Heidelberg in June 1930 which, apart from containing a number of German terms, clearly indicate that Knight himself struggled with the language but also that he encouraged Simons to improve his own competencies.
in the 1930s and 1940s, quite on the contrary: The systems in Section 3.2 read as if a check of relevance for economic policy was a “litmus test” for the groups in Chicago and Freiburg.

On top of the practical relevance, for both Simons and Eucken a sense of urgency is palpable in their works and, for contemporaries, also in their lives: Aaron Director is quoted that in his experience “Simons acted as if the end of the world was at hand” (Stein [1987] 2018, p. 12332) and George Stigler reminisced how “Simons frequently invoked imminent and utter catastrophe as the justifications for his proposals” (Stigler 1974, p. 5); British economist John Jewkes who experienced the last days of Eucken’s life during a lecture series at LSE diagnosed how it was “a burden of work too great for any one man, which contributed to his final exhaustion and led to his untimely and tragic death” (Jewkes 1951, p. 8).

III. (Dis-)Continuities beyond 1950

It was crucial both socially and structurally for the emerging schools that the Eucken-Simons generation produced a large number of students who continued the tradition in their own ways: “the departure of Jacob Viner [to Princeton in 1946, K & K] and the passing of Henry Simons [in 1946, K & K] are the watersheds” (Bronfenbrenner 1962, pp. 72-73) between “Old” and “New Chicago”, the former also dubbed the “Frank Knight-Henry Simons era” (Coats 1963, p. 491). Moreover, the appreciation for Simons in the Friedman-Stigler generation on public occasions declined over time: While they were highly laudatory in their Henry Simons Lectures (Friedman 1967; Stigler 1958), decades later their public reminiscences of Simons’ political economy turned more critical (Kitch 1983). In the case of Freiburg, continuity problems of a rather different kind came up around 1950: The passing of Eucken’s gifted student Leonhard Miksch in the very same year as his teacher, the preference of Friedrich Lutz for Zurich over Freiburg in 1953, the move to Frankfurt of Franz Böhm in 1945 and his preference to shape practical politics as a member of the Bundestag from 1953 to 1965, and the rather (perhaps too) reverent attitude of other Eucken students to his legacy did not lead to a “New Freiburg”, not even after attracting

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7 The addressee may have been, as formulated by Knight’s student James Buchanan, not so much the politician or the capital-based bureaucrat, but rather the citizen as an educated layperson interested in politico-economic insights: In such an understanding of relevance for political economy, “the task for the constitutional political economist is to assist individuals, as citizens who ultimately control their own social order” (Buchanan 1987, p. 250).
Hayek from Chicago to Freiburg in 1962 which happened upon the initiative of Eucken’s widow (Vanberg 2013).

Thus “Old Chicago” and Freiburg could be reconstructed as cohesive enough, socially and structurally. Now we can explore them substantively, as embodied in the two focal figures’ political economies.

3.2 Simons and Eucken on the Theory and Policy of Order

Let us take Simons’ “Positive Program” as a starting point, more specifically one of its crucial propositions where he proclaims:

“Laissez faire, to repeat, implies a division of tasks between competitive and political controls.”


Already from this quote one can infer the positive role which Simons assigns within a sustainable order of society to government in its division of labor with the market, i.e., a government which has to politically set up institutions, instead of only disbanding undesirable institutions through negative policies. What precisely has to be done by such a “positive program” government? The following quote best summarizes Simons’ notion of the ideally functioning government in his theory of order:

“The proper function of the state [...] is largely not that of providing services but that of providing the framework within which business, local-public and private, may effectively be conducted.”


This does not mean that there is no service function of the state, as the term “largely” indicates. Government can provide services, but this is not the core of Simons’ notion of order: Instead, it is centered around the concept of the framework which government has to provide as an essential prerequisite for the market economy.

Before detailing on Simons’ framework concept, it is crucial to highlight that for him the central problem for the order of economy and society is the presence of power in the economy, and the goal is to destroy any power concentration which can become a lethal threat to both the political and economic orders:

“A cardinal tenet of the libertarians is that no one may be trusted with much power – no leader, no faction, no party, no “class”, no majority, no government, no church, no corporation, no trade association, no university, no large organization of any kind. They must forever repeat with Lord

Thus disempowerment should be applied to both the political and the economic orders. Another goal to be tackled by government is the fight against inequality, which is primarily to be addressed by taxation. The crucial underlying metaphor conceptualizes the economy as a game, a game which necessarily requires rules in order to function in a proper (i.e., disempowering and inequality-combating) manner. Instituting sets of rules is essential for the viability of a democratic government:

“There is no means for protecting the common interest save in terms of rules of policy; and it is only in terms of general rules or principles that democracy, which is government by free, intelligent discussion, can function tolerably or endure.” (Simons [1944] 1948, p. 123).

