The Near-Death of Liberal Capitalism: Perceptions from the Weber to the Polanyi Brothers

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Karl Polanyi and Max Weber held radically different views of liberal capitalism, but they also came to differ in significant respects with their brothers Michael Polanyi and Alfred Weber. The first section provides an overview of some critical moments in the history of liberal capitalism as perceived by some historical witnesses. The second treats the views of the Weber brothers on the world economy before 1914. The third deals with Max Weber's overlooked treatment of G. F. Knapp's once famous state theory of money. The fourth (re)turns to the circle of cosmopolitan Austro-Hungarian intellectuals who passionately debated the future of liberal capitalism and almost all of whom became political refugees.

Keywords: *Karl Polanyi; Max Weber; liberal capitalism; Austro-Hungarian intellectuals; state theory of money*

I would like to treat some historical moments of the near-death and "miraculous" resurrection of liberal capitalism as a particularly fateful lesson in historical contingency. By liberal capitalism (or economic liberalism) I mean first of all multilateral world trade by private enterprise and the currency and credit arrangements required by it. Today we often speak of globalization instead of liberal capitalism and project that term backward. Thus, Harold James's recent book *The End of Globalization* turns out to provide, as the subtitle reveals to the unwary reader, *Lessons from the Great Depression*.[1] The first globalization saw the rise, in the nineteenth century, of a liberal world economy, which was characterized by the relatively free movement of persons, capital, goods, and information in an arena

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of stable or moderately flexible exchange rates. A cosmopolitan bourgeoisie created its own world stage. It had a vested interest in maintaining peace among the great powers but ultimately could not prevent the near-death of liberal capitalism. In speaking of near-death I am also alluding to the experience of persons who survive a near-fatal crisis and live to tell stories about it. Here I will let some protagonists tell their story of liberal capitalism.

Many contemporaries failed to anticipate the catastrophes that would befall liberal capitalism in the twentieth century, and once these occurred they did not believe in its recovery. Some sixty years ago very few Europeans expected the resurrection of liberal capitalism. At the end of the Second World War it was unimaginable (almost) that the defeated archenemies of a liberal world order, Germany and Japan, would rise to the top in an era of undreamt-of postwar prosperity, that against all odds a new globalization would come about. Yet again, the comeback has proved fragile. Opinions remain sharply divided about the extent to which internal or external forces are responsible for this state of affairs. Critics on the left point to inherent economic (and ecological as well as demographic) contradictions; critics on the right insist on the primacy of power politics over trade politics. If present-day critics of the International Monetary Fund such as Joseph Stiglitz, one of the winners of the 2001 Bank of Sweden Prize in Economic Science, draw on Karl Polanyi to chastise "the advocates of the neoliberal Washington consensus," influential conservative German historians such as Klaus Hildebrand see "the Victorian illusion" of a peaceful world economy once more repudiated by violent reactions such as international terrorism.[2]

In line with the renewed interest in economic sociology in recent years, Karl Polanyi and Max Weber have received increased attention as economic contextualists, who embedded the economy in the wider society. My focus here, however, is not on sociological generalization but on historical specifics involving their contrary interpretation of liberal capitalism. Since Weber's views on international trade, currency issues, and inflation are probably less well known than Polanyi's, I deal with them at some length. I also call attention to Alfred Weber and Michael Polanyi, who have been overshadowed as economists by their older brothers. Although increasingly alienated from one another on the personal level, the Weber brothers put up a united front in economic policy matters, with one significant exception toward the end of the First World War. The Polanyi brothers, while remaining personally close, disagreed very much in their judgments of liberal capitalism.

I proceed in four steps. First, I give an overview of some critical moments in the history of liberal capitalism and contrast the divergent perceptions of some historical witnesses. In a second step, I treat the views of Max and Alfred Weber on the world economy before 1914, views that presumed its long-term viability. In a third step, I deal with Max Weber's overlooked treatment of Georg Friedrich Knapp's once famous state theory of money in relation to the great wave of inflation in the immediate postwar period. Weber recognized mortal dangers to liberal capitalism through the perpetuation of the war economy and the political manipulation of inflation by the state and powerful interest groups. In a last step, I return to some cosmopolitan Austro-Hungarian economists, jurists, and businessmen, all of whom were passionately involved in the struggle over the future of liberal capitalism. Almost all of them carried their own Max Weber—a multifaceted image of person and work—into uncertain exile. Put differently, they were interested in the intersections of economics and sociology, as they were articulated particularly in Weber's oeuvre. Some of them remained committed economic liberals; others embraced socialism or favored some version of mixed economy. If not born into cosmopolitan families, they were destined to become part of a cosmopolitan diaspora. Who belonged to this group of persons? In addition to Karl and Michael Polanyi, native Austro-Hungarians still recognized (in the United States) today are Ludwig von Mises, Joseph Schumpeter, Friedrich von Hayek, and Peter Drucker, but less well remembered are Gustav Stolper,[3] Felix Somary, Melchior Palyi, Arthur Salz, Emil Lederer, and Otto Neurath. Most of these men knew one another personally; several had family ties. Max Weber was acquainted with most of them.[4]

FROM THE GOLD MARK TO THE EURO

Between the currency unifications of the 1860s and 1870s and the introduction of the Euro lie periods of relatively successful international monetary integration but also of almost total disintegration. From the vantage points of 1914, 1929, and 1945 nothing seemed less likely than the eventual emergence of a unified European currency. There are two major historical parallels to the introduction of Euro bills and coins in January 2002. For the German Federal Republic it is the introduction of the gold mark, which replaced seven different currencies in the early years of the Empire; for Western Europe it is the silver-based Latin Monetary Union of 1865, which initially comprised Italy, France, Belgium, and Switzerland. In Germany the Imperial proclamation of 9 July 1873 began with the words:

> We William, by the grace of God German emperor, King of Prussia, etc. decree, in the name of the German Reich and with the concurrence of the Federal Council and the federal diet (Reichstag), the following. Article 1. The imperial gold currency replaces all currencies of the individual states.[5]

The dominant role in creating a unified gold currency was played by one of the great figures of German liberalism, Ludwig Bamberger (1826-99), who had fled a death sentence in the 1848-49 Revolution, only to return as the foremost banking and currency expert in the new Reichstag, where he was supported by Max Weber senior. Although the emperor had the authority to decree a new currency, Bamberger made it clear to his fellow representatives that "nobody in the world, no emperor and no empire, can determine the value of gold and silver. This can only be done by world commerce."[6]

