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Liberalism and Capitalism since the Eighteenth Century: A Relationship of Conjunctions and Divergences

ABSTRACT

This article explores the intersections, parallels and conflicts between liberalism and capitalism, from the eighteenth century to the present day. Although the convergence of liberalism and capitalism as two sides of a single phenomenon has been often claimed, the history of their interrelationship is much more contingent with the two ideologies often at odds intellectually and in social and political affairs. Tracing an intellectual history of these concepts from the Scottish Enlightenment to the varying national responses to the Industrial Revolution, the rise of planning and the World Wars and finally the rise of neoliberalism in the twentieth century, it highlights the adaptability and variability of liberalism as a political ideology over the past centuries.

Keywords: *liberalism, capitalism, Tony Judt, John Stuart Mill, Lord Acton, Friedrich Naumann, democracy, Enlightenment, neoliberalism, Cold War, industrialization, political economy*

Tony Judt and the Adaptability of Liberalism and Capitalism in the Twentieth Century's Age of Crisis

Shortly before his death in 2010, British historian Tony Judt reflected on the legacies of the twentieth century and its defining ideologies, namely communism, fascism, and liberalism. Judt's own biography exemplified the catastrophes and upheavals of the twentieth century. Family members had been murdered in Auschwitz; his father had been a supporter of communism, and his son had long supported the kibbutz movement in Israel. Tony Judt's own socialization encompassed not only May 1968 in Paris and the initially unstoppable triumph of the new generation of politicians around Margaret Thatcher and Ronald Reagan in the 1980s—with their credo of the

DOI: 10.46586/mts.67.2022.13-29

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necessary liberation of market forces—but also the collapse of the communist regimes between 1989 and 1991 and the end of the Cold War.[1]

In an interview series, Judt identified two leitmotifs in the history of the twentieth century, which only seem paradoxical at first glance. On the one hand, he emphasized the experience of violence in the name of ideological extremes, which had become a mass phenomenon during this period. On the other hand, he highlighted the ability of liberalism and capitalism to survive one crisis after another in this age of violence. In any case, the repeatedly proclaimed end of liberalism stood, and still stands, in stark contrast to the equally pronounced resilience and capacity for regeneration and adaptation to radically changed political, social, or economic circumstances and institutional conditions of the era. From this observation of a special "adaptability," Judt derived a surprisingly positive prognosis for the future.

With this in mind, the following thoughts examine some of the symptomatic rhythms in the relationship between liberalism, capitalism, and democracy. The relationship between the European variants of liberalism and capitalism has continued to develop both conceptually and in social and political practice since the nineteenth century. But it can be argued that at no time did this relationship dissolve into that total congruence which critics of liberalism in particular postulated when they spoke, for example, of the "Manchester model of capitalism." The critical examination of liberalism as a political programme and as social practice has often given rise to the equation of liberalism with capitalism. Despite its disconnect with reality, this equation has served as an ideological critique since the 1840s and continues to shape historiographical narratives to this day.

This article thus considers not only the points of contact and entanglements, but also the contradictions and conflicts within this complex relationship from the eighteenth to the twentieth century. In line with Tony Judt's analytical category of "adaptability," which interrogates the possible conditional factors of this relationship, this article examines the particular adaptability of liberalism, democracy, and capitalism. The focus is on four symptomatic moments of transition: the end of the eighteenth century, the 1840s and 1850s, the turn of the century to the First World War, and the 1970s. Simultaneously, these examples deliberately shift our perspective from the political and ethical conceptions of the eighteenth century to the macro-developments of the twentieth century in order to consider the different dimensions of the relationship between liberalism and capitalism.

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[1] Tony Judt and Timothy Snyder, *Nachdenken über das 20. Jahrhundert* (Munich: Carl Hanser Verlag, 2013).

The Emancipation of "Political Economy" from its Ethical Purpose at the End of the Eighteenth Century

As the early modern notion of the economy as the expanded household of the prince began to fade, a redefinition of the relationship between economy and morality began to materialize. For English and Scottish liberals in the eighteenth century and onwards, this moment was a decisive starting point for a new understanding of the economy, from which different models emerged.[2]

In his "Fable of the Bees" from the early eighteenth century, Bernard de Mandeville developed the view that economic success was not based on ethical assumptions, but on the intrinsically immoral self-interest of individual economic agents. Since all actors were equally driven by their intrinsically immoral self-interest, a functioning community developed as the sum of all individual actions. According to this idea, selfish desires complemented each other for the benefit of all.

