

BRINGING THE MARKET BACK IN

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The Political Revitalization of Market Liberalism

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Preface and Acknowledgements

The thirties and forties saw the establishment of a long-lived consensus in the United States that unrestrained capitalism was a failure. It apparently suffered from cyclical instability, a tendency towards monopoly, an inadequate provision of public goods, and an inequitable income distribution. As the American political culture never would accept a socialist order, reformers ultimately settled on what has been variously called the mixed economy, “via media,” or the “vital center”: a regime of regulated capitalism, interest-group liberalism, and Keynesian macro-economics.

This Vital Center liberalism was most self-celebratory during the mid-1960s, just before its crisis. Confident that the “New Economics” could drive the economy to higher levels of productivity, that the resultant “social dividend” would provide for an expanded social welfare state, and social science knowledge would permit the therapeutic state to solve problems of racial justice and residual poverty, President Johnson simultaneously launched domestic wars against poverty, social blight, and racism while escalating in Vietnam.

This reform activism, paradoxically, reached its apogee not during the Johnson years but with the Presidency of Richard Nixon. As Joan Hoff has recently noted, the Nixon administration exceeded the record of the New Deal and the Great Society in the areas of affirmative action, social welfare spending, and social regulation. This activism overloaded the Vital Center order, generated unbalanced budgets and stagflation, spawned new “rent-seeking” special interest groups, and produced a regulation of business and the civil society so substantial that even many liberals were prepared to reconsider their enthusiasm for an expanded state.

The “crisis of confidence” of the Vital Center paradigm gave the advocates of a rejuvenated classical liberalism (what I call “market liberalism”) an opportunity to promote an alternative

vision of the good society. This revival of what was once thought to be a dead tradition could be seen in the expanding influence of the Austrian, Chicago and Public Choice schools of economics and the development of the related libertarian movement. Because the excesses of Vital Center liberalism generated powerful dissatisfactions, the market liberals, now armed with research studies pointing to repeated evidences of “government failure,” received an increasingly respectful hearing in the 1970s.

The market liberals hardly could transform the Vital Center order, however, without control of the levers of political power. The Libertarian Party proved incapable of providing them that access, playing only a vanguard role. Although many market liberals did obtain government positions with Ronald Reagan’s 1980 election, no serious reductions in government size occurred. For all his anti-Washington rhetoric, Reagan couldn’t do serious damage to the New Deal–Great Society edifice.

The market liberal revival did help prejudice the climate of opinion against any further expansion of the state – witness the fate of President Clinton’s health reform bill. This new skepticism toward government, a renewed, although wary, respect for the genius of the market, and a willingness to experiment with alternative delivery systems of government-financed services through privatization constituted the successes of the market liberals in America. For all of the recent influences of market liberal ideas within the more statist political economies of the social democracies and the old communist bloc, market liberals in the United States have not been able to build a coalition committed to dramatically rolling back the state. Instead Americans today exhibit an uncertainty about their expectations of government. This ambivalence is reflected in the disparity between the public’s anti-government rhetoric and its support for what one recent critic has described as a “libertarian social welfare state.” Similarly, intellectuals seem unable to agree upon a new public philosophy to supplant the much-abused Vital Center paradigm. This book is an attempt at describing how we arrived at the current impasse.

In writing this story I used the Libertarian Party Archives at the University of Virginia Library, Charlottesville, Virginia and

various collections at the Hoover Institution Archives, Stanford, California. At the University of Virginia Library's Special Collections Department I should like to acknowledge the assistance of Laura A. Endicott. For assistance in locating relevant collections at the Hoover Institution Archives and for help in obtaining copyright clearances I am grateful to Pruda Lood and Carol A. Leadenham. At the Shawnee State University Library a special thanks is due Connie Salyers Stoner and Mary Cummings for cheerfully and expertly helping me locate sources.

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John L. Kelley

List of Abbreviations

AEI	American Enterprise Institute for Public Policy Research
AFDC	Aid to Families with Dependent Children
AFL	American Federation of Labor
ALA	Alliance of Libertarian Activists
CBS	Columbia Broadcasting System
CEA	Council of Economic Advisors
CED	Committee for Economic Development
CETA	Comprehensive Employment and Training Act
CIO	Congress of Industrial Organizations
CLA	California Libertarian Alliance
CLS	Center for Libertarian Studies
CPB	Central Planning Board
EPA	Environmental Protection Agency
FEE	Foundation for Economic Education
FTC	Federal Trade Commission
GMU	George Mason University
IHS	Institute for Humane Studies
IEA	Institute for Economic Affairs
IRA	Independent Retirement Accounts
ISI	Intercollegiate Society of Individualists (renamed the Intercollegiate Studies Institute in the 1960s)
JLS	<i>Journal of Libertarian Studies</i>
LP	Libertarian Party
MPS	Mont Pelerin Society
NBI	Nathaniel Branden Institute
NICB	National Industrial Conference Board
NRA	National Recovery Administration
NYU	New York University
OIRA	Office of Information and Regulatory Affairs
OMB	Office of Management and Budget
OSHA	Occupational Safety and Health Administration
RLA	Radical Libertarian Alliance

List of Abbreviations

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SDS	Students for a Democratic Society
SIL	Society for Individual Liberty
SRI	Society for Rational Individualism
YAF	Young Americans for Freedom