Bamberger's vision of a progressively integrated liberal world economy began to fade with the First World War and to disappear completely with the onset of the Great Depression. In 1944, the socialist economist Karl Polanyi (1886-1964) concluded *The Great Transformation* with the judgment that liberal capitalism was as good as dead: "Liberal capitalism in its death throes was faced with the still unsolved problems bequeathed to it by its beginnings." He added, "The final failure of the gold standard was the final failure of market economy," referring to Great Britain's relinquishing of the gold standard on 21 September 1931.[7] On that date the liberal economist Moritz Julius Bonn (1873-1965)[8] got a phone call about the event from Melchior Palyi (1892-1970), who was on the scientific advisory board of the Deutsche Bank and earlier had been Marianne Weber's coeditor of *Economy and Society* and Sigmund Hellmann's coeditor of Weber's last lectures on economic history (*Wirtschaftsgeschichte*).[9] Bonn, like Palyi a close adviser to the head of the Reichsbank, Hans Luther, immediately realized

> that we had passed a milestone in history. September 20 [21], 1931, was the end of an age. It was the last day of the age of economic liberalism in which Great Britain had been the leader of the world. . . . [Now] she had sacrificed . . . the fundamental principle of an international capitalist system, the sanctity of contracts. She had broken the economic unity of the world, which had survived the war, and opened the way to violent economic nationalism. . . . The British consoled themselves by creating a legend. They made the gold standard the scapegoat for all their troubles [but] the gold standard was the victim, not the cause.

For Palyi,

> Britain's devaluation in 1931 had a psychological and political impact on Europe, and beyond, that can hardly be overestimated. In final analysis, the break-up of the international financial and commercial system was a decisive factor in "balkanizing" Europe and preparing the ground for World War II.[10]

Thus, the socialist Polanyi and the two liberal economists agreed that liberal capitalism or economic liberalism had in some significant sense come to an end, but they disagreed about the causes. Polanyi's was a holistic conception of liberal capitalism; he reified into a historical entity the notion of a theoretically self-regulating but actually self-destructive market economy, which brought all the ills of the age on itself. Thus, he could formulate: "Fascism, like socialism, was rooted in a market society that refused to function." Given his premises, Polanyi was bound to claim also that liberal capitalism had been the major cause of the First World War: "The conflict of 1914-18 merely precipitated and immeasurably aggravated a crisis that it did not create. . . . In reality, the postwar obstacles to peace and stability derived from the same sources from which the Great War itself had sprung."[11] The opposite view considers the Great War more a cause than a consequence of the crisis of liberal capitalism and rejects especially the assertion that the war was caused by the economic competition between the British and the German empire. Polanyi's Viennese colleague Gustav Stolper (1888-1947) observed,

> The widely believed fable is that the First World War sprang exclusively or principally from the antagonism between Germany and Great Britain, from the struggle between their imperialism over spheres of interest and influence, colonial expansion, and violent competition over trade and investments. Never has a historical legend been more boldly maintained in the face of contradicting facts.

This view was shared by Felix Somary (1881-1956), who before August 1914 had personally promoted Anglo-German and Anglo-Austrian commercial cooperation in eastern Europe and the Near East.[12] He remained convinced that without the Archduke Ferdinand's assassination "the large-scale catastrophe could have been averted, since all causes of the Anglo-German conflict had been eliminated."[13] The claim that the war had economic causes was already repudiated during the war and in 1919 at Versailles by Max Weber and his distant relative Albrecht Mendelssohn Bartholdy (1874-1936).[14]

ALFRED AND MAX WEBER: WORLD ECONOMY AND WORLD WAR

Alfred Weber (1868-1958) and Max Weber (1864-1920) were descendants on both sides of international merchant families, which accumulated great wealth.[15] Like their father, Max senior, a National Liberal budget expert in the Imperial and Prussian diet, they defended the need for a strong capital market and efficient commodity exchanges for the sake of strengthening the German economy on the world market. This made them "cosmopolitan nationalists." At a young age Max became professor of commercial law in Berlin in 1893 and served briefly on a government commission on the recently passed exchange reform, to which he was opposed because of its anticapitalist thrust. His reputation as an expert on agrarian capitalism led to his early appointment to a chair in economics (*Nationalökonomie*) and finance in Freiburg. Alfred was at times better known as an economist than his brother. In the United States he remained eclipsed as a sociologist, although his *Kultursoziologie*, distinguishing culture, civilization, and technology, once attracted some attention.[16]

Alfred, four years younger than his brother, first became professor of economics in Austro-Bohemian Prague in 1904. In spite of their later turn to *Kultursoziologie*, both took a stand on economic and social policy issues throughout their careers. Alfred established his reputation with the *Theory of the Location of Industries* (1909);[17] the general model also applied to the role that labor and transportation costs played for the location of industries in the world economy.[18] Against the powerful agrarian interests, the brothers affirmed the necessity of

Germany's rapid industrialization. Since Germany needed relatively free access to the world market for demographic and geographic reasons, they argued for moderate tariffs in the bitter battle with the high tariff interests. Anglophobia and economic pessimism appeared to them unwarranted: German exports were expanding irrespective of domestic and foreign tariff barriers, and English-German trade continued to flourish. In 1904, for instance, Alfred condemned old-fashioned autarky as well as Joseph Chamberlain's newfangled "tariff imperialism" (the proposed imperial tariff system), while Max attacked legislation favoring entailed estates in Prussia, which immobilized much needed capital.[19] (His political critique of Imperial Germany's political and religious authoritarianism was also a motive for writing "The Protestant Ethic and the Spirit of Capitalism" at the time.) Thus, the brothers considered Germany's embeddedness in the world economy inescapable and risking war with Britain economically irrational. They rejected, in particular, the so-called catastrophe theory of Karl Oldenberg and Adolf Wagner, which justified a nationalist tariff system (*Solidarschutzsystem*) with the argument that reliance on world trade was self-defeating; once the whole world was industrialized, the consequences for Europe's industries would be catastrophic. Alfred's answer to the pessimists was that "the natural tendencies of development favored the rise of great 'world-economic' industrial centers" and thus also of Germany with its concentration of labor around its coal deposits. His theory of industrial location supported the free trade position that "tariff policies were as a rule fruitless and tariff reduction in the common economic interests of all countries."[20] Before the war, Max too was in principle prepared to publicly support Lujo Brentano's campaign for easing trade restrictions.[21]

The Great War (as it came to be called) changed everything, the realities as well as the perceptions. After frustrating service in the military during the early stages, both brothers sought to enter the corridors of power and become influential advisors, but the younger was outwardly much more successful than the older. Germany's future in the world economy continued to be their shared concern, but toward the war's end Alfred departed dramatically, if only temporarily, from the course he and Max had pursued together for many years. Max's one great effort to exert direct influence was the famous memorandum against intensified submarine warfare that he composed in March 1916 together with the Viennese economist and banker Felix Somary, then of Berlin, later of Zürich and Washington.[22] The memorandum was submitted to the German Secretary of the Interior and more than a dozen party leaders in the Reichstag and even seems to have reached the Kaiser's desk. Weber's main argument was understood by few: provoking U.S. entry into the war would unify Wall Street and the City of London and leave no neutral capital market for the great postwar credit needs of the war participants. The City's new dependency on Wall Street would not change the fact that "for a considerable time we would have gambled away our 'world political' future." If through a prolongation of the war the exchange value (*valuta*) of the Central

Powers' currencies kept sinking and postwar credit depended on the goodwill of the western Powers, then "the war would be politically lost even if the peace conditions appeared to be (outwardly) favorable."[23] Late in the war, Max realized that the Pan-German League (*Alldeutsche*) and their domestic allies were quite prepared to accept the destruction of German world trade. They expected a strengthening of their domestic position from such a collapse. The Pan-German alternative to world politics (in Max's sense) was *Ostpolitik*—the German people as a master race in eastern Europe, if the Anglo-Saxons could not be vanquished in a first world war. Domination over eastern Europe would then become the basis for victory in a second world war.