For Adam Smith, this development culminated in a productive market society based on a division of labour as a model for an efficient economic system. Ideally, the dissolution of traditional, corporate ties would thus eventually lead to the transformation of corporative societies into market societies. The essential assumption of these models was based on the idea of a convergence of political ideas of order and economic concepts of action, linking the idealization of market societies with the motivations of a "Whig interpretation of history." This required the rejection of traditional ethical norms and the adoption of a novel criterion: efficiency. The model of the modern economy as a rational instrument for describing and explaining economic relations was first developed through the emancipation of economic theory from any ethical purpose. The pioneering theories of "political economy" in Britain since the eighteenth century and of the German national economy since the nineteenth century presumed the integration of a Machiavellian separation of politics and morality through the vantage point of a new criterion, namely that of success.[3]

Initially, economics appeared to Smith as part of the natural condition of man, and thus formed an anthropological constant. By placing the initially private dimension of economic action at the forefront, Smith emphasized the self-interest that he recognized behind every economic action as the decisive motivation.[4] Solidarity in a larger social system therefore did not arise from the normative quality of an existing moral tradition or an a priori system of values, but from the particular combination of individual self-interests: When market actors worked towards their own advantage within processes of exchange, they did not purposefully align themselves with the common good. But the sum of their individual interests and behaviours would, according to Smith, “naturally” and even “necessarily” lead to the benefit of all.[5] This was also where the actual meaning of Smith’s metaphor of the “invisible hand” lay, exemplified by the connection between investment, profit maximization and public utility: While an individual financial investment aimed at individual profit maximization, it simultaneously made a contribution to the common good by increasing the national income, although that was not intended by the individual. Nevertheless, the experience of capitalism’s industrial-economic dynamics in Great Britain in the second half of the nineteenth century provoked a second transformational shift that in turn forced a reformulation of the notion of the “political economy.”

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[2] Jörn Leonhard, "Moral der Ökonomie und Ökonomie der Moral. Die Differenzierung der 'political economy' im Großbritannien des 18. und 19. Jahrhunderts," in *Religion, Moral und liberaler Markt. Politische Ökonomie und Ethikdebatten vom 18. Jahrhundert bis zur Gegenwart,* edited by Michael Hochgeschwender and Bernhard Löffler (Bielefeld: Transcript, 2011), 69–88.

[3] Klaus Lichtblau, "Politische Ökonomie," in *Historisches Wörterbuch der Philosophie*, edited by Joachim Ritter, Karlfried Gründer and Gottfried Gabriel (Basel: Schwabe, 1984), 1163–73.

Synchronization Attempts: Liberal Responses to Economic Dynamics and Their Social Consequences since the 1840s and Around 1900

In the 1840s, John Stuart Mill, as the most important and influential intellectual representative and critic of Victorianism, began to analyze the concrete social costs of Great Britain’s successful industrialization, which had become the exemplar of the capitalist order in contemporary socialist critique.[6]

His 1844 paper on “Some Unsettled Questions on Political Economy” formed the nucleus for a larger work that he regarded as a synthesis of the “political economy” of his time.[7] The starting point for his conception was the basic framework of the utilitarians around Jeremy Bentham and James Mill, his father, as well as the hypotheses of David Ricardo. John Stuart Mill himself had been intellectually socialized within these classical positions of "political economy," according to which, the "pursuit of wealth" was the driving force behind human behaviour. In line with Adam Smith, all economic activity within a society was understood as part of a self-regulating system. The distribution of surpluses and rewards to individual actors was thus based entirely on existing factors of production—namely land, labour, and capital.

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[4] Wilhelm Hasbach, *Untersuchungen über Adam Smith und die Entwicklung der Politischen Ökonomie* (Leipzig: Duncker & Humblot reprints, 1891); Jacob Oser, *The Evolution of Economic Thought* (New York: J. Wyatt Books Ottawa, 1970); Samuel Hollander, *The Economics of Adam Smith* (Toronto: University of Toronto Press, 1973); Arnold Meyer-Faje and Peter Ulrich, eds., *Der andere Adam Smith* (Bern: Paul, 1991).

[5] Adam Smith, “An Inquiry into the Nature and Causes of the Wealth of Nations,” in *The Glasgow Edition of the Works and Correspondence of Adam Smith*, edited by R. H. Campbell and A.S. Skinner, Vol. 2/1, (Oxford: Oxford University Press, 1976), 454–6.

[6] Donald L. Losman, “J. S. Mill on alternative economic Systems,” *American Journal of Economics & Sociology* 30 (1971), 85–104; Pierre Vitoux, “John Stuart Mill: Économie et Société,” *Cahiers Victoriens et Édouardiens* 48 (1999), 209–30; Jose Harris, “Mill, John Stuart,” in *Oxford Dictionary of National Biography* (Oxford: Oxford University Press, 2004), Online Edition [accessed 28 May 2022], 1–35.

With regard to the social realities of his era, especially the problems of the 1840s, which Friedrich Engels impressively analyzed in his *Condition of the Working Class in England*, Mill endeavoured to reformulate the classical conception of the "political economy."[8] Initially, Mill assumed a tension between the universalism of method and the relativity of conditions, which he used to highlight the economic and social problems of his time.[9] Thus, the English Poor Laws could not easily be applied to agrarian Ireland. Mill's reflections on these social questions were embedded within the larger transitional crisis of pauperism, a mass impoverishment that resulted from the intersection of demographic shifts and a still insufficient demand for labour in the industrial sector. Indeed, Mill was one of many voices that challenged the principles of the "political economy" in Britain since the 1840s. Conservative High Tories, Socialists, and Chartists were united in their increasingly aggressive criticism of the determinism inherent in Malthus' assumptions and the ideology of state non-intervention in the sense of Manchester Liberalism—a juxtaposition that already makes manifest that liberalism and capitalism could not be equated during this period. Instead, very different approaches developed within the liberal spectrum, ranging from leading Whig reformers to philosophical radicals centred around Edinburgh University and the Westminster Review. While Whig-aristocratic liberalism in the early nineteenth century was still deeply influenced by older notions of trusteeship over the economically emerging middle classes, John Stuart Mill pursued a different approach.