Find a consensus on rules is what Simons believes can save democracy from the constant quarrel on individual, discretionary decisions. Simons talks at several occasions about the necessary qualities of his preferred type of rules: “more definite and adequate ‘rules of the game’” (Simons [1934] 1948, p. 57); “simple rule or principle”, “rules of the game as to money are definite, intelligible, and inflexible” (Simons [1934] 1948, p. 63); as well as “definite, mechanical set of rules of the economic game” (Simons [1936] 1948, p. 173). The rules have to be clear interpersonally (minimizing the need for bureaucratic interpretation and discretion) and intertemporally (stabilizing the expectations of the private actors).

Two final comments on Simons’ theory of the order of economy and society. First, he underscores the interrelationships between the different societal orders, especially the legal, political, and economic orders – a notion which we call interdependence across orders. Second, Simons shows that the different fields of economic policy like competition, monetary, foreign trade etc. are intricately interwoven – a notion which we call interdependence within the economic order – and that every decision in one field should be analyzed as to the impulses it can generate vis-à-vis the other fields.

Let us summarize the core elements of Simons’ theory of order:

- Government, in an adequately designed division of labor with the private market participants, is crucial for enabling markets. It has to permanently pursue a number of positive policies, aimed not primarily at providing specific services, but at providing a general framework within which the private market participants are free to interact, in the sense of “laissez-faire within rules”;

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• This framework is to be designed in a manner which disempowers the economy as much as possible (in all fields of economic policy), as well as government itself (by federalism, decentralization, and the consistent application of the rule of law);

• The framework consists above all of consensual rules (interpersonally clear and intertemporally stable), as consensus on rules is much easier than on discretionary measures, thus extending the basic notion of constitutionalism to the economic order;

• The framework aims at establishing, implementing, and adapting the general rules of the game, not at interfering in concrete moves of the game, direct interventions in the price systems are to be avoided;

• All societal orders (legal, economic, political etc.) are interdependent. Similarly, all measures of economic policy within the economic order have to be analyzed interdependently, i.e., regarding their impact on other societal orders and on all fields of economic policy.

It is not an exaggeration that the theory of order as formulated by Eucken and his Freiburg School associates shares fundamentally all of Simons’ aforementioned propositions. Eucken clearly shows a preference for general rules over case-by-case discretion as the overall modus operandi of the democratic process (Eucken 1932, pp. 301-309). The Freiburgean critique of 19th century laissez-faire very much parallels Simons’: Eucken and Böhm see the legal framework of the 19th century as responsible for the degeneration of the liberal economic order in Germany during the preceding decades, and in their eyes the inadequacy stemmed from the inability of both legal and economic scholarship (Böhm, Eucken, and Großmann-Doerth [1936] 1989, pp. 20-21) to recognize the importance of competition as “the greatest and most ingenious disempowering instrument in history” (Böhm 1961, p. 22). Here the topos of power, so prominent in Simons, is directly recognizable, along with the shared overarching normative element of disempowerment. The notion of a rules-based framework has become among the genuine “trademarks” of Freiburgean “Ordnungspolitik”, with its perennial emphasis that government should focus on the rules of the game, whereas the moves of the game should be left to the privately autonomous individuals (Kolev 2015, pp. 427-431). The stability of the rules, so important for Simons, is also shared by Eucken as he postulates the “constancy of economic policy” as one of the seven “constitutive principles” of the competitive order (Eucken [1952] 2004, pp. 285-289).
Crucially, the very term *competitive order* is at the heart of both Eucken’s and Simons’ notion of the well-ordered market economy – a notion which they arrived at when approaching the 1940s. The double test that an order must pass according to Eucken – it must be *efficient* and *humane* (Eucken [1952] 2004, pp. 372-374) – is very much in line with Simons’ fundamental concern about inequality as a property of the economic process that must be politically corrected (Reder 1982, pp. 29-30). Last but not least, the notion of *interdependence* is equally fundamental for Eucken and Böhm as it is for Simons, across orders and within the economic order (Vanberg 2001, pp. 41-42).

