

How Different Were Röpke and Mises?

Ivan Pongracic

In *The Wilhelm Röpke Review*, founder and editor Ralph E. Ancil seeks to draw a sharp distinction between the views of Wilhelm Röpke and Ludwig von Mises.¹ Ancil complains that Röpke has been “co-opted into the more or less libertarian thinkers whose position is further enhanced by whatever weight or prestige his name may give.” Somehow, Ancil says, libertarians and Austrians presume that Röpke and Mises “are in agreement on all important issues.” But, insists Ancil, “nothing could be more incorrect.”

Since “nothing” is a strong word, the claim needs to be considered carefully.² A good place to begin is with these very Misesian statements by Röpke:

The conviction that true creative power can prosper only in liberty and not in the graveyard silence of prescribed opinions, that without intellectual individuality society and the state must eventually wither, that man has a right to protection against arbitrary power and the abuse of power, that the crushing of every divergence of opinion and of any individual cast of mind must eventually lead to a boredom in which the nation’s intellectual life is stifled, which lacks the happiness of laughter, every sign of humor, and the spice of life, and in which nothing flourishes but the brutish earnestness of the fanatic—that conviction, and nothing else, constitutes the liberal’s much-maligned and much-misunderstood *individualism*. Most illiberals take it for an expression of smug materialism.³

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¹Ralph E. Ancil, “Röpke and Von Mises: The Difference,” *The Wilhelm Röpke Review* (Winter/Spring 1994): 5–6.

²Ancil is not alone among American conservatives in drawing sharp distinction between Röpke and the other Austrians, especially Mises. One example among many: “Unlike many of the ‘Austrian’ and ‘monetarist’ economists,” writes Gregory Wolfe, “whose ideas about human nature and government are shallow, and influenced primarily by abstract individualism, Röpke was a man of broad culture.” *Right Minds: A Sourcebook of American Conservative Thought* (Chicago: Regnery Books, 1987), p. 174.

³Wilhelm Röpke, “End of an Era?” (1933), in idem, *Against the Tide* (Chicago: Henry Regnery, 1969), p. 8, emphasis in original.

[O]ur often so reckless anti-capitalists would do well to get thoroughly acquainted with the voluminous literature on economics, which demonstrates that in practice socialism must founder on the impossibility of economic calculation in a socialist community.⁴

[T]he welfare state's compulsory aid paralyzes people's willingness to take care of their own needs and its financial burden considerably weakens people's ability to do so, while on the other hand, this limitation of self-provision makes people more and more dependent upon compulsory public aid and increases their claim on it.⁵

In spite of its alluring name, the welfare state stands or falls by compulsion. It is compulsion imposed upon us with the state's power to punish noncompliance. Once this is clear, it is equally clear that the welfare state is an evil the same as each and every restriction of freedom.⁶

[E]conomics as a science has its origin in rational criticism of the naively unscientific government practices of mercantilism.⁷

Political anarchy leads invariably to chaos. But anarchy in economics, strangely, produces an opposite result: an orderly cosmos. Our economic system may be anarchic but is not chaotic. He who does not find this a wondrous phenomenon and thereby deserving of the most patient study cannot be expected to take much of an interest in economics.⁸

[T]he "capitalistic" economic process can be compared to a continuing plebiscite in which each piece of currency represents a ballot and in which the consumers, via their demand, are constantly voting to decide what types and amounts of goods shall be produced.⁹

Mises's social philosophy is immediately recognizable. Should Mr. Ancil really be so anxious to disprove the fact that Mises and Röpke are "in agreement on all important matters?" Röpke himself never expressed any disagreement with Mises, and cited Mises frequently on a range of issues from monetary theory to method. Röpke spent his life defending the same cause as Mises—a free society—and using the tools provided by the Austrian tradition to bolster his case.

⁴Röpke, "The Intellectuals and Capitalism" (1931), in idem, *Against the Tide*, p. 28.

⁵Röpke, "Robbing Peter to Pay Paul: On the Nature of the Welfare State" (1958), in idem, *Against the Tide*, p. 210.

⁶Ibid., p. 212.

⁷Röpke, "End of an Era?" p. 91.

⁸Wilhelm Röpke, *Economics of the Free Society* (Chicago: Henry Regnery, 1963), p. 4.

⁹Ibid., p. 197.

Nevertheless, from the beginning, *The Röpke Review* has been more interested in refuting “laissez-faire” ideology and its “latent nihilism” than in celebrating the common cause of Röpke and the broader Austrian tradition. While preparing the ground for an anti-Misesian onslaught, Mr. Ancil wanted to convince his readers that Röpke and Mises represent two totally different social philosophies. Mises, according to Mr. Ancil, believed in “no enduring values, no permanent things, no absolute truths.”