In his writings, Mill argued polemically against contemporary philanthropy, a decisive feature of both Victorianism and Anglicanism. Philanthropic aid, according to Mill, made any economic improvement in a society dependent on the fulfilment of the moral obligations of the rich towards the poor. Victorian philanthropy appeared to Mill as a subtle continuation of a social ancien régime, behind which he saw little more than moral hypocrisy at play, that—hidden under the cloak of an ostensibly Christian willingness to help—reinforced a traditional paternalism that maintained the political and social immaturity of the industrial worker. Accordingly, it was vital that contemporary English society overcome this basic trait, which perpetuated itself as a particular "culture of deference" far into the nineteenth and twentieth centuries, once and for all. The future would then not be shaped by "the whole fabric of patriarchal or seigneurial influence," but by the historical significance of the "principles of Reformation" understood as a synonym for individual freedom and self-determination. Mill identified not only the contemporary explosion of mass media, but also Chartism as a sign of the successful self-organization of workers' interests and the concept of a "civil society" as promising signs in this direction. The connection between liberation and freedom was particularly salient here: "the poor have come out of leading-strings and cannot longer be treated like children."[10] Mill thus criticized the coexistence of capitalist structures and anachronistic social paternalism, which found its political-constitutional counterpart in the pre-1830 unreformed parliament.

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[7] John Stuart Mill, "Essays on Some Unsettled Questions on Political Economy (1844)," in *The Collected Works of John Stuart Mill, Vol. 4: Essays on Economics and Society Part I*, edited by John M. Robson (Toronto: University of Toronto Press, 1967), 229–340.

[8] Friedrich Engels, *Die Lage der arbeitenden Klasse in England* (Leipzig: O. Wigand, 1845).

[9] Harris, *Mill*, 20.

Beginning in the late 1840s, Mill emphasized the necessity of a social order in which the social boundaries between employers and workers—and class boundaries more generally—were more permeable. The revolutionary upheavals after 1848, as well as the experiments with cooperatives and new forms of labour organization, especially the republican Parisian national workshops, seemed to prove him right. At the same time, developments at the beginning of the 1850s forced a reformulation of contemporary capitalist models. In his *Eighteenth Brumaire of Louis Bonaparte*, Marx explained Napoleon III's eventual success as the consequence of a balance of class forces, a lack of class consciousness, the ability of the executive to make itself independent and the plebiscitarian expropriation of freedom through a particular personality whose popularity was based not least on a successful harnessing of historical narratives.[11]

In the third edition of Mill's 1852 *Principles of Political Economy*, he incorporated these contemporary experiences into his understanding of "cooperative partnership," a conception of collective ownership of land, and in his pointed critique of the "division of the human race into two hereditary classes, employers and employed." In addition, Mill also noted the parallels between the experiences of British industrial workers in a capitalistically organized economy and the "patriarchal despotism" under which women and home workers were forced to live.[12] Despite this, Mill still believed in the ideal of a limited, self-restraining government that would focus on traditional liberal economic functions such as currency stability and the dismantling of tax privileges and monopolies. The notion of a socially conscious interventionist and welfare state remained foreign to Mill.[13]

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[10] John Stuart Mill, *The Collected Works of John Stuart Mill*, Vol. III: *The Principles of Political Economy with Some of Their Applications to Social Philosophy*, ed. by John M. Robson (New York: Routledge, 1965), 760–3.

[11] Karl Marx: *Der achtzehnte Brumaire des Louis Napoleon*, second edition (Hamburg: Otto-Meissner, 1869).

[12] Mill, *Collected Works*, 790–6.

At the other end of the liberal spectrum, Lord Acton criticized capitalism's lack of ethical orientation at the end of the nineteenth century. With his particular orientation towards Catholicism that nonetheless rejected the power of the Catholic Curia—"too Catholic for liberals, too liberal for Catholics," he belonged to the personal network around Ignaz Döllinger, William Gladstone, and John Morley.[14] Although Acton had long espoused the principle of laissez-faire, which demanded that the state restrain itself from meddling in the economy and society at large, by the end of the century, he began to recognize that modern societies could be in danger of atomizing themselves in response to the manifold conflicts of interest. In contrast to Mill's ideal of free individuals, Acton focused on the Middle Ages and the ideal of an organic community in response to the social tensions and deficits of integration of his own era. He thus became a follower of neo-corporative ideas, in which he recognized a possible solution to the social erosion evident in contemporary societies.[15] It was attractive to Acton not only because it encompassed a social dimension, but also made manifest his pronounced aversion to the modern central state. Like Alexis de Tocqueville, Acton saw in the French Second Empire under Napoleon III as a threat to individual freedom hidden under the guise of social equality. He contrasted his pronounced scepticism about the practices of political and social decision-making processes—"power tends to corrupt, and absolute power corrupts absolutely"—with a normative framework of Christian values. His aristocratic liberalism was thus undoubtedly anachronistic.[16] It thus only had a limited influence on the conceptualization of the modern welfare state and, above all, on the development of New Liberalism at the end of the century.

