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## **The Origins and Future of the Liberal Democratic Domestic and International Order: The Legacy of Wilhelm Röpke and Ludwig von Mises**

The creation of the liberal democratic political and social order in the second half of the 20<sup>th</sup> century was the greatest political achievement in modern times.

Today the liberal democratic order is under vicious attacks not only from existing authoritarian regimes such as Putin's Russia and Communist China, but also from inside the Western Community such as the Trump regime in the United State.

The present brief paper deals with four issues:

One: The origins of the liberal democratic order

Two: The role of Wilhelm Röpke and of the Social Market Economy

Three: The success of the Western Community and of European integration

Four: The current threats from illiberal demagogues and authoritarian politicians and thinkers

## Part One

The emergence of the liberal democratic order in the second half of the 20<sup>th</sup> century was a complex process. In many respects it was the most important positive development in modern history.

The starting point was the birth of the 18<sup>th</sup> century Enlightenment. The American Revolution and the American Declaration of Independence and Constitution helped turn liberal democracy into a world-wide and lasting phenomenon. This was re-enforced by the birth of the free trade doctrine and of 19<sup>th</sup> century liberalism. The rise of nationalism and the First World War represented a dramatic break in this positive trend.

The creation of the League of Nations and of a series of multilateral international organizations were attempts to consolidate liberal democracy. Scholars established in Geneva – such as, Röpke, Haberler, Mises – played an important role in the creation of international economic organizations.

As a result of the emergence of the three main totalitarian ideologies and regimes (Communism, Fascism and National Socialism) and of the economic fluctuations and of the ensuing Great Depression, democracy and liberalism underwent an unprecedented crisis.

During and after the Second World War there were systematic efforts to learn from the tragic lessons of the 1930s and to put liberalism and political freedom on more solid foundations. The leading force was the United States, but Europe and Japan also played an important role in the consolidation of the new liberal democratic political and economic order.

The economic, political, humanitarian and strategic achievements of the Western Community and of European integration led to a peaceful end of the Cold War and the collapse of the Soviet Communist empire. In the early 1990s the borders of the Western democratic order expanded significantly and the Western order became the *de facto* world international order.

## Part Two

The adoption of a more humane form of market economy than the 19<sup>th</sup> century *laissez-faire* liberalism played a key role in the postwar spreading and success of Western democratic liberalism. This new model originated in Western Germany. It came to be known under the name “social market economy”.

The “social market economy” combined the features of a modern market economy and of a societal order that provided corrective measures against the marginalization of those who were not successful in the process of competition. Economic efficiency and social progress and protection were closely interdependent features of this model. The title of one of the best-known books of Ludwig Erhard, *Prosperity for All – Wohlstand für Alle* – sums up the essence of the social market economy.

At the political level the principal role in the implementation of the social market economy was assumed by Ludwig Erhard, Economics Minister in Konrad Adenauer’s government. At the level of ideas Wilhelm Röpke, a German professor in exile in Geneva, Switzerland, played the most important role. Wilhelm Röpke was my professor, mentor and thesis advisor at the Graduate Institute of International Studies in Geneva.

As early as the beginning of the 1930s Röpke was known as a systematic critic simultaneously of collectivism and of extreme liberalism. Röpke argued that 19<sup>th</sup> century liberalism lacked the necessary social dimension and did not recognize the responsibilities that states have even in a market economy.

On a personal note, I would like to mention that in 1968, when I was working as an economist in New York with Morgan Guaranty, I had the opportunity to have two long discussions with Ludwig Erhard who by that time had retired as Chancellor of Germany. The main subject was Röpke and the influence of Röpke’s thinking on Erhard and on the economic policies adopted by Erhard after the war.

Röpke was a close friend and an intellectual companion of both von Mises and Hayek. Röpke, however, developed a more balanced theory of liberalism and of the market economy than the two Austrian scholars.

Before and after the First World War Mises became widely known through his writings on monetary issues and critical texts about government and central bank policies in Austria and Hungary, and in other parts of the monarchy and the former Habsburg empire. Von Mises also fled from the authoritarian regimes of the 1930s, first to Switzerland and later to the United States. One of the early publications of his American period was *Interventionism* published in November 1941. Mises went on teaching and writing for many years in America. However, the ideas of Röpke had a much broader impact at the policy level during the crucial post-war reconstruction period than those of Mises or Hayek.

In 1964-65 I was in charge of the Economics program at the recently established University of Dallas. I was appointed on the basis of a recommendation of Professor Röpke. The school was looking for a disciple of Röpke for this position. The basic textbook I used was Röpke’s *Economics of the Free Society*.

I should also point out that after the collapse of the Communist regimes in Europe, it was only Jozsef Antall and his government that adopted the model of the social market economy

as a guide in the successful regime change in their country. I felt privileged that Antall accepted me as a member of his team and as one of his international economic advisors. It should also be mentioned here that one of the important objectives of the European Union listed in the Treaty of Lisbon is the development of a social market economy.

In the literature on Röpke and the social market economy the volume that I edited with the late Martino Lo Cascio on *A New Social Market Economy for the 21<sup>st</sup> Century* is an easily accessible text. In Chapter 4 of this volume, I discuss the crisis of economic theories and policies that the world economy has experienced since the 1990s. I argue that among the various models implemented in the post-war period the social market economy was by far the most successful. Thus, I have argued and continue to believe that in the search for a new model we should try to adopt an up-to-date version of the social market economy. I feel that it was a stroke of historical luck that the model of the social market economy was first developed in Germany, the country that had contributed so much to the social and political catastrophes of our time. Through the writings of Röpke, the political, social and economic experience of Switzerland also played a significant role in shaping the theory and practice of the social market economy.