On the one side there is a defender of “a free and truly humane society,” who, according to Mr. Ancil, believed that “there is more to life and the economy than technical economics comprehends.” On the other side a dogmatic pragmatist, who, although a “staunch defender of freedom and free markets,” was too “technical” and “rather short-sighted,” about “legitimate government action.”

As such, Röpke and Mises differed in three vital areas: first, they had different solutions to the (“false”) dilemma of “either socialism or capitalism.” Second, they disagreed about the nature of market intervention. Third, they “differ[ed] in their judgments on the sufficiency and character of the competitive system.” After analyzing all three, Mr. Ancil concludes that Röpke, although agreeing with Mises “on technical economics,” understood better “the broader field of political economy and the important questions of how man should live.”

Now, Mr. Ancil is free to believe whatever he wants, and make it public in his journal, but what should worry both Röpkeans and Misesians together is Wilhelm Röpke’s reputation among those readers that are not so cognizant of his writings. If we let Röpke speak for himself on these precise points, a different picture emerges.

Wilhelm Röpke was an economist who had a historic opportunity, in 1948, to put Austrian economics to the test and to prove its practical viability. He did it by influencing, from his voluntary exile in Switzerland, his student Ludwig Erhard, the German economics minister.

The result was, of course, an economic miracle. (Röpke himself was constantly emphasizing in his writings that there was nothing miraculous in this. It was simply the application of sound economic principles: “Its success was on the contrary precisely what its architects had expected.”¹⁰) Röpke did express one regret about the reform: it did not go far enough. The post-war reform was imperfect: “residues of collectivism, such as rent control, were scattered about the market economy like unexploded mines, and they proved to be exceedingly difficult to dispose of through normal democratic procedures.”¹¹

¹⁰*Ibid.*, p. 247.

¹¹Wilhelm Röpke, *A Humane Economy* (South Bend, Ind.: Gateway Editions, 1960), p. 28.

Later, Röpke realized that Germany was turning away from the principles of the free society, and he tried to stop the socialization of the German economy by describing repeatedly what a free-market economy is all about. Röpke insists that “instead of trying to acquire the facile reputation of a ‘social-minded’ man by vague demands for a ‘just wage,’ by railing against ‘interest slavery’ and ‘profiteering,’ by emotional outpourings over ‘gluttonous landlords,’ and real estate ‘speculators,’ and instead of shoving aside as ‘liberalistic’ the objections of those who understand something of these matters, one would serve his country better by applying himself to an unprejudiced study of the complex interrelationships of the economy.”¹²

He wanted every German to understand that “our economic system stands or fails with competition, since only competition can tame the torrent of private interests and transform them into a force of good. It is competition which sees to it that the high road to profit is entered only by the rendering of an equivalent service (business principle). To restrict competition, then, is to jeopardize the principle of economic reciprocity.”¹³

Unfortunately for the Germans, they soon responded to the siren song of a “third way.” Their destiny was sealed when Socialist Willy Brandt became the Chancellor; with him, the free-market experiment was finished. Röpke foresaw all this and, like Mises, tried to prevent it. “The history of German economic policy since 1948,” Röpke wrote, “has proved that economic freedom is like any other freedom: it must, as Goethe says, be conquered anew each day.”¹⁴

“It cannot be too strongly emphasized that as far as the task of ordering economic life is concerned, we have only this exclusive choice between market economy and command economy,” he warned. Then, in a passage which Mr. Ancil apparently overlooked, he made it clear that “[w]e cannot take refuge in some third alternative, in cooperatives, trade unions, . . . or any other form of ‘ersatz’ socialism. We must choose between price or state command, between the market and the authorities, between economic freedom or bureaucracy. . . . He who chooses the market economy must, however, also choose: free formation of prices, competition, risk of loss and chance for gain, individual responsibility, free enterprise, private property.”¹⁵

Because Germans and other West Europeans refused to listen, “ersatz” socialism is now keeping most Western European countries in deep recession. The European “third road” turned out to be neither “more realistic” nor “more

¹²Röpke, *Economics of the Free Society*, p. 186.

¹³*Ibid.*, p. 236.

¹⁴Röpke, *A Humane Economy*, p. 27.

¹⁵Röpke, *Economics of the Free Society*, p. 254.

humane,” as Mr. Ancil would have us believe. Yet, Germany is currently undergoing its greatest economic difficulties since World War II, a result not of integration with East Germany as such, but of welfarism, unsustainable social insurance, inflexible regulations, an investment environment unfriendly to entrepreneurship, an overgrown bureaucracy, and a dependent middle class—all the sins of the “third way.” Germany’s welfare state (and Sweden’s and Finland’s and all others, for that matter) may eventually come to an end with a bang not smaller than the one produced by the end of Communism.