We classify these similarities in theorizing the order of economy and society as striking. If taken together, they add up to an almost entire overlap in the politico-economic agenda on both sides of the Atlantic. In their concreteness, the similarities are even more striking on the domains of competition policy and especially of monetary theory and policy: Regarding the latter, Eucken and his affiliates saw in the “Chicago Plan” of 100 Percent Money an institution able to fortify the monetary order and by that to diminish the instability in the overall order of the economy (Eucken [1940] 1950, pp. 165-169; Eucken [1952] 2004, pp. 259-261; Köhler and Kolev 2011, pp. 21-24; Köhler and Kolev 2013, pp. 213-221).

Above all, we see the *rules-based framework* of “Old Chicago” and Freiburg as the crucial similarity, as their joint reply by the “fin-de-siècle generation” to the Misesian challenge: In their shared notion of order, setting up (and gradually improving) such a rules-based framework constituted what we would like to call *good interventionism*, i.e., a positive role of the state which they assessed to be systemically necessary for a sustainable and stable economic order – a role which, beyond the rather vague notion of protection of property rights in Mises’ typology, could hardly exist for Mises and for whom “good interventionism” would be very much a contradictio in adiecto.

4. Lutz and Hayek as Interlocutors between “Old Chicago” and Freiburg

Two transmission channels deserve special attention as conduits across the Atlantic in the parallel emergence of so similar systems of “good interventionism” in line with the “laissez-faire within rules” research program: Friedrich A. Lutz, beginning already in the interwar years, and Friedrich A. von Hayek, particularly in the immediate postwar years.
4.1 Lutz’s Princeton as Interwar Conduit

The reasons why we portray Lutz here are: 1) his stellar career in US academia, 2) his life-long proximity to Eucken, 3) his top-tier connectivity to top-tier US economists, not least those in Chicago, and 4) his decades-long nexus to Hayek. In addition, the recently initiated processing of the Eucken Papers at Jena has produced an astoundingly extensive set of previously unexplored Eucken-Lutz correspondence.

I. The Eucken-Lutz Nexus over 30 Years

Lutz’ biography is largely forgotten today, so we set out with a portrayal that should help to contextualize his role as transatlantic interlocutor (Rühl 1999; Veit-Bachmann 2003; Hagemann 2008, pp. 273-274). He was born in 1901 in Saarburg in Lorraine, then part of the German Empire, and passed away in 1975 in Zurich. He studied economics from 1920 to 1925 at Heidelberg and Berlin and met Eucken in Berlin. Lutz became Eucken’s first doctoral student during Eucken’s Tübingen tenure 1925-1927. In 1932 he defended at Freiburg his habilitation “The Business Cycle Problem in Economics” (Lutz 1932). In the academic year 1934/1935 he was a Rockefeller Fellow in England where he met and later married Hayek’s doctoral student Vera Constance Smith (Smith 1936). At the time Lutz wrote another important book, “The Fundamental Problem of the Monetary Constitution” in the new Böhm-Eucken-Großmann-Doerth book series “Order of the Economy” (Lutz 1936), addressing very similar themes as those in Simons’ contemporaneous “Rules versus Authorities in Monetary Policy” (Simons 1936). Lutz’s liberalism drove him out of Nazi Germany: Again as a Rockefeller Fellow, he spent the academic year 1937/1938 in the US and emigrated after last lectures in Freiburg in the summer of 1938 (Lenel 1976, p. 3).

In 1938, he joined Princeton’s faculty: Initially holding the position of an instructor, by 1947 he had risen to a full professor. He remained on this post until 1953, including a 1943-1946 affiliation with the Institute for Advanced Study’s School of Economics of Politics (Institute for Advanced Study 2019). Apart from being a formative teacher, e.g., for later Fed Chairman Paul Volcker (Silber 2012, pp. 33-34), he was also the author of papers on monetary economics in QJE and AER (Lutz 1938; Lutz 1940a; Lutz 1945). In his “The Theory of Interest” (Lutz [1956] 2006), probably his best-known book today translated into numerous languages (Hagemann 2008, p. 274), Lutz compares the interest theories among others of Knight and Hayek, reminiscing of the heated capital theory debate between the two in the 1930s (Cohen
2003). By the early 1940s Lutz reached a top-tier connectivity in US economics in general and in Chicago in particular. Ten years later, he co-edited with the Chicagoan Lloyd Mints an authoritative collection of papers on behalf of the American Economic Association entitled “Readings in Monetary Theory” (American Economic Association 1951).