Ultimately, what do these examples show? In contrast to many classical representations within the political history of ideas, there were no simple universals in "liberal" positions on and discourses about the relationship between "homo oeconomicus" and "homo socialis." Rather, the examples outlined here underline how the upheavals experienced since the eighteenth century also led to a wide-ranging pluralism within theoretical conceptualizations. Crisis dynamics and changes in response to new experiences did not lead to a static "liberalism," but to very differently accentuated "liberalisms."[17] The novel "system of needs" identified early on by Hegel corresponded to an expanding market of interpretations and explanatory patterns since the eighteenth century.[18] The emergence of the "political economy" as a novel scholarly movement and the continued interrogation of the relationship between economy, society, and ethical norms must be understood within this context.

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[13] Harris, *Mill*, 21.

[14] Gertrude Himmelfarb, *Lord Acton: A Study in Conscience and Politics* (London: Hollis and Carter, 1952); Owen Chadwick, *Acton and Gladstone* (London: Athlone Press, 1976); Joseph L. Altholz, *The Liberal Catholic Movement in England: The "Rambler" and its Contributors, 1848–1864* (London: Burns and Oates, 1962).

[15] E. D. Watt, "Ethics and Politics: The Example of Lord Acton," *University of Toronto Quarterly* 33, no. 3 (1964), 279–90.

[16] John Acton, *Essays on Freedom and Power*, edited by Gertrude Himmelfarb (Boston: Beacon Press,1948), 364. Alan S. Kahan, *Aristocratic Liberalism: The Social and Political Thought of Jacob Burckhardt, John Stuart Mill and Alexis de Tocqueville* (Oxford: Oxford University Press, 1992).

Smith's response to this question amounted to understanding self-interest and the common good in emerging market societies not as opposites, but as complementary. For Smith, this synthesis was the result of man's anthropological disposition—stemming from his inherent neediness and ability to empathize (a notion he developed it his "theory of moral sentiments")—and the result of a particular feedback loop. The allegory of the "invisible hand" translated this effect into a suggestive image. The common good was thus not created by economic actors guided by traditional ethical norms, but rather by a complex web of interactions and communications between individual actors who followed their own self-interest, that, in the aggregate, benefited the common good. This concept however ignored the problem of justice in competitive societies, while also setting very high expectations for the socialization of individual actors. With his attempt to reformulate the premises of the "political economy" as an ethical framework for the social order, John Stuart Mill was no longer reacting to the experiences of emerging market societies, but to the social costs and issues engendered by a rapidly developing industrial society. He formulated his new conception as a pronounced ideological critique of the paternalistic character of Victorian philanthropy, of the socio-cultural segregation of English society which it helped to deepen, and of a pronounced "culture of deference" that, in his view, continued the disenfranchisement of the lower classes.[19] In contrast to this misunderstood moralization of social aid, the Whiggish principle of "trust," and the trusteeship of aristocratic elites for the segments of society not represented in parliament, Mill envisioned an egalitarian representation of interests and a principle of meritocratic cooperation.[20]

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[17] Jörn Leonhard, *Liberalismus. Zur historischen Semantik eines europäischen Deutungsmusters* (Munich: Oldenbourg Verlag, 2001).

[18] Georg W. F. Hegel, *Grundlinien der Philosophie des Rechts* (Berlin: Nicolai, 1821), § 189.

[19] David C. Moore, *The Politics of Deference: A Study of the mid-nineteenth Century English Political System* (Hassocks: Harvester Press, 1976); Jörn Leonhard, "Historik der Ungleichzeitigkeit: Zur Temporalisierung politischer Erfahrung im Europa des 19. Jahrhunderts," *Journal of Modern European History* 7, no. 2 (2009), 145–68.

[20] Andreas Wirsching, "Popularität als Raison d'être: Identitätskrise und Parteiideologie der Whigs in England im frühen 19. Jahrhundert," *Francia* 17/3 (1990), 1–14; Jörn Leonhard, "'True English Guelphs and Gibelines': Zum historischen Bedeutungs- und Funktionswandel von whig und tory im englischen Politikdiskurs seit dem 17. Jahrhundert," *Archiv für Kulturgeschichte* 84, no.1 (2002), 175–213.

Notable in the positions outlined here is the relative absence of the state. For Smith, Mill and also Acton, the state remained confined to a small number of functions: securing a stable framework for infrastructure, for currencies, and for the political system. But the state was not understood as an ethically legitimized interventionist institution. Instead, Mill and Acton, working from an anti-étatist perspective, harshly criticized the expansion of state functions, which put them in line with the thinking of their contemporary, Alexis de Tocqueville. All three authors combined the leitmotif of the threat to freedom. What connected the thinking of all three authors was their concern about freedom and any threats to it. An ethical dimension of state action, as formulated, for example, by Hegel in view of the Prussian reform state at the beginning of the nineteenth century, was sought here in vain. In nineteenth-century Britain, confidence in the self-regulation of market relations and the evolutionary development of parliamentary representation continued to dominate. Here, significant differences with continental Europe become apparent, which explain both the German perspective on the so-called Adam Smith problem—the contrast between morality and economics—and the relatively late turn in Great Britain and the United States to an interventionist welfare state under the guise of "New Liberalism" and the "Progressive Movement."[21]