When suggesting the social market economy, I do not have in mind the rigid ORDO version but the more flexible original version that one could call the neo-liberal Erhard-Röpke-Müller Armack version. To avoid confusion, it should be pointed out that the current use of the term neo-liberal (and of libertarian) has nothing to do with the original post-war term of neo-liberalism.

Protectionism and nationalism have always been contrary to the spirit of liberalism. Thus, international economic cooperation and integration were among the principal objectives in the 1930s and also after the Second World War (see, e.g., Röpke's important studies on *International Economic Disintegration* and *Internationale Ordnung and Jenseits von Angebot und Nachfrage*, which is called *The Humane Economy* in English).

Röpke and Ludwig von Mises were intellectually close friends and also colleagues at one time at the Graduate Institute in Geneva. In October 1962 Röpke gave me a recommendation to meet Mises in New York during my research trip to America. Mises received me very kindly and one of the main topics we discussed was international trade. The following sentence by von Mises remains most clearly in my memory from that conversation of so long ago: "The Americans have always been protectionists."

Re-reading some of the writings of von Mises I am reminded again that he was both a great theoretical and applied economist. I can also see, however, the difference that Röpke pointed out in their interpretation of the role of the state and of social policies under liberalism. In fact, von Mises had a much more orthodox interpretation of the market economy. The social market economy was not his concept.

**Part Three:** The success of European integration and of the Western Community.

Two years ago, I wrote and edited a 900-page volume entitled *Quo Vadis Europe?* My friend Péter Bod also contributed an important chapter on “Economic and Social Convergence”.

The central thesis of this book is that there is a close connection between European integration and the emergence of the Western Community. These two developments were largely responsible for the freedom, the prosperity and peace among the nations of the Western world. In Chapter 8, I developed detailed long-term scenarios of the various aspects of the outlook for European integration and the Western Community. Although I took into account possible negative developments, I could not imagine the systematic anti-Western, anti-Atlantic and authoritarian and destructive policies of the second Trump administration.

The book also discusses the issues of liberalism, the social market economy, the impact of the writings of Hayek, and last but not least the threats represented by Donald Trump for democracy, freedom and human rights. *Quo Vadis Europe* represents in many respects the sum of the ideas that were involved in my research and teaching for decades in Geneva and in the United States and around the rest of the world.

The memory of Röpke’s teaching has accompanied me throughout my life. I first heard about Röpke from my father in 1955 in Budapest when he came home after five years of detention as a political prisoner. My father was a liberal who taught us to reject Communism, National Socialism and the Hungarian extreme right regime, Arrow Cross. My great-grandfather, Károly Hieronymi, had been a prominent liberal statesman in the late 19<sup>th</sup> and early 20<sup>th</sup> century. Thus, there was never any trace of nostalgia in our family for the illiberal regimes of the 1920s and 1930s.

**Part Four:** Internal and external threats to freedom and peace and to the liberal democratic order.

Notwithstanding its world-wide success, the liberal democratic order has come under growing strains and attacks from various ideologies and interest groups. Some of these centrifugal forces emerged at the start of the current century, others are of more recent origin.

I should like to mention four issues in this concluding section: the Trump presidency, Putin's war against Ukraine and Europe, the deepening gap in income and wealth and the growing power of the "techno oligarchs".

**Trump and Trumpism:** In many respects, it is the power gained by Donald Trump and the spreading of Trumpism that represent the most surprising and most dangerous political cancer of our time.

Mary Trump, a close relative of the president, defined him as "the most dangerous man in the world". Trump is power and wealth hungry, reckless and uninterested in telling the truth. Rather than strengthening America, he is bent on destroying American democracy and the international order that the United States helped to build since the 1940s. The answer to the question "how could the American people elect such a man to the presidency twice", is similar to the ones about Hitler and Mussolini in the 1930s: "we do not know".

**Putin's aggression against Ukraine:** During the last three years it was widely recognized that Putin's blatant and unprovoked aggression against Ukraine represented an existential threat not only for Ukraine but for Europe and the Western Community as well. This was also recognized by most Americans. The gravity of the threats to peace and democracy is dramatically illustrated by the declared affinity between Trump and Putin. Trump's current lie that Ukraine and not Russia started the war is a clear indication of Trump's disregard not only for the truth but also for the real interests of the United States.

**The widening gap in income and wealth:** During recent decades there has been a widening gap in the income and wealth of a very small fraction of the rich and super rich and the rest of the population. This is true not only for the poor countries but also for the world's richest country, the United States. This trend is re-enforced by short-sighted and egoistic economic and social policies. They threaten the cohesion of society and the well-being of future generations.

**The Rise of the techno oligarchs:** The rise of the gap between rich and poor, mentioned in the preceding paragraph is not the result of the skills of the rich and the lack of skills of the poor. It is mainly the outcome of fiscal, monetary and regulatory policies that deliberately favor the rich and the superrich. The fallacy that favoring the rich at the expense of the poor will increase the wealth of nations is profoundly unjust. To pretend that this will make markets more productive is a self-serving distortion of liberal economic theory.

The highly respected Justice Louis Brandeis wrote: "We can have democracy in this country, or we can have wealth concentrated in a few hands, but we can't have both."

## **Epilogue**

Wilhelm Röpke, Ludwig Erhard, Jozsef Antall and Ludwig von Mises were intellectual and moral giants whom I feel fortunate to have known. They were enlightened enemies of totalitarian ideologies and what some of today's demagogues call "illiberal democracy". I am also deeply convinced that if they were alive today, they would fight with all their remarkable intellectual power those who like Trump and Putin are bent on destroying the liberal and democratic Western Community.