After Alfred Weber had involved himself in unrealistic efforts to achieve a separate peace agreement with Great Britain in the winter of 1917-18, he repudiated his legacy of bourgeois cosmopolitanism by embracing German hegemonic expansion to the Caspian Sea with its oil and cotton resources, a program that Adolf Hitler was to take over from his social betters and pursue with their help in a second round that foundered in the ruins of Stalingrad.

On 27 March 1918, one week after the all-decisive German offensive in France was launched, Alfred Weber wrote to Else Jaffé-von Richthofen, after a meeting with the internationally well-connected banker Max Warburg (thereby also revealing his anti-Semitic ambivalence):

> Yesterday's meeting with Warburg was instructive—a shrewd and sympathetic Jew. But it happens to me time and again: One admires their agility, versatility, cleverness, empathy and eagerness to mediate. Yet ultimately I feel separated by a most profound difference. Do they perhaps lack dignity? I don't know. Do they lack a certain hard core on which one can rely trustingly? In short, I said to myself: I won't approach him [for a personal loan]. This man with his brothers, three in big business in the United States, one in Stockholm at our embassy—a dreadful fellow whom I met there—he himself in touch with almost the whole world (with Wallenberg etc.)—he was for me a symbol of times past, of the wrecked world economy and illusory world integration. I had to explain to him that the world economy would not be resurrected, at least in its old form. As an inescapable result of the war I could only conceive of a Europe under German leadership that would have little economic traffic with America.
>
> I see ever more clearly that a restoration of the old connections, not just cotton imports and such but also of the personal ties is receding into an ever more remote distance. We shall now be victorious in the West, I doubt it no longer. Our achievement is already enormous. We shall crush France and force it to sue for peace. Perhaps we can even compel England to make peace. But then the Anglo-Saxons and especially America will never reconcile themselves to us. At stake will then be *Weltherrschaft*, who will rule the world. We must organize all of Europe's resources on a new autarkic basis. Whoever does not voluntarily join us, will be forced to do so.[24]

As against this nightmare vision of a United Europe under German domination Max Weber remained convinced that Germany's future depended ultimately on its ability to compete in the world economy, not on an all-out military mobilization against the Anglo-Saxon world powers. In November 1918, his prediction in the 1916 memorandum against unrestricted submarine warfare proved true: Once the United States became a combatant, "the greatest bravery of the troops could not prevent economic collapse during the war and economic agony afterwards."[25] Weber refused to see defeat as

> divine judgment: it is true, however, that the Fates were challenged and exacted retribution. That is all. The future now depends on how firm the new men are in preventing financial bankruptcy through inflation and the collapse of the social order.[26]

It quickly turned out that the German agony was only part of a wider European cataclysm engulfing victors and vanquished. Max's early death in June 1920 spared him from having to live through the "icy night of polar darkness," by which in "Politics as a Vocation" he meant the shadows of the Versailles Treaty.[27] In Versailles he and Albrecht Mendelssohn Bartholdy had felt sidelined as useless advisors to the German delegation, whereas Moritz Julius Bonn and Carl Melchior, Max Warburg's closest associate, had negotiated directly, if unsuccessfully, about reparations with their counterparts.[28] At any rate, in the last months of his life Weber withdrew in utter perplexity from politics. Reluctantly he accepted an economics chair at the University of Munich, since he could no longer live as a capitalist rentier and needed a job. A few months before his death at fifty-six he vented his frustration by telling his seminar students in Gustav Stolper's presence: "I have no political plans except to concentrate all my intellectual strength on the one problem, how to get once more for Germany a Great General Staff."[29] That was hyperbole. In reality, Weber calmed his political nerves by writing the abstract casuistry of *Economy and Society.* He had already conceptualized the so-called Basic Categories of chapter 1 and only had to recast the prewar draft of the "Sociology of Domination" (chap. 3), but he poured most of his energies into the longest chapter of the new (unfinished) version, the "Sociological Categories of Economic Action" (chap. 2), a chapter that despite its abstractness reflects the economic policy issues of the day.[30]

Together with the much older writings on the exchange and trading in (grain) options and futures, which only recently have been edited by Knut Borchardt,[31] this chapter belongs to the least read and least utilized parts of the oeuvre, but it is in a sense Weber's economic testament. He worked assiduously on it not only because "so inhumanly much literature" (as he complained) had appeared since the beginning of the war but also because with the war's end radical political and economic changes were occurring or seemed possible. On various occasions he opposed the moves toward *Gemeinwirtschaft*, that is, socialized or collectivized economy. He objected to the efforts to socialize key industries primarily because Germany needed to attract foreign capital and secondarily because nationalized industries could be more easily seized by the Allies. He wanted to see the war economy end quickly and the currency stabilized as soon as possible. This included the reintroduction of a functioning gold standard. In *Economy and Society* Weber warned,

> It is only with the greatest caution that the results and methods of the war economy can be used for the critique of the substantive rationality of other forms of economic organization. The war economy is in principle oriented to a single clear goal and can use powers that in peacetime are available only in the case of "state-run slavery." Furthermore, it is an economy with an inherent attitude of "going for broke." . . . Hence, however illuminating the wartime and immediate postwar experiences are for recognizing the range of economic possibilities, it is unwise to draw conclusions from wartime in-kind accounting for its suitability in a peacetime economy with its long-run concerns.[32]

THE STATE THEORY OF MONEY AND THE ISSUE OF INFLATION

The revolutionary world situation could not but influence Weber's casuistry. In spite of the didactic textbook format of the new version of *Economy and Society*, Weber referred to some of the latest political and economic events and to some of the most recent economic controversies. At first sight it appears puzzling that the only explicit excursus in the whole opus deals with an older work, Georg Friedrich Knapp's *State Theory of Money* of 1905.[33] Why did Weber devote five pages in small print to the work? It is true that Knapp's conceptual systematics were congenial to him. He adopted some of his neologisms, which were widely employed at the time but also much ridiculed, especially in the English literature.[34] More important for Weber's inclusion was the fact that Knapp's work had become extremely controversial between the schools of theoretical and historical economics and especially so with the rise of the war economy and the postwar crises, from Central European inflation to the Bolshevik experiment in the emerging Soviet Union.