Even during WWII Lutz remained openly loyal to his Germany-based teacher: He reviewed Eucken’s “Foundations of Economics” (Eucken [1940] 1950) in a highly laudable tone in AER (Lutz 1940b) and, due to war-related difficulties (Veit-Bachmann 2002, p. 155), with some delay for LSE’s Economica (Lutz 1944). In the postwar years, the connection to Eucken intensified: From 1948 onwards, Lutz started regularly visiting Freiburg during the summer breaks (Hagemann 2008, p. 274). Even though Hayek invited him to the founding meeting of the MPS (Plickert 2008, p. 132, fn. 24), Lutz’s first MPS meeting was the 1948 business meeting in Basel where he supported Eucken in his plea for a purely academic, non-activist nature of the nascent MPS (Hartwell 1995, pp. 82-83). After Eucken’s passing in 1950, Lutz temporarily replaced him at Freiburg in the academic year 1951/1952, but in 1953 accepted the financially superior offer of the University of Zurich where he remained until his retirement in 1972 (Lenel 1976, p. 4). The close connection to Freiburg remained, especially through the Walter Eucken Institut which was founded in 1954 by Eucken’s friends, associates and students of which he served as board member until his passing. Also, from 1950 onwards he served on the editorial board of the ORDO Yearbook until his passing and published numerous pieces there.

II. The Eucken-Lutz Correspondence

The Eucken-Lutz correspondence became accessible only during the past few years due to the recent processing of the Walter Eucken Papers at the University of Jena. The huge delay in their accessibility has been assessed for decades as a serious impediment for the historiography of ordoliberalism. The collection is not only valuable due to Eucken’s special role as scholar as teacher, but also due to the fact that he

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8 The Wilhelm Röpke Papers contain a curious correspondence between Röpke, Lutz and Viner who, as editor of the JPE, solicited in 1941 a referee report from Lutz on Röpke’s paper “A Value Judgment on Value Judgments” (Christ 2018, pp. 41-44).

9 In 1964-1967 he became president of the MPS and, due to organizational intricacies at the time, is until today the only MPS president who has served two terms.
stayed at Freiburg from 1927 until 1950: Thus his sets of correspondence did not suffer the breaks discernible in the Hayek or Röpke Papers due to moves to London and Chicago or Geneva, respectively.

The correspondence starts already in the 1920s and spans to the last weeks of Eucken’s life. It adds up to more than 110 letters, including numerous undated pieces, most of them long and hand-written. As Lutz did not leave behind official papers (his personal library was integrated into the library of the Walter Eucken Institut), Eucken’s replies are mostly missing unless he kept carbon copies of his letters. Eucken – like most of his students – lived in the increasingly self-isolating Reich so that in the late 1930s and early 1940s old acquaintances like Hayek and Röpke became his sole connectors to the free world, but even these connections increasingly rarified. Many of the Eucken-Lutz letters are very personal and family-related, others are primarily of interest to the genesis and evolution of the Freiburg School, but after Lutz’ emigration to Britain and later to the US the scholarly mainline of the papers reads as Lutz being the outlet for Eucken to the Anglo-Saxon world.

This type of exchange starts in March 1936 when, in the very same letter, Lutz reports from LSE how “Keynes’ new book is very difficult” and how “Hayek and the other gentlemen here are very interested in our books in Freiburg”, with special mentioning of Robbins to whom Lutz has just given such books (L to E, 10.03.1936, underscoring in the original). After arriving in the US, the letters regularly show an émigré full of nostalgia for Europe and the community of German economists around Eucken. Before arriving at Princeton, Lutz writes several long letters from Minnesota, Harvard, and Chicago. The reports from Harvard and Chicago are noteworthy in the ways he describes émigrés like Schumpeter or Haberler and local luminaries like Hansen, Mitchell, Knight, Viner or Simons. Regarding the émigrés, Lutz notices early on in Harvard their rhetorical deficiencies in an alien lingual environment, and shares in very personal formulations his (and Vera’s) disappointment about the ageing Schumpeter as a “terrible poser” (L to E, 15.10.1937). In the same letter, he reports how “mathematics in our field, at least outside of Germany, is on the advance” and expresses a skepticism as to where “the drilling of the students here in mathematical theory” is leading economics. To Lutz, “economics here is very different” (L to E, 20.10.1937), and once at Princeton he is disenchanted with the “school-like” teaching methods required from him (L to E, 11.11.1938) but also of the “intensity of teaching in the US which no one in German can imagine” (L to E, 17.04.1940). Curiously, during the Harvard weeks Lutz is full of enthusiasm about a
tentative offer he has received from Hayek who, while visiting Vienna, attempts to arrange for Lutz a position at Prague (L to E, 24.10.1937).