In Germany, the relationship between liberalism and capitalism was markedly different. Here, the equation of both isms emerged in the early nineteenth century precisely within the critique of liberalism—significantly earlier among conservative authors than among left-wing Hegelians around Ruge and Bauer. As early as 1819, Adam Müller associated liberals not only with a revolutionary disregard for organically developing institutions, but also with a reduction to purely economic goals in the sense of the political economy adopted from England. The influx of "liberal ideas" and money would simply be adding "new and worse chains" to the old. For Müller, the "supposedly liberal factory system that threatens to devour the natural order of things in Europe" was the real "universal ruin" of the present.[22] Having transformed himself from a German Jacobin to a Catholic publicist at the beginning of the 1820s, Joseph Görres saw "screaming liberalism" as a scourge rooted in "money arrogance," "capitalists" and the "intellectual arrogance of scholars."[23]

But this accusation hardly affected the practice of early German liberalism, which was something completely different from the class shaping ideology of "bourgeois capitalism" (bürgerlicher Kapitalismus), both in terms of the role of the state and the desired structure of economy and society. The liberal credo in Germany was characterized by reforms within a progressive-enlightened state, a constitutional monarchy and parliament, as well as by the defence against uncontrolled street violence.

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[21] Jörn Leonhard, "Progressive Politics and the Dilemma of Reform: German and American Liberalism in Comparison, 1880–1920," Maurizio Vaudagna, ed., *The Place of Europe in American History: Twentieth Century Perspectives* (Turin: Otto, 2007), 115–32.

[22] Adam Müller, "Von der Notwendigkeit einer theologischen Grundlage der gesamten Staatswissenschaften und der Staatswirtschaft insbesondere (1819)," in Rudolf Kohler, ed., *Schriften zur Staatsphilosophie* (Munich: Theatiner-Verlag, 1923), 205, 234.

[23] Joseph Görres, "Aphorismen (1822/23)," in Joseph Görres, *Gesammelte Schriften*. 1.

In contrast to these pre-1848 political positions, from which the democratic movement increasingly departed, the social model of German liberals remained largely traditional in the first half of the nineteenth century: Based on the ideal of a moral economy centred on a traditional householder, it remained —at least outside of the early industrialized regions of the Rhineland and Upper Silesia—alien to the considerations of an English "political economy." In contrast to a modern market society marked by a differentiation between production and trade, by the formation of supra-regional and transnational markets under the label of supply and demand, the perspectives of most German liberals before the 1840s and 1850s remained primarily focused on the local and pre-industrial. This corresponded to a society in which, despite initial transformations—including exponential population growth and the receding of the institutions of corporate society —much still pointed to a retrenchment, especially in the German Southwest with its still powerful aristocrats and numerous feudal relics.

The dynamism engendered by a high birth rate, especially in the Southwest, was not yet matched by widespread industrial development, which only began to absorb the surplus population in the 1850s. The result was mass impoverishment and emigration. "Pauperism" was the social question of the Vormärz period—symptom of a transitional society in crisis, for which constitutional liberalism, with its focus on constitutional order, parliament, and the borders of a future German nation-state, could initially not provide any answers. The social agenda of liberals only gradually began to change in response to the conflict-ridden 1840s, whose upheavals found their exemplary expression in the Silesian weavers' uprising. Up to that point, the liberal model of society had been determined by an emphasis on social harmony and a reconciliation of interests through reason and education. Nonetheless, the traditional model of a "classless civil society of middle incomes"—not a class society with sharp and unreconcilable differences—remained, in the long run, an important reference point. As part of this vision, property, and education as well as a certain maturity and independence—understood as particular bourgeois virtues—were the decisive prerequisites for political participation.[24]

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[24] Lothar Gall, "Liberalismus und "bürgerliche Gesellschaft," *Historische Zeitschrift* 220 (1975), 324–56; Rainer Koch, "Industriesystem" or "bürgerliche Gesellschaft," in *Geschichte in Wissenschaft und Unterricht* 39 (1978), 605–28; Wolfgang J. Mommsen, "Der deutsche Liberalismus zwischen 'klassenloser Bürgergesellschaft' und 'organisiertem Kapitalismus'," in *Geschichte und Gesellschaft* 4 (1978), 77–90; Thomas Zunhammer, "Begriff und Ideal des Mittelstandes im Staatslexikon von Karl v. Rotteck und Karl Theodor Welcker," in *Aufklärung, Vormärz, Revolution* 16/17 (1999), 79–98.

At the end of the nineteenth century, a characteristic programmatic convergence took place in Great Britain and Germany. Both English New Liberalism and the ideological reorientation of a segment of German liberals toward social liberalism must be understood as responses to the particular deficits emerging within modern industrial capitalism. Contemporary discussions in both England and Germany dealt with quite similar questions, ranging from an eventual rapprochement to the labour movement, political and social democratization and the function of the state, to the connection between reform policies and imperial integration. This ideological reorientation also had a transnational dimension. Thus, in the United States, "progressivism"—reacting to the "Gilded Age" and the consequences of largely unregulated market developments—also engaged with approaches developed in Germany.