In his very first sentence Knapp postulated, "Money is a creature of law. A theory of money must therefore deal with legal history." He argued, "The soul of currency is not in the material of the pieces, but in the legal ordinances which regulate their use." Keynes echoed this position in 1924 when he turned against restoring the gold standard: "Money is simply that which the State declares from time to time to be good legal discharge of money contracts."[35] But in 1905 Knapp had seen no reason to oppose the gold standard.

> Nothing is further from our wishes than to seem to recommend paper money pure and simple in such a form, for instance, as the Austrian State Notes of 1866. It is well for any State to wish to keep to specie money and to have the power to do so. And I know no reason why under normal circumstances we should depart from the gold standard.

When, after almost twenty years, Weber tried his hand at a lecture course again at the University of Vienna in the summer term of 1918, he encountered the most enthusiastic followers and the most outspoken critics of Knapp's theory. He agreed with both sides as long as they conceded their "incompleteness." Money was legitimated by the state, but its value was determined by the market:

> The substantive monetary theory which by and large is the most acceptable to me is that of [Ludwig] von Mises. Knapp's *State Theory of Money* is the most imposing work in the field and in its way solves its formal problem brilliantly. It is, however, incomplete for substantive monetary issues.[36]

Although Weber praised and adopted Knapp's terminology he feared that, in the aftermath of the war economy, the state theory would be misused even more than before by the inflationists:

> Quite at variance with its author's intentions, though perhaps not entirely without fault on his part, the work immediately was utilized in support of value judgments. It was naturally greeted enthusiastically by the Austrian papieroplatic lytric administration, with its partiality to paper money.[37]

Time and again Weber insisted on the neutrality of science vis-à-vis the great historical battle between socialism and capitalism, a position with which von Mises vigorously disagreed. But he let the facts speak for themselves. The main victims of inflation were masses of pensioners and rentiers, whereas well-organized employers and workers profited from it. Those in power were able to proceed at will and to pursue purely personal interests. Weber pointed to the "use of the printing press by the Red hordes," probably thinking of Bela Kun's short-lived Bolshevik rule in Hungary. With Mises he agreed that a radical revolution had to be prevented. But he stayed within a neutral textbook format in observing about "the present chronic tendency to social revolution":

> It is, of course open to anyone to welcome this revolutionary effect [of inflation] and the accompanying tremendous disruption of the market economy. Such an opinion cannot be scientifically refuted. Rightly or wrongly, some can hope that this tendency will lead to the transformation of a market economy into socialism. Or some may expect proof for the thesis that only a regulated economy with small-scale production units is capable of substantive rationality, regardless of the sacrifices its establishment would entail. It is impossible for science to decide such questions, but at the same time it is its duty to state the facts about these effects as clearly and objectively as possible.[38]

Weber acknowledged that paper (or administrative) money was the most suitable means to pursue substantive (*material*) social ideals, which included Communist and Fascist ones, whereas the formal rationality of the market economy was oriented primarily to profitability, currency stability, and exchange parity. The holders of such "ideal" interests could argue "with reason that it is only administrative money which can be 'managed' (*beherrscht*), but not market money." Weber wanted to demonstrate that in monetary matters too there could be a principled conflict between formal and substantive rationality, but he expected that in "the future no less than today the 'interests' of individuals rather than the 'ideas' of an economic administration will rule the world."

Knapp had argued that exchange parity could be maintained with a domestic currency either in gold or paper, as long as gold was the international standard. Weber reminded his readers, however, that in spite of the paper shortage caused by the war there was still a great difference between gold that in principle was in short supply and the paper shortage: "Paper money is necessarily a form of administrative money, which may be true of metallic money, but is not necessarily so. It is impossible for paper money to be freely coined." Precious metal strengthens monetary stability, but administrative money can be arbitrarily expanded and inflated:

> If the present abnormal obstruction of paper production be ignored, there unquestionably have been and still are certain factors tending to unlimited issue of paper money. In the first place, there are the interests of those in political authority . . . and there are also certain private interests. Both are by no means primarily concerned with the maintenance of stable foreign exchange rates. It is even true, at least temporarily, that their interests might lie in the directly opposite direction.

Weber referred to the devaluation of the German mark, a development that affected his own family well before it reached astronomical proportions.[39]

Weber recognized that there was a great temptation for certain groups to wipe out the war debts, mortgages, and even foreign loans by way of inflation. "Would this not be tempting? It is clear that someone would have to bear the costs, but it would be neither the state nor one of those two categories of private individuals," that means, employers, and workers, who could increase profits and wages.[40] Within three years German and east European inflation was to wipe out the debts of the state, industry, and agriculture but also most of the rentier class or, as Keynes called it in 1924, the investing class. The near-extinction of the rentier class destroyed a very important economic buttress of much of literary, artistic, and academic life.

Over the decades a vast literature has examined the reasons for the failure of the capitalist world economy to regain its former effectiveness in the wake of the First World War. A large amount of painstaking research has illuminated many of the causes that were insufficiently understood by most contemporaries. But opinions remain sharply divided as to whether more inflation, deflation, or reflation could have saved the Weimar Republic and prevented the ultimate catastrophe of another world war.[41]

THE COSMOPOLITAN EXILES

At the end of the First World War, the world was, for good and for ill, full of apocalyptic expectations and millenarian hopes, and radical efforts at social reconstruction abounded. Weber and Schumpeter, contributor to Max's multivolume project on social economics (*Grundriss der Sozialökonomik*), had their famous falling-out in a Viennese coffeehouse in 1918. Weber, "who took nothing lightly," and Schumpeter, who "took nothing hard," recalled Somary who witnessed the scene, clashed over the Russian Revolution. Schumpeter welcomed it as a laboratory experiment because now socialism had to prove its practicality; for Weber it was going to be "a laboratory heaped with human corpses." When an enraged Weber stormed out, a smiling Schumpeter remarked: "How can someone carry on like that in a coffeehouse?"—the proper place for irony, never seriousness.[42]