Ancil, who repeatedly states in his writing that market is not everything (as if Mises ever stated that it was), forgets that both Mises and Röpke understood that the market is the only efficient way of coordinating the actions of producers and consumers. “The market economy has the ability to use the motive power of individual self-interest for turning the turbines of production,” writes Röpke, adding that “if the collectivist economy is to function, it needs heroes or saints, and since there are none, it leads straight to the police state.” “Nothing could more strikingly demonstrate the positive value of self-interested action than that its denial destroys civilization and enslaves men.”¹⁶

Röpke nails down his message from the “Preface” to *A Humane Economy* (that the book was going to anger, among others, “pure moralists and romantics, who may perhaps cite me as proof of how a pure soul can be corrupted by political economy”¹⁷), with this conclusion: “Any attempt to base an economic order on a morality considerably higher than the common man’s must end up in compulsion and the organized intoxication of the masses through propaganda.”¹⁸

For those who refused to understand this fact, Röpke had little patience: “What overweening arrogance there is in the disparagement of things economic, what ignorant neglect of the sum of work, sacrifice, devotion, pioneering spirit, common decency, and conscientiousness upon which depends the bare life of the world’s enormous and ever growing population! The sum of all these humble things supports the whole edifice of our civilization, and without them there could be neither freedom nor justice, the masses would not have a life fit for human beings, and no helping hand would be extended to anyone. . . . Romanticizing and moralistic contempt of the economy, including contempt of the impulses which move the market economy and the institutions that support it, must be as far from our minds as economism, materialism, and utilitarianism.”¹⁹

¹⁶Röpke, *A Humane Economy*, p. 121.

¹⁷Ibid., “Preface to the English Language Edition,” p. v.

¹⁸Ibid., p. 121.

¹⁹Röpke, *A Humane Economy*, p. 106–7. As for the supposed economism of which Mises is sometimes accused, Mises himself says “it was a fundamental mistake . . . to interpret economics

Röpke's "third road" is thus not about saving us from the market economy (in which "anything goes," according to Mr. Ancil), but about solving our political, social, legal, and moral problems without which the free market cannot exist. Despite Ancil's opinion that, for Röpke, the market "cannot serve its own foundation; it is not self-sufficient; it is not a source of community; and it is not a cure for other ills," Röpke himself made the most important clarification of his own position. "In the absence of a market economy these problems are, in fact, insoluble; only such an economy can guarantee us order in freedom, without which all the rest is in vain."²⁰

Röpke explains his "third road" as a road between socialism and a system laden with "super-organization, centralization, Gargantuan concerns, machine giants, mammoth towns, and titanic plans" (hardly a "libertarian" economy).²¹ The "third road" is to save us from "boredom" of a system that tends "to centralize and overorganize the economy and society in a way which neglects the human element."²² It is only "the market economy, with its variety, its stress on individual action and responsibility, and its elementary freedoms, [that] is still the source of powerful forces counteracting [this] boredom of mass society and industrial life, which are common to both capitalism and socialism."²³ The "more we adulterate the market economy with admixtures of intervention, the higher rises the watermark of complusion, the narrower becomes the area of freedom."²⁴

as the characterization of the behavior of an ideal type, the *homo oeconomicus*. According to this doctrine traditional or orthodox economics does not deal with the behavior of man as he really is and acts, but with a fictitious or hypothetical image. It pictures a being driven exclusively by 'economic' motives, i.e., solely by the intention of making the greatest possible material or monetary profit. Such a being, say these critics, does not have and never did have a counterpart in reality; it is a phantom of a spurious armchair philosophy. No man is exclusively motivated by the desire to become as rich as possible; many are not at all influenced by this mean craving. It is vain to refer to such an illusory homunculus in dealing with life and history," Ludwig von Mises, *Human Action* (Chicago: Henry Regnery, 1966), p. 62. While Mises thought classical economics was too often caricatured in this regard, he further clarified matters by insisting economists should not study *homo oeconomicus* but *homo agens*, i.e. acting man.

In contrast to those who would rank Mises among the materialists, Mises himself writes that "[I]n reality no food is valued solely for its nutritive power and no garment or house solely for the protection it affords against cold weather and rain. It cannot be denied that the demand for goods is widely influenced by metaphysical, religious, and ethical considerations, by aesthetic value judgments, by customs, habits, prejudices, tradition, changing fashions, and many other things. To an economist who would try to restrict his investigations to 'material' aspects only, the subject matter of inquiry vanishes as soon as he wants to catch it." *Ibid.*, p. 234.

Röpke held the identical view: "The ordinary man is not such a *homo oeconomicus*, just as he is neither hero nor saint. The motives which drive people toward economic success are as varied as the human soul itself." Röpke, *A Humane Economy*, p. 121.

²⁰Röpke, *Economics of the Free Society*, p. 256.

²¹Röpke, *A Humane Economy*, p. 259.

²²*Ibid.*, p. 255.