Confronted at the turn of the century with the consequences of industrialization and a workers' movement that had emerged very early in Germany, Friedrich Naumann—as the most prominent representative of the social liberalism propagated by the National-Social League—began to search for a new version of liberalism that encompassed the critique of liberalism's far-reaching exclusion of the emerging forces of social democracy. National economists and social reformers like Lujo Brentano und Gerhart von Schulze-Gaevernitz, who sought to build bridges to the union movement and cooperative models, also belonged to these streams of thought.

Naumann criticized the fact that the liberals had not taken note of the consequences associated with the development of industrial society and had thereby fallen into crisis. According to Naumann, recourse to the merely political-constitutional goals of "bourgeois liberalism" was no longer sufficient for a contemporary definition of progressiveness. Liberalism "lacks a unified understanding of the direction of economic movement." In contemporary society, "bourgeois liberalism" no longer marched in line "with the idea of technical progress," but still stuck to the notion of "an old petty-bourgeois democracy and continues to chew the bread crust, as it has always done in the past." As such, "liberalism as a whole has lost on all sides: the big industrialists, the workers, the farmer."[25] Naumann turned above all against the outdated feudal thinking which he saw as the foundation of a version of liberalism primarily shaped by the educated classes, which consequently had no innovative potential as it ignored the significance of the rising labour movement: Liberals were "liberal in their own circles"—but for many of them, liberalism was only "a coat of paint and a phrase [eine Tünche und eine Phrase]." They had "no sense of the labour movement and had no chance of winning it over, since it had no larger economic programme."[26] Under these circumstances, the "new development of liberalism." was only possible, especially within a context of universal suffrage, "if its leading party politics align solidly with contemporary social democracy." The opening of liberalism to the left—the "core question of the formation of a new German liberalism"—was linked to the question of how "social democracy can become a national, practical-political party."[27] In Germany, these attempts did not find much political resonance before the First World War, but began to form an important programmatic foundation for left-liberals from 1917/18 onwards, in contrast to Great Britain, where New Liberalism was able to set new priorities in public life. At the same time, this search for a compromise between bourgeois liberalism and moderate socialism under the auspices of social liberalism linked a desire for internal policy reforms and social integration with an aggressive claim to world power—as can be seen with Naumann in Germany or the New Imperialists in Great Britain.[28]

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[25] Friedrich Naumann, "Der Niedergang des Liberalismus. Vortrag auf der 6. Vertretertagung des Nationalsozialen Vereins zu Frankfurt am Main 1901," in Friedrich Naumann, *Politische Schriften*, 258–260.

[26] Ibid., 260.

Organized Capitalism and Nationalization, Experts, and Inherent Logics: The First World War

Even before 1914, liberals were confronted with shifting conditions as new forms of public deliberation and political communication took hold. This led to the emergence of mass political markets with professionally organized parties and interest groups. The traditional ideal of many liberals, especially in Germany, of an individual living for politics, which did not need a party with functionaries, came under increasing pressure. Because the liberal parties never achieved the relative coherence of milieu-based parties such as the Social-Democratic Party or the Catholic Centre Party, they reacted with particular sensitivity to electoral discussions prior to 1914. After 1918, a fundamental problem of liberalism, namely the tension between equality and individual freedom—which the French historian Alexis de Tocqueville had already recognized in the 1850s as the defining feature of a democratic age of the masses—returned to the forefront. According to Tocqueville, the freedom of the individual was threatened by the modern instruments of democracy, as the Bonapartist coupling of plebiscite and populism seemed to prove. The fact that these ideas were used from the 1920s onwards to explain the rise of ideological extremes through a specific adaptation of Bonapartism pointed to a fundamental issue within liberalism.

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[27] Ibid., 262.

[28] Anselm Doering-Manteuffel, "'Soziale Demokratie' als transnationales Ordnungsmodell im 20. Jahrhundert," in *Dimensionen internationaler Geschichte*, edited by Jost Dülffer and Wilfred Loth (Munich: Oldenbourg Verlag, 2012), 313–33; Leonhard, "Progressive Politics," 115–32.

Many of these developments were accelerated and exacerbated by the First World War, while others were called into question or became subject to re-evaluation. At least three vectors were important for the relationship between liberalism, capitalism, and democracy, shaping liberal thought patterns and opportunities for action far beyond 1918. First, the war was accompanied by a new kind of state expansion—into hitherto still relatively autonomous areas of life and action—which created new forms of cooperation between the state, the economy and society. After the summer of 1914, as parliamentary processes were suspended under the banner of Burgfrieden, Union sacrée or truce, the executive branches were strengthened, increasing the importance of charismatic war politicians such as Georges Clemenceau and David Lloyd George or military politicians such as Paul von Hindenburg and Erich Ludendorff. These processes of state expansion had at least two important long-term consequences: One, they promoted particular processes of homogenization and levelling in these societies at war, empowered by new concepts circulating at the time, such as that of a "national community" (Volksgemeinschaft). This homogenization was different from the liberal paradigm of evolutionary reforms based on reasoned progress. It did not result from the persuasiveness of particular ideas or the implementation of natural rights, but from the millions of victims, the democratic equality of the dead, the widows and orphans, and the imaginary plebiscite of the trenches and armament factories. Two, this new complex of state and community at war gave birth to a new ideal of planning, expertise, and inherent logic. The "expert," endowed with subject-specific knowledge, supplanted the classical war hero. Trust in predictable optimizations, in the controllability of political life, the economy, demography and the international order would become a decisive legacy of the war.