The Austro-Hungarian economists were, however, not primarily coffeehouse intellectuals. Most had business experience and now tried to reform or replace liberal capitalism. Gustav Stolper narrowly missed becoming Austrian deputy minister in the Empire's final hours and Republican minister of finance in 1921. Schumpeter succeeded in 1919 but quickly failed in his brief tenure. Karl Polanyi's call, still made in *The Great Transformation*, for taking land, labor, and money out of the market was at the time frequently heard from the left and right. But many liberal economists too recognized that massive state intervention was inevitable for the foreseeable future. While defending the role of private property and private enterprise, Stolper believed that the institution of soviets, of works councils, was here to stay. In Austria as elsewhere in central and eastern Europe a new state, new tax system, new currency, and new economy had to be established under the most difficult of conditions, which proved frustrating to liberals and socialists alike. In the face of general immiseration Stolper counseled consumer restraint and, ever the elitist reformer, exhorted workers not to waste money and time at the movies. More seriously, he worked out detailed plans for a corporatist reconstruction of the Austrian economy, which would combine liberal and socialist elements, but no solution proved viable.[43] Soon both he and Karl Polanyi, in his first exile in the wake of the Hungarian counterrevolution, were limited to the role of economic onlookers and commentators on the famed *Austrian Economist*, a weekly, of which the former was editor and the latter an editorial member.[44] In the mid-twenties, a discouraged Stolper left Austria for Berlin, where he created a successful and profitable *German Economist* (financed by Somary and others). During the Weimar Republic's agony, he gained some influence as a government advisor and Reichstag member, but his proposals for coping with reparation and investment issues were frustrated. Julius Bonn and Melchior Palyi lost their deflationary gambit and vainly upheld the gold standard, policies that they justified to the end of their lives (1965 and 1970, respectively).[45] Bonn, Palyi, Somary, and Stolper remained convinced that the Great Depression could have been significantly mitigated but for some intractable historical contingencies such as the appointment of Hitler, who switched to bilateralism right away, and the election of Roosevelt, who let the 1933 World Economic Conference in London founder. The depth of the defeat of the liberal capitalists in the nineteen thirties is also indicated by the fact that the system of bilateral barter for foreign trade instituted by Hitler's economics minister Hjalmar Schacht found many sympathizers in England right into the war years.[46]

The triumph of Nazism drove both the socialist and the liberal economists with whom I am dealing here into exile. They tried to come to terms with it by addressing their new Anglophone audience. Some of these forward- and backward-looking writings were a long time in the making or were published years after they had been composed, if not posthumously. But they cluster around the period shortly before and shortly after the U.S. entry into the war. Stolper wrote *This Age of Fable: The Political and Economic World We Live In* not only to review what had gone wrong in Europe but also to oppose isolationism and Senator Nye's Neutrality Act. However, the book, finished in September 1941, missed its target insofar as the Japanese bombers found theirs on 7 December.[47] Peter Drucker, who had also been associated with *The Austrian Economist*, announced *The End of Economic Man: A Study of the New Totalitarianism* in 1939 and predicted *The Future of Industrial Man: A Conservative Approach* in 1942, the same year in which Schumpeter's *Capitalism, Socialism and Democracy* presented its ironic theory that socialism was going to win historically in spite of capitalism's inherent economic superiority.

Albrecht Mendelssohn Bartholdy's *Testament of a Liberal*, written at Balliol College in Oxford, appeared posthumously in 1937. From the vantage point of 1934-35 he could describe the course of the actual developments that Weber had feared. His central thesis was that not the German defeat and the Versailles Treaty but the displacement of liberal capitalism at the beginning of the war had created a dynamic of centralized planning that beyond Weimar found its high point in Nazi totalitarianism.

> It is not too much to say that planned economy in its present methods is an outcome of the War, and not of the loss of the War or the kind of peace treaties in which it ended. . . . We cannot distinguish the economic—or in specie the financial—consequences for German credit and German currency of Germany's having lost the War from the direct effects of the financial policy initiated in 1914 and followed up to 1918.[48]

In 1944, Friedrich August von Hayek (1899-1992) published *The Road to Serfdom*, with which Keynes indicated his "deeply moved agreement,"[49] and Ludwig von Mises came out with *Omnipotent Government: The Rise of the Total State and Total War.* Polanyi's farewell to liberal capitalism also appeared in 1944. The work originated in 1939-40 in England, in Tutorial Classes of the Workers' Educational Association, and was finished at Bennington College in Vermont with support from Peter Drucker and his wife, "notwithstanding their wholehearted disagreement with the author's conclusions" (as he wrote in the acknowledgment). His hopes lifted by the expectation that the planning features of the wartime economy could be continued indefinitely, Polanyi looked forward to a world in which "regulation and control can achieve freedom not only for the few but for all. . . . The passing of market-economy can become the beginning of an era of unprecedented freedom." Although affirming a dialectic of freedom through control, Polanyi upheld the "right to nonconformity" and demanded that science and the arts "always be under the guardianship of the republic of letters."[50]

In contrast to Karl Polanyi, his brother Michael (1891-1976), today better known as a philosopher than for his economic writings, defended the capitalist order. The differences of opinion between the brothers are as little surprising as those between the Weber brothers. Sibling dynamics invite competition and disagreement, but commonalities persist because of the shared background, in these cases descent from a cosmopolitan bourgeoisie. The Polanyi family had made a fortune in the age of railroad capitalism, building railroads in Europe and Brazil. The rise and fall of liberal capitalism were a family affair, to which members reacted in different ways. Michael Polanyi wanted to see capitalism not abolished but reformed along Keynesian lines, as in his 1945 book on *Full Employment and Free Trade*: "The ground on which we must take our stand is capitalism—capitalism, however imperfect, however needful of urgent reform, but not replaceable by any fundamentally different system." He opposed as illusionary the "idea of socialism promising to cure all economic evils by nationalization of capital. . . . It is our task finally to eradicate the [Marxist] expectations."[51] Michael Polanyi also was an early critic of Soviet economics.[52]

In their common years in England, moreover, the brothers seem to have moved in somewhat different circles, Karl in Christian socialist ones, whereas Michael and Karl Mannheim associated with the Moot group, which comprised conservatives like T. S. Eliot as well as religious socialists like the German economist Adolf Lowe.[53]

Whatever hopes and fears these intellectuals harbored on the eve of the Second World War and in its early stages, history seemed open in the sense that Hitler might triumph and subject a whole continent to his "thousand-year Reich." After 1945, too, a resurrection of liberal capitalism appeared highly unlikely. If Gustav Stolper wrote *This Age of Fable* when the United States was still poised between isolationism and intervention, his 1947 contribution to Herbert Hoover's report to President Truman helped pave the way for the Marshall Plan. Stolper hoped that the lessons of Versailles would finally be learned.

In his last report to English friends before his early death in December 1947 Stolper warned that the U.S. Congress, which had to pass the Marshall Plan credits, took a dim view of the efforts at nationalization in Europe.[54] But in the early postwar period many emigrants and many of those who claimed to have been "spiritual migrants" (*innere Emigranten*) hoped for some mode of socialist reconstruction, Christian or secular, of western Europe between Soviet Communism and American capitalism, as it indeed attained a measure of realization. Karl Mannheim, more social philosopher than economist, pleaded for a new kind of democracy, for "planning freedom." Alfred Weber, who outlived his brother Max by thirty-eight years, embraced "free socialism and democracy" (his slogan) and opposed as not social enough Ludwig Erhard's "social market economy," which became the foundation of the German *Wirtschaftswunder*.[55] Michael Polanyi saw some of his proposals become reality, such as flexible exchange rates, though not balanced trade. Karl Polanyi could not but find himself disappointed about the resurrection of liberal capitalism. Restrictions have been put on the market for land, labor, and money but far from the scope that he wished for. The Great Transformation could not, after all, be decisively reversed. It is true that Western Europe developed a range of mixed economies, but few contemporaries anticipated the restoration of a capitalist world economy on the scale that became visible from the sixties on. Liberal Capitalism came back from its near-death experience. For many of the aging exiled survivors this was much more than they had either feared or hoped for.