Ahead of Harvard, Lutz and Vera spent some weeks in Chicago which both of them experience as “free of fantasy or charm”, Vera even feels “offended by America” (L to E, 10.05.1937). Lutz assesses Chicago’s department to have a “decent composition”, but immediately recognizes the serious tensions between Viner and Knight – and clearly sides with Viner, judging “Viner’s lectures to be the best” (L to E, 12.05.1937). Knight is depicted as a “very strange man who deals in the seminar with philosophy, power ideologies and sociology instead of economics”, while Viner is “the most influential economist here” and the person who shows interest in Lutz’ publications. Regarding Simons, the only remark in the letters is that he has invited the Lutzes for dinner (L to E, 10.05.1937).

A noteworthy intensification of the Lutz-Chicago nexus takes place in the context of the publication of Eucken’s “Foundations” in early 1940. Already in April Lutz reports that he has commissioned a review with AER which he will do himself after not finding an American (“they are all too lazy to read German, if they can at all”, L to E, 18.03.1940), but that he has also spoken with Princeton University Press about a potential translation of the book which “for the near future” does not appear too promising (L to E, 17.04.1940). In the same letter Lutz regrets to be increasingly cut off from receiving German journals and thus not being able to read the German reviews of the “Foundations”, especially the one by Stackelberg. But the reactions from Chicago are more enthusiastic: Lutz reports to have sent the book to Knight who has responded in a highly positive manner after reading the first sections: Knight has classified the book as “an extraordinarily forthright and simultaneously original approach to the core issues of our science”, Lutz also speaks of further comments by Knight “of which you can be proud” (L to E, 18.03.1940). After several letters, Lutz’ conclusion is that a publisher of an English translation can probably only be found after the war (L to E, 23.06.1940). When Lutz’ AER review is published, he is disappointed by the journal’s having shortened it and explains to Eucken, who cannot receive the journal because of Germany’s isolation, that one of his main points has been “the problem of economic power” (L to E, 02.11.1940). In those same months, Lutz expresses yet again nostalgia for Europe, but also apprehensions about the increasingly heated atmosphere in the US and fears, probably based on anti-German sentiments, whether “I will teach here in the next academic year” (L to E, 25.12.1940). In one of the final letters of the
war years, Lutz reports of having started reading Hayek’s “Pure Theory of Capital” and of Haberler’s visits to Princeton, but concludes that “this group of economists does not speak nicely of each other” (L to E, 02.05.1941).

The postwar letters are different, especially as the transatlantic divide suddenly appears surmountable in several ways. When they discuss economics, the evolution of Eucken’s thought is elegantly extractable from his letters. Given the great respect for the wartime achievements of his student on the domain of monetary economics, Eucken is even more eager to discuss with him both political economy as it emerges in his “Principles of Economic Policy” book project, and technical economics as it emerges in his plan of a thoroughly revised edition of his 1934 “Investigations into Capital Theory” (E to L, 06.11.1946). Eucken is deeply disappointed by Schumpeter’s treatment of the centrally planned economy in “Capitalism, Socialism and Democracy” (E to L, 09.06.1947) and expresses his gratitude that Hayek has invited him to write on the centrally planned economy at Economica where Eucken intends to reply to some of Schumpeter’s claims.10

It is curious to experience in several of Eucken’s letters both a desire to catch up with the missed decade of Anglo-Saxon economics and to challenge some recent developments as he identifies them in parts of Anglo-Saxon economics (E to L, 31.12.1948). He is especially disenchanted with two tendencies: The unrealistic assumptions in many of the new models, as well as the limits of these models to primarily depict the statics of an equilibrium system as opposed to its dynamic capabilities to coordinate towards equilibrium (E to L, 09.06.1947). In addition, Eucken believes that many British and American economists focus on too narrow problems “without the specific problems to fit into the overall process” (E to L, 24.03.1947), and that some of these economists “think too ‘globally’” in terms of the newly fashionable aggregates of macroeconomics (E to L, 18.12.1947). Sociologically, Eucken and Lutz share an enthusiasm for new formats like the ORDO Yearbook and the Mont Pèlerin Society which they discuss at length.