Second, the permanent pressure to mobilize put these societies at war under enormous stress. The defence of one's nation and one's country became an imperative cited by all actors involved and justified the almost immediate suppression of individual rights. Thus, a variety of coercive regimes emerged, initially reflected in military recruitment practices, the occupation regimes and the treatment of ostensible "enemy aliens," and—as time went on—in the regimes of suspicion that emerged against alleged speculators and profiteers, deserters and traitors. In view of the ethnicization of politics, liberals in particular experienced the consequences of inclusion and exclusion in the name of belonging and loyalty, war-state control, surveillance, and coercion. The war revealed how quickly plural conceptions of society could come under threat in the face of a permanent mobilization of people, production and capital, and how fragile the privacy of the individual could become. Especially after 1916/1917, these new frontlines forced liberal thinkers into a defensive position. This was evident in the opposing ideas put forth by a growing socio-cultural anti-liberalism, made visible in the focus on integrative ideas of community, organized capitalism or the notion of war socialism in Germany. Against the backdrop of an expansive state at war never seen before in British history, the practices of "compulsion" and "conscription" documented a hard borderline toward liberalism, and helped explain the alienation of many liberals from Prime Minister David Lloyd George, who himself had been a representative of pacifist left-wing liberalism before 1914.

Third, the war brought about major shifts in social mobility, both up and down. While many of these new-found experts were recruited from the liberal bourgeoisie, the bourgeoisie as such declined in relative importance to the working class. This perceived loss of meaning and status promoted a critical examination by many liberals of the phenomena of mass society and mass culture, which went far beyond a consideration of the consequences of universal suffrage introduced in most European countries by the end of the war. Instead, fears about the rising of the masses became the topos of liberal critique—for example in Friedrich Naumann's preoccupation with "mass life" (Massenleben) or in the famous unease sketched out by José Ortega y Gasset in 1930: "Towns are full of people, houses full of tenants, hotels full of guests, trains full of travellers, cafés full of customers, parks full of promenaders, consulting rooms of famous doctors full of patients; theatres full of spectators and beaches full of bathers. What previously was, in general, no problem, now begins to be an everyday one, namely, to find a room."[29]

Social Liberalism, Consensus Capitalism, Neoliberalism: Reformulations of the Liberal Paradigm in the Twentieth Century

In the face of the social realities extant after 1920, turn-of-the century liberalism—especially the social liberalism exemplified by progressivism—lost in importance, although the relationship between liberal thinking and the middle class and academic elites remained intact. In the 1920s and 1930s, it is therefore possible to witness not only the "resuscitation attempts" of bourgeois democracy, but also the rise of social engineering experts socialized in academically bourgeois circles. They worked to reorganize society, reform capitalism, and manage social and technical progress. The inheritance of these social engineers included the experiences of war, from the reliance on planning and the cult of expert knowledge to the breakthrough of mass democracy in the shadow of the victims of war, as well as anti-Bolshevism and a frequently critical examination of parliamentarism. Their worldview could be inflected with liberalism, but for the most part it was socially liberal and integrated into the order of the existing democracy. After 1930 however, this stream of thought became increasingly anti-liberal in many Central European countries, whether in a communist or a fascist form.[30]

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[29] Jose Ortega y Gasset, *The Revolt of the Masses* (NY: W.W. Norton, 1932), 11.

In short, with a specific focus on the 1930s, it can be said that the struggle during these crisis years—marked by the world economic crisis and mass unemployment—was aimed at redefining the relationship between the individual and society in a new and permanent way. Where should the individual find their place within society: in the public sphere, in economic life, in the sphere of political participation? The American New Deal, Italian fascism, and German National Socialism—and after the end of Second World War, the British welfare state—each provided distantly related and yet different, humane or inhumane, solutions. But the initial questions that drove their actions and programmes were clearly similar, arising as they did from similar basic material conditions at a time of deep crisis within the capitalist economy.[31]

In the two decades after the First World War, the link between liberalism and the middle class and between liberalism and the bourgeoisie, which had originated in the nineteenth century, disappeared. In addition, the hitherto axiomatic connection between liberalism and individualism was overshadowed by a social reality dominated by mass society. How would it be possible to bring liberalism to bear within this social formation? The victory of the ideologically unequal alliance made up of Anglo-Atlantic democracies and Stalinism in the Second World War paved the way in the West for removing, after 1945, the foundation for not only the communal ideologies inherent to Italian fascism and German National Socialism, which had been directed against all individualism, but also the anti-liberal utopias of the interwar period.

Between 1950 and 1970, liberalism unfolded as a project for society as a whole—both economically and politically as well as socio-culturally. This was true for the United States, and Western and Northern Europe as well as for Central Europe; against this backdrop, reinforced by the constellations of the Cold War, a normative idea of the liberal West became entrenched. In Germany, liberalism was revived after 1945 from the core foundations of the national tradition suppressed during the Third Reich. The development of both political liberalism and the return to the free economy in the form of the social market economy had their roots in the historical developments of the 1920s and early 1930s. Ordoliberalism emerged in West Germany as a socio-ethical programme underpinning the social market economy after the 1948 currency reform. In view of the aura that surrounds the social market economy as the driving force of the "economic miracle," it is also often overlooked in the historiography that the ordoliberalism that sprang forth from the Freiburg school of national economics[32] was not a purely specific German phenomenon. It must rather be understood as the German variant of a transnationally effective Atlantic "consensus liberalism," which emerged in the 1930s in the era of the New Deal in the USA, before eventually coming to Europe with the Marshall Plan.[33]

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[30] Thomas Etzemüller, ed., *Die Ordnung der Moderne. Social Engineering im 20. Jahrhundert* (Bielefeld: Transcript, 2009).