²³*Ibid.*, p. 87.

²⁴*Ibid.*, p. 261.

The “third road” is also to save us from the economists who are “fascinated by the mathematical elegance of fashionable macroeconomic models, by the problems of moving aggregates, by the seduction of grandiose projects for balanced growth, by the dynamizing effects of advertising or consumer credit, by the merits of ‘functional’ public finance, or by the glamour of progress surrounding giant concerns.”²⁵ For these people, “the economy takes on the appearance of a giant pumping engine, and it is quite consistent” that economic science “is turning itself into a sort of engineering science. Equations proliferate, while the theory of prices all but falls into oblivion.”²⁶ It is precisely this tendency against which Mises battled during much of his life.

For Röpke, as for Mises, a “[f]ree economy stands or falls with the free entrepreneur and merchant, just as such an economy is inconceivable without free prices and markets. There is no way of defending the free economy against the still powerful forces of collectivism except by having the courage to stand by these central figures of a free economy and protect them from the wave of distrust and resentment to which . . . they are exposed.”²⁷

There can be no doubt that Röpke was a Misesian in more ways than just “technical economics.” In a 1959 tribute, F.A. Hayek credits Röpke for rightly believing that “an economist who is nothing but an economist cannot be a good economist.” But this insight, said Hayek, was pioneered by “a man of the preceding generation,” Ludwig von Mises, “whose decisive work had just appeared when we concluded our studies.” It was Mises’s *Socialism* (1922) that first “demonstrated how economic thought can serve as the basis for a comprehensive social philosophy and can provide answers to the pressing problems of the time.” Mises provided the model that “determined the common development of our generation,” including the writings of Röpke.²⁸

The market economy is the *sine qua non* of a free society, and it was positively endorsed by Röpke: “I champion an economic order ruled by free prices and markets . . . the only economic order compatible with human freedom, with a state and society which safeguard freedom, and with the rule of law. . . . There is a profound ethical reason why an economy governed by free prices, free markets, and free competition implies health and plenty, while the socialist economy means sickness, disorder, and lower productivity. The liberal economic system releases and utilizes the extraordinary forces inherent in individual self-assertion,

²⁵Ibid., p. 99.

²⁶Ibid., p. 247.

²⁷Ibid., p. 30.

²⁸F.A. Hayek, *The Fortunes of Liberalism: Essays on Austrian Economics and the Ideal of Freedom* (Chicago: University of Chicago Press, 1992), p. 196.

whereas the socialist system suppresses them and wears itself out in opposing them. We have . . . every reason to distrust the moralizing attitudes of those who condemn the free economy."²⁹

Röpke knew that, "however much we may have had to criticize it," it is "impossible to overstate the value of the impersonal integration of people through the market in comparison with their conglomeration in a collectivist economy . . . it does have the merit of coordinating rather than subordinating people. The market and power do not go well together."³⁰

The state, on the other hand, is the market's "most immediate and tangible threat . . . I want to repeat this because it cannot be stressed too much. The state and the concentration of its power, exemplified in the predominance of the budget, have become a cancerous growth gnawing at the freedom and order of society and economy."³¹ In supposed contrast, Ancil accuses *Mises* of being "dogmatic" and "rather short-sighted" about "legitimate government action." Röpke's final warning against "the eternal romantic's contempt of the economy, a contempt shared often enough by reactionaries and revolutionaries, as well as by aloof aesthetes"³² was a warning for all the future Ancils to heed.

One might think that *The Wilhelm Röpke Review* would be devoted to what Röpke saw as the real enemy, the planned economy. After all, we remain at the mercy of neo-Keynesian government policy, when government consumes as much as half of the national wealth, when neo-Keynesians are well positioned on the Federal Reserve Board. Why shouldn't John Maynard Keynes (whose economics Röpke described as "a typically intellectual construction that forgets the social reality behind the integral calculus"³³), his followers, and his legacy, and not *Mises*, be the focus of attack?

One final note. There was probably less disagreement between Röpke and *Mises* than between *Mises* and Hayek, yet it was Hayek who several times emphasized that, although he "wasn't always satisfied by [*Mises's*] arguments," or found seldom his "arguments to be completely convincing," in the end he "only slowly learned that [*Mises*] was mostly right."³⁴ Would that other misguided critics acquire such humility.

²⁹Röpke, *A Humane Economy*, p. 6.

³⁰*Ibid.*, p. 237.

³¹*Ibid.*, p. 33

³²*Ibid.*, p. 118.

³³Röpke, "Keynes and the Revolution in Economics" (1952), in *idem, Against the Tide*, p. 180.

³⁴F.A. Hayek, "Introduction," to the German edition of *Mises's Notes and Recollections*, Hans-Hermann Hoppe, trans., *Austrian Economics Newsletter* (Fall 1988): 1-3.