When in Britain, Lutz reports of his joint efforts with Hayek towards a translation of the “Foundations” with William Hodge in London, and already in 1947 reports that Robbins has read the book in the original and is “highly laudable” of it – but also that Lutz wishes to remain in Europe which “despite its terrible

10 Prior to Schumpeter’s move from Bonn to Harvard in 1932, he and Eucken had an intriguing exchange over several years, as has been recently reconstructed from the archives (Dathe and Hedtke 2018).
situation is by far more interesting and exciting than the somewhat saturated America” (L to E, 08.09.1947). After several invitations to visit Freiburg and to give lectures and seminars, from the final letters directly ahead of Eucken’s passing it becomes clear that Eucken has received an offer from Frankfurt where his close colleague Franz Böhm has made a career after 1945, and that Eucken simultaneously attempts to arrange an offer for Lutz there (E to L, 03.02.1950). On his way to the tragic LSE lecture series, Eucken hopes that this trip might be the beginning of acquainting Anglo-Saxon economics with the particular epistemological tools which he and the Freiburg School believe may help to resolve the crisis of modern economics (E to L, 03.02.1950).

4.2 LSE and MPS as Postwar Conduits

To understand the role of LSE as a conduit between the Continent and the US apart from Vera Smith and Hayek, it is important to note that Robbins also developed a special relationship to Eucken – culminating in the tragic lecture series in March 1950 upon Robbins’ and Hayek’s invitation (Eucken 1951). During the postwar years, the joint estrangement of the “fin-de-siècle generation” from Mises advanced further, along with their parallels in developing so proximate political economies. Robbins met Eucken for the first time at the 1947 MPS meeting and included the “Foundations” into his LSE Principles lecture in 1948 (Howson 2011, pp. 682-683). Given the fact that the book was translated only in 1950 (Kolev, Goldschmidt, and Hesse 2020, pp. 19-20), Robbins’ decision to integrate a book by a Germany-based author in the German original into his syllabus appears rather bold amid the blitz-scarred London.

At this same 1947 MPS meeting where Robbins encountered Eucken, Hayek organized something even bolder. In the very first session “‘Free Enterprise’ and Competitive Order”, he scheduled three presenters: Director, Eucken, and himself – and the boldness, as we see it, was that he scheduled a Jewish economist and a German non-émigré to speak in the very same session. Hayek was lucky that the German turned out to be as impressive a figure as Eucken, so the joint session as well as the overall appreciation of Eucken especially by the Americans succeeded in “contributing a little, if I may use this term, to the rehabilitation

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11 Robbins had been much more favorable than in his comments upon the publication of “Human Action” (Howson 2011, p. 680); Simons who, both in correspondence with Hayek and in a scathing review of Mises’ “Omnipotent Government”, was so critical that he surmised how Mises could be “also perhaps the worst enemy of his own libertarian cause” (Simons 1944, p. 192).
of German scholars on the international scene” (Hayek [1983] 1992, p. 192). Decades later, Friedman and Stigler – for Friedman, the 1947 MPS meeting was his very first trip abroad – upheld the special memories of their encounter with Eucken (Friedman and Friedman [1998] 1999, p. 160; Stigler [1985] 1988, p. 146).

In their joint preparation of the conference and ahead of Simons’ suicide, Hayek enthusiastically informed Eucken about the group in Chicago and about their work which, as Hayek saw it, focused on the “legal framework” (Kolev, Goldschmidt, and Hesse 2020, p. 16). When the three papers of Director, Eucken, and Hayek are juxtaposed, they read as being in almost perfect harmony with each other and also very much as concise versions of Simons’ “Positive Program”, i.e., as pleas for the competitive order to become the normative anchor for economic policy amid the postwar order of economy and society on both sides of the Atlantic.