[31] Wolfgang Schivelbusch, *Entfernte Verwandtschaft. Faschismus, Nationalsozialismus, New Deal 1933–1939* (Munich: Carl Hanser, 2005); Howard Brick, *Transcending Capitalism. Visions of a New Society in Modern American Thought* (Ithaca: Cornell University Press, 2006); José Harris, "Einige Aspekte der britischen Sozialpolitik während des Zweiten Weltkriegs," in *Die Entstehung des Wohlfahrtsstaates in Großbritannien 1850–1950*, edited by Wolfgang J. Mommsen and Wolfgang Mock (Stuttgart: Klett-Cotta, 1982), 255–70.

Based on the characteristics of this "consensus capitalism," as it was known in transatlantic intellectual circles,[34] its origin in the New Deal becomes obvious: Since 1939/1942, this consensus was heavily influenced by the expertise of German emigrants to the United States, who designed a model of social order oriented that coupled the capitalist economy with the interests of democratic mass society with as little friction as possible, recognizing therein the role of progressive state action. By engaging in this liberal and capitalist consensus, it became possible for community thinking and mass democracy to interconnect, thus continuing to relegate individualism, the category of the liberal individual, to a secondary position. In conjunction with Keynesianism as an economic theory, which, as developed by the British economist John Maynard Keynes, assigned the task of economic control first to the state and not the entrepreneurial individual, and only granted individual free will to economic enterprises within this nation-state framework, consensus liberalism represented a project on the ideological "left."

Liberal and conservative critics considered such regulations within government bureaucracy and in the framework governing economic life to be "socialist." Confronted by the challenges sparked by totalitarian dictatorships across the world, everything remotely reminiscent of "socialism" was immediately seen as a threat to freedom in these circles. One of the pioneers of this line of thought, and an early opponent of Keynes, was Friedrich August von Hayek, an Austrian who refused to return to the country after the National Socialist "Anschluss," who subsequently became an influential economic theorist in Great Britain and the United States. In 1948, Hayek was one of the founders of the Mont Pèlerin Society, which later became one of the most influential think tanks in the struggle against the ideology behind consensus liberalism and its associated economic theory, Keynesianism. Here, a radical criticism of the "consensus" was developed, through an analysis of the state's influence on economic life and the strictures of "socialist" regulations, which curtailed the freedom of market-ready individuals.[35] The turnaround began in the early 1980s and accelerated after 1990/1991, as the postwar boom began to run out of energy, and the central ideas surrounding consensus liberalism and Keynesianism ceased to determine the path of future development, sparking to new kind of liberalism

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[32] Nils Goldschmidt, ed., *Wirtschaft, Politik und Freiheit. Freiburger Wirtschaftswissenschaftler und der Widerstand* (Tübingen: Mohr Siebeck, 2005); Reinhard Blum, *Soziale Marktwirtschaft. Wirtschaftspolitik zwischen Neoliberalismus und Ordoliberalismus* (Tübingen: Mohr Siebeck, 1969); Andreas Heinemann, *Die Freiburger Schule und ihre geistigen Wurzeln* (Munich: VVF, 1989); Stefan Kolev, *Neoliberale Staatsverständnisse im Vergleich* (Stuttgart: Lucius & Lucius, 2013).

[33] Charles S. Maier and Günter Bischof, eds., *The Marshall Plan and Germany. West German Development within the Framework of the European Recovery Program* (Oxford: University Press, 1991); Eric Hobsbawm, *Age of Extremes. The Short Twentieth Century* (London: Abacus, 1995), 268–286.

[34] Julia Angster, *Konsenskapitalismus und Sozialdemokratie. Die Westernisierung von SPD und DGB* (Munich: Oldenbourg Verlag, 2003).

The rhythms and conjunctures outlined here, from the eighteenth century to the 1990s stand in contradiction to the notion of a direct correspondence or even equation of capitalism and liberalism. Rather, this long-durée perspective reveals the many tensions and variable confrontations between the two at key moments. This history can neither be understood as a confirmation of the historiographical formula of the "rise" and "fall" of capitalism or liberalism, nor as the end of history wherein liberalism and market capitalism stand victorious after the end of the Cold War. Instead, this history reveals a pronounced flexibility, as well as a perpetual state of reinvention, through criticism and crisis of both—precisely what Tony Judt underlined with his concept of "adaptability."

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Translated from the German by Julia Sittmann

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[35] Bruce Caldwell, *Hayek's Challenge. An Intellectual Biography of F. A. Hayek* (Chicago: The University of Chicago Press, 2004); Philip Mirowski and Dieter Plehwe, eds., *The Road from Mont Pèlerin. The Making of the Neoliberal Thought Collective* (Cambridge, MA: Harvard University Press, 2009).