NOTES

1. Harold James, *The End of Globalization: Lessons from the Great Depression* (Cambridge, MA: Harvard University Press, 2001).

2. See foreword by Joseph Stiglitz to the new edition of Karl Polanyi, *The Great Transformation. The Political and Economic Origins of Our Time* (abbreviated *GT*), with an introduction by Fred Block (Boston: Beacon, 2001), xiv; Klaus Hildebrand, "Die viktorianische Illusion. Zivilisationsniveau und Kriegsprophylaxe im 19. Jahrhundert," in *Macht und Zeitkritik*, edited by P. Weilemann et al. (Paderborn: Ferdinand Schoeningh, 1999), 17-28.

3. In recent decades the economist Stolper best known in this country was Gustav's son Wolfgang, who died at age eighty-nine in March 2002. Arguing early that free trade had negative effects on some labor sectors, he went on to become an expert on the east German Communist economy and an advisor to newly independent African countries.

4. Weber apparently did not meet Karl Polanyi, who settled in Vienna only in 1919. After Weber's death Polanyi contributed critically to the debate on Mises' much-discussed essay "Economic Accounting in the Socialist State" that appeared in 1920-21 in the *Archiv für Sozialwissenschaft und Sozialpolitik* 47:86-121. At the time, Max Weber's old house organ was edited by Schumpeter, Alfred Weber, and Emil Lederer. See Polanyi, "Sozialistische Rechnungslegung," *Archiv* 49 (1922): 377-420; "Die funktionelle Theorie der Gesellschaft und das Problem der sozialistischen Rechnungslegung," 52 (1924): 218-28. See also the essays by Peter Rosner, Marguerite Mendell, and Lee Congdon in the section "Ludwig von Mises versus Karl Polanyi," in *The Life and Work of Karl Polanyi*, edited by Kari Polanyi-Levitt (Montréal: Black Rose, 1990), 55-84.

5. Reichstag Verhandlungen 1873, Aktenstück 64.

6. Although some non-European countries have experimented with a dollar-based currency, there is no direct parallel to another statement made by Bamberger: "We chose gold not because it is gold but because Britain is Britain." In turn, Disraeli remarked, "Our gold standard is not the cause but the consequence of our commercial prosperity." Citations from Peter Bernstein, *The Power of Gold. The History of an Obsession* (New York: John Wiley, 2000), 250, 258. For an up-to-date treatment of issues surrounding the gold standard, see also Niall Ferguson, *The Cash Nexus. Money and Power in the Modern World, 1700-2000* (New York: Basic Books, 2001); Ted Wilson, *Battles for the Standard. Bimetal-*

lism and the Spread of the Gold Standard in the Nineteenth Century (Aldershot: Ashgate, 2000). See also Barry Eichengreen and Marc Flandreau, eds., *The Gold Standard in Theory and History*, 2d ed. (London: Routledge, 1997).

7. *GT*, 288, 209.

8. Bonn descended from a Frankfurt banking family that had personal and business relations with the New York Speyers, Loebs, and Schiffs. He was visiting professor in Berkeley in 1914, Carl Schurz Professor in Madison in 1915, and Jacob Schiff Professor in Ithaca in 1916. He returned as visiting professor in the nineteen twenties and as a refugee in the nineteen thirties.

9. See Frank Knight, trans., *General Economic History* (London: Allen & Unwin, 1927); Knight omitted the basic concepts and typologies.

10. Moritz Julius Bonn, *Wandering Scholar* (New York: John Day, 1948), 318f.; Melchior Palyi, *The Twilight of Gold 1914-1936* (Chicago: Henry Regnery, 1972), 270.

11. *GT*, 248, 21f.

12. On the efforts of mostly Jewish houses to prevent a world war, see, for instance, Alfred Vagts, "Die Juden im englisch-deutschen imperialistischen Konflikt vor 1914," in *Imperialismus im 20. Jahrhundert. Gedenkschrift für George W. Hallgarten*, edited by J. Radkau and I. Geiss (Munich: Beck, 1976), 113-44; for summary remarks see James Joll, *The Origins of the First World War*, 2d ed. (London: Longman, 1992), 160f. For Karl Polanyi's position on the "accidental" peacekeeping role of *haute finance* and on the "metaphysical extraterritoriality" of Jewish bankers, see *GT*, 10ff.

13. See Gustav Stolper, *This Age of Fable: The Political and Economic World We Live In* (New York: Reynal & Hitchcock, 1942), 201; Felix Somary, *The Raven of Zürich: The Memoirs of Felix Somary*, translated by A. J. Sherman (New York: St. Martin's, 1986), 75.

14. Weber and Mendelssohn Bartholdy were coauthors, with Hans Delbrück and Max Graf Montegelas, of the so-called "professorial memorandum" dated Versailles, 27 May 1919. They argued, "We are dismayed that the totally erroneous theory of the alleged inescapability of trade wars has been promoted and reenforced by a prestigious American author (Veblen, *Theory of Business Enterprise* 1904)." The document has been reprinted in *Max Weber Gesamtausgabe*, I/16 (Tübingen: Mohr Siebeck, 1988), abbreviated *MWG*; see also I/15 (1984), 171ff. Max Weber's mother Helene was a cousin of Cécile, the wife of Felix Mendelssohn Bartholdy and Albrecht's grandmother. Max had personal contacts with Albrecht and with the philosopher Paul Hensel, grandson of Fanny Mendelssohn Bartholdy.

15. See my study, Guenther Roth, *Max Weber's deutsch-englische Familiengeschichte 1800-1950* (Tübingen: Mohr Siebeck, 2001).

16. Howard Becker praised Alfred in the second issue of the *American Sociological Review* (1936):310f.:

> There is no denying the fact that the brilliance of his brother, Max Weber, blinded most sociologists to the outstanding merits of Alfred Weber. Now, however, there is no longer any excuse for overlooking or underrating him; with the appearance of his *Kulturgeschichte als Kultursoziologie* he moves into the very front rank of sociologists not only of Germany but of the world.

17. Translated in 1929 by the young emigrant Carl Friedrich, later of Harvard; see the 1971 reprint (New York: Russell & Russell).

18. Alfred Weber's location theory has recently received some attention again in the German political and academic debates on European and global integration. The advantages and disadvantages of the German economic model and of Germany's industrial locations are highly contentious issues. See Gert Schmidt, "German Management Facing Globalization: The 'German Model' on Trial," in *Challenges for European Management in*

a Global Context: Experiences from Britain and Germany, edited by M. Geppert et al. (London: Palgrave Macmillan, 2003).