And although the harmony was disturbed already at the 1949 MPS meeting, again between Mises and the “fin-de-siècle generation” but also between Germans and German émigrés (Kolev, Goldschmidt, and Hesse 2020, pp. 24-27), the months until Eucken’s passing were characterized by a high-frequency correspondence between Hayek as MPS president and Eucken as one of the vice-presidents, a correspondence increasingly cordial and heartfelt. The same is true for letters of Knight to Eucken in the Eucken Papers: In 1947, they already start as framed by “Dear friend Professor Eucken” (K to E, 16.12.1947), and by the end of their exchange Knight acknowledges the receipt of publications by Eucken, mentions that he has already been in possession of the first edition of Eucken’s “Foundations” since 1940 as depicted in Section 4.1, but also that he would be most happy to receive the most recent edition which he had heard was in the process of being translated (K to E, 05.05.1949).

Finally, the Henry Simons Papers contain a set of lively correspondence with Lutz from the immediate postwar months. Lutz’s first letter is framed by “Dear Henry” / “Yours Friedrich”, by gratitude for the “nice treat” by Simons and his wife when Lutz had been in Chicago, as well as by a very personal story of the refugee destiny of Lutz’s relatives in Germany and of his mother’s death (L to S, 17.05.1945) – indications of an already existing non-formal acquaintance between the two. The main matter which Lutz and Simons discuss is, as Lutz calls it in the very first letter, “the Hayek affair” or, in Simons’ first reply, “our conspiracy” (L to S, 17.05.1945; S to L, 26.06.1945): By that, they mean the “Free Market Study” project to establish an policy-oriented institute at Chicago, with Simons as a hub and with the particular
involvement of Hayek and Director, based on Hayek’s idea that a version of “The Road to Serfdom” with a special focus on the institutional setting of the US was necessary (Van Horn and Mirowski 2009, pp. 143-158). Lutz produces an extensive list of domains with concrete problems that should be addressed by the envisioned institute and also deliberates on the concrete tasks of the institute’s director (L to S, 07.06.1945). A year later, the difficulties to establish such an institute aggravate Simons’ depressed state of mind, leading to his suicide on June 19, 1946 (Van Horn 2014). What is of utmost importance for understanding the specific intensity at this point in the Simons-Lutz-Eucken-Hayek nexus are two archivally founded claims: 1) Lutz was Hayek’s favorite candidate to write the US version of “The Road to Serfdom”, and 2) Lutz was an alternative as a director of the institute if Simons had not stepped in (Caldwell 2011, pp. 305-306).

5. Summary and Outlook

This paper aimed at delineating the parallel intellectual trajectories of two scholarly communities in the 1930s and 1940s which, according to the notion of school detailed in the paper, can legitimately be portrayed as school-like groups. Instead of making claims of influence of the one on the other, we attempted to show how the political economists in Freiburg and Chicago, but also at Princeton and LSE, were moving along very similar lines during this period. Two major shifts took place in all those hubs: Following the acute years of the Great Depression, the “fin-de-siècle generation” moved: 1) from studying equilibrium to studying order, and 2) from being students of positive orders to defenders of a specific normative order, their shared notion of competitive order as normative anchor. Their understanding of order displayed a surprising number of common traits, above all: 1) the emphasis on the framework (rules of the game), and 2) the emphasis on the interdependence/embeddedness of the economic order amid the other societal orders.

Using Eucken’s methodological notion of topicality borrowed from Husserl’s phenomenology, we would like to conclude by another reason why Freiburg, “Old Chicago”, and the “thinking-in-orders” tradition more generally experienced their post-1950 demise. Along with the increasing specialization of postwar economics which gave rise to sub-disciplines like Law and Economics, Public Choice or the Property Rights research program, the properties of the order changed fundamentally: The decades of the Cold
War were, all geopolitical tensions notwithstanding, fairly steady, so fundamental debates about (re-) shaping the framework became much less topical when compared to the fundamental fragility of economy and society during the 1930s and 1940s, or in the postcommunist countries during the 1990s. It is a mixed blessing, but today we may again be approaching an age where neither the national nor the international orders appear to be as particularly robust or stable. Thus it could be worthwhile to harness in further research even more historiographical depth regarding the insights generated by the “fin-de-siècle generation”: Such inquiries might be helpful to illustrate to today’s citizen, in our view the final addressee of any social scientist, that history of economics can produce illuminating, topical narratives of the artisanship of orders jointly performed by the scholar and the citizen (Kolev 2019, pp. 8-10) who, despite all historical intricacies of earlier ages, managed together to find back to peaceful coexistence in a humane order.
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28