19. Alfred Weber, "Deutschland und der wirtschaftliche Imperialismus," *Preussische Jahrbücher* 116 (1904): 298-324; Max Weber, "Agrarstatistische und sozialpolitische Betrachtungen zur Fideikommissfrage in Preussen," *MWG*, I/8, 92-188. Max's Freiburg colleague Gerhart von Schulze-Gävernitz went so far as to argue that in spite of tariff barriers the integration of the world economy has "transcended the boldest dreams of the old free traders" (in "Nation," vol. 15, 1897-98, 329). These views seem to me compatible with an argument recently advanced by Knut Borchardt in "Globalisierung in historischer Perspektive," Bayerische Akademie der Wissenschaften, Sitzungsberichte 2001, Heft 2. Borchardt points out that "economic historians increasingly doubt that liberalization played as great a role as many economists still believe today" (p. 22); other factors, technological developments, especially the transportation revolution and the opening of new lands with lower production costs, are given more weight. Borchardt may go further than Alfred Weber and Schulze-Gävernitz in suggesting that "some degree of protectionism probably furthered globalization until 1914" (p. 23). The argument has now been made explicit by Peter T. Marsh: European economic integration benefited from the ability of governments to use the tariff weapon for bargaining purposes; only Britain, committed to free trade, was without such a weapon. See *Bargaining on Europe: Britain and the First Common Market. 1860-1892* (New Haven, CT: Yale University Press, 1999). See also Borchardt, "Protectionism in Historical Perspective," in *Perspectives on Modern German Economic History and Policy* (1982) (Cambridge, UK: Cambridge University Press, 1991), chap. 1.

20. See Alfred Weber, "Die Standortslehre und die Handelspolitik," *Archiv für Sozialwissenschaft und Sozialpolitik* 32, no. 3 (1911): 667-88, esp. 677ff. Weber did not recognize yet the decentralizing importance of the use of oil instead of coal.

21. See letters to Lujo Brentano of early September 1912, *MWG*, II/7, 649 and 653.

22. See *MWG*, I/15, 115-25.

23. Ibid., 117f.

24. Bundesarchiv Koblenz, NL Alfred Weber. The "dreadful fellow" was Fritz Warburg (1879-1964), who as commercial attaché worked closely with the German minister to Sweden, Lucius von Stoedten, another Weber relative. Symptomatic of the radical difference in perception between Alfred Weber and Fritz Warburg is that the latter criticized the "bad behavior" of German visitors. See his memoir, *Aus meinen Aufzeichnungen* (private edition, 1952), 37-41. The Warburg name is still familiar, at least through the Wall Street firm UBS Warburg. The five Warburg brothers, Aby, Felix, Fritz, Max, and Paul, were legends in their lifetimes; Paul was instrumental in the creation of the American Federal Reserve System.

25. *MWG*, I/5, 124.

26. Letter to Karl Loewenstein, 21 October 1918 (*MWG*, II/10, forthcoming).

27. The metaphor was not an expression of cultural pessimism about Occidental rationalism, as has so often been incorrectly understood.

28. John Maynard Keynes left behind an affectionate memoir titled "Dr. Melchior: A Defeated Enemy," in *Two Memoirs* (New York: Augustus Kelley, 1949), 11-74; the essay was read in 1931 but published only posthumously.

29. Stolper, *This Age of Fable*, 318. Weber was convinced that viable peace conditions were impossible as long as there was a completely one-sided power relationship. On 27 October 1918, he had warned President Wilson, in an op-ed piece in the *Frankfurter Zeitung*, that he could not act as "arbiter of the world" and effective negotiator of the peace conditions without the continued existence of the German army (*MWG*, I/15, 642).

30. G. Roth and Claus Wittich, eds., *Economy and Society*, abbreviated *ES* (Totowa: Bedminster Press, 1968; 2d ed., University of California Press, 1978).

31. See *MWG*, I/5, 2000.

32. *ES*, 106.

33. An abridged translation by H. M. Lucas and J. Bonar appeared in 1924, *The State Theory of Money* (London: Macmillan). The citations below are from the first two pages.

34. Today, Knapp has become practically unreadable, unless the reader remembers schoolboy Greek well. In his first reply to Felix Rachfahl's critique of "The Protestant Ethic" in 1910, Weber defended the use of neologisms and remarked,

> I think it is to the credit of Georg Friedrich Knapp that he had the courage to do this extensively. In the same way Alfred Weber's book on the locations of industry clearly achieved terminological unambiguity. But in our readers neologisms too often meet with a disapproving shake of the head; and professorial vanity fundamentally resists any expression not coined by oneself.

See David Chalcraft and Austin Harrington, eds., *The Protestant Ethic Debate* (Liverpool: Liverpool University Press, 2001), 77.

35. John Maynard Keynes, *Monetary Reform* (New York: Harcourt Brace, 1924), 10.

36. *ES*, 78. Opposing Knapp in 1912, Mises advocated a purely economic theory of monetary value and of purchasing power:

> In an economic system based on private ownership of the means of production, no government regulation can alter the terms of exchange except by altering the factors that determine them. . . . Such regulation could have achieved its aim only in a socialist state with a centralized organization of production and distribution. In a state that leaves production and distribution to the individual enterprise, such measures must necessarily fail of their effects. Hence the concept of money as a creature of the legal order and the state is untenable.

Ludwig von Mises, *The Theory of Money and Credit* (London: Jonathan Cape, 1934), 68f.

37. *ES*, 184. *Lytric* signifies means of payment; *papieroplatic* refers to paper money. For Melchior Palyi's views on inflation see "Das Wesen der Inflation," in *Erinnerungsgabe für Max Weber*, vol. 2, edited by Melchior Palyi (Munich: Duncker & Humblot, 1923), 339-52; see also his essay on the controversies surrounding Knapp, "Der Streit um die Staatliche Theorie des Geldes," *Schmollers Jahrbuch* 45 (1921): 533-78.

38. *ES*, 192f.

39. Last quotations from *ES*, 183-86. After his mother's death Max wrote to his sister Clara Mommsen in February 1920 about Helene's losses in the textile firm Carl Weber & Co., of which Marianne herself was a major shareholder:

> At the time mother's investment appeared very recommendable. But the execrable drop in the exchange rate (*Valutaschweinerei*) has changed everything. Her share is no longer worth 30,000 marks, but only 20,000. In the long run, however, her shares will remain for those of us who have children a very safe investment. (9 February 1920, *MWG*, II/11, forthcoming)

Eighty-year-old Knapp was completely helpless in the face of inflation. His niece remembered,

> Uncle Knapp often told us: Now I have millions lying in my desk drawer, but I am in reality so poor that I can't even buy a hat in spite of my having five honorary doctor hats. [We told him:] First thing tomorrow you will buy yourself a hat and whatever else you need. He replied: How can you advise me to do that, I must not spend so much money. He had not the slightest inkling that on the next day his money would not be worth anything. The housekeeper wrang her hands over her professor. This was the man who had written the famous *State Theory of Money*, which had been translated into many languages, including Japanese, something he was very proud of. But he had not the faintest grasp of practical matters. He was just a very intelligent impractical professor.

Marie Wittich (1873-1966), *Erinnerungen* (typescript 1963). (I thank Claus Wittich, her grandson, for making this passage available to me.)

40. *ES*, 187.

41. Knut Borchardt has been in the center of these debates with his thesis that the distributional conflicts between industry, agriculture, and labor retarded economic growth and that in the early thirties Chancellor Brüning had no alternative to his deflationary policies. See Borchardt, *Perspectives*, chap. 8-11; id., "Das Gewicht der Inflationsangst in den wirtschaftspolitischen Entscheidungsprozessen während der Weltwirtschaftskrise," in *Die Nachwirkungen der Inflation auf die deutsche Geschichte 1924-1933*, edited by Gerald Feldman (Munich: Oldenbourg, 1985), 233-60; Christoph Buchheim, Michael Hutter, and Harold James, eds., *Zerrissene Zwischenkriegszeit. Wirtschaftshistorische Beiträge. Knut Borchardt zum 65. Geburtstag* (Baden-Baden: Nomos, 1994); Harold James, *The German Slump. Politics and Economics 1924-1936* (Oxford: Clarendon, 1986); id., *The End of Globalization. Lessons from the Great Depression* (Cambridge, MA: Harvard University Press, 2001), esp. 17l; Carl-Ludwig Holtfrerich, "Economic Policy Options and the End of the Weimar Republic," in *Weimar: Why Did German Democracy Fail?* edited by Ian Kershaw (London: Weidenfeld, 1990), 58-90.

42. Somary, *The Raven of Zürich*, 120f.

43. In *Deutschösterreich als Sozial- und Wirtschaftsproblem* (Munich: Drei Masken Verlag, 1921), dedicated to the memory of Friedrich Naumann, Stolper made a radical proposal for a *soziale Wirtschaftsstaat* (roughly a welfare state). Dramatizing the unviability of an Austrian rump state, he demanded the *Anschluss* to Germany as soon as politically feasible. In the meantime, to save the people from starvation, he advocated dismantling the old forms of taxation (*Steuerstaat*) and their replacement by self-taxing compulsory corporations, which would be autonomous but united in a *Wirtschaftsparlament* (p. 278ff.). On this score, Weber differed by opposing all projects of a corporatist nature.

44. See Michele Cangiani, "Prelude to *The Great Transformation*. Karl Polanyi's Articles for *Der Oesterreichische Volkswirt*," in *Humanity, Society, and Commitment*, edited by Kenneth McRobbie (Montréal: Black Rose, 1994), 7-24; Richard A. Bermann, "Editorial Meetings of the *Oesterreichische Volkswirt* (1928)," in *Karl Polanyi in Vienna*, edited by Kenneth McRobbie and Kari Polanyi Levitt (Montréal: Black Rose, 2000), 325-27.

45. See Bonn, *Wandering Scholar*, 318ff.; Palyi, *Twilight*, esp. chap. 9. For the state of scholarship, see Barry Eichengreen, *Golden Fetters. The Gold Standard and the Great Depression, 1919-1939* (New York: Oxford University Press, 1992). Like Bonn and Palyi, Arthur Salz, a friend of the Webers, belonged to the shrinking number of liberal economists who defended the rationale for a capitalist order throughout the Weimar period; he ended up in exile at Ohio State University. See "Der Sinn der kapitalistischen Wirtschaftsordnung," *Archiv für Sozialwissenschaft* 52, no. 3 (1924): 577-622; *Macht und Wirtschaftsgesetz* (Leipzig: Teubner, 1930); *Das Wesen des Imperialismus* (Leipzig: Teubner, 1931).

46. See Robert Skidelsky, *John Maynard Keynes*, vol. 3 (New York: Viking, 2000), 201ff., 228ff.

47. In 1940, Stolper also published *German Economy 1870-1940. Issues and Trends* (New York: Reynal & Hitchcock); see also *Deutsche Wirtschaft seit 1870*, 2d ed., continued by Karl Häuser and Knut Borchardt (Tübingen: Mohr, 1966).

48. A. M. Bartholdy, *The War and German Society. The Testament of a Liberal* (New Haven: Yale University Press, 1937), 267 and 55; it was part of the 150-volume series *Economic and Social History of the World War* published by the Carnegie Endowment for International Peace.

49. Skidelsky, *Keynes*, vol. 3, 284.

50. *GT*, 265, 263.

51. Michael Polanyi, *Full Employment and Free Trade* (Cambridge, UK: Cambridge University Press, 1945), 144, 142.

52. After the war, Michael engaged himself in the Congress for Cultural Freedom and also became a member of the Mont Pelerin Society. On the differences between Karl and Michael, especially in their judgments of the Soviet Union, see Endre J. Nagy, "After Brotherhood's Golden Age: Karl and Michael Polanyi," in *Humanity, Society, and Commitment*, edited by McRobbie, 81-112. See now also the illuminating illustrations from the correspondence of the brothers between 1940 and 1945 in Berkeley Fleming, "Three Years in Vermont: The Writing of Karl Polanyi's The Great Transformation" (Eighth International Karl Polanyi Conference, Mexico City, November 2001). Fleming also mentions that Toni Stolper, Gustav's wife and a professional economist, recommended *The Great Transformation* to the Book-of-the-Month Club but with a number of critical comments. I thank Fred Block for making the Fleming manuscript available to me.

53. Charles Kindleberger even spoke of Karl Polanyi's "fervent Christian socialism" in "The Great Transformation by Karl Polanyi," *Daedalus*, winter (1974): 45-52. In 1935, Karl Polanyi edited a volume, with John Lewis and Donald Kitchin, *Christianity and the Social Revolution* (London: Gollancz), to which he contributed an essay on "The Essence of Fascism." See Jordan Bishop, "Karl Polanyi and Christian Socialism: Unlikely Identities," in *Humanity*, edited by McRobbie, 162-78.

54. See Toni Stolper, *Ein Leben in Brennpunkten unserer Zeit. Wien, Berlin, New York. Gustav Stolper 1888-1947* (Tübingen: Wunderlich, 1960), 462f.

55. See Karl Mannheim, *Freedom, Power, and Democratic Planning* (New York: Oxford, 1950): "We propose to plan for freedom . . . [for a] society beyond Laissez-Faire or Total Regimentation on the one hand, and beyond the alternatives of Fascism or Communism on the other" (p. xvii); Eberhard Demm, *Von der Weimarer Republik zur Bundesrepublik. Der politische Weg Alfred Webers 1920-1958* (Düsseldorf: Droste, 1999), 378f.

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