The resurgence of classical liberalism

As Keynesian liberalism evolved to include more and more state interference in the market, a backlash movement grew in the 1950s and 1960s, taking the name of conservatism. In the late 1960s, President Nixon and others attacked Keynesianism, seeking to put more emphasis on economic growth instead of stability. In 1973 the United States replaced its fixed exchange rate system with a flexible exchange rate system, which led to increased speculation on currencies and more money circulating in the international economy. That same year OPEC oil prices hikes led to an economic recession.

Keynesian policies to deal with the recession generated stagflation- the coexistence of low growth and high inflation, which were not supposed to occur together. In this environment of low economic growth and increasing competitiveness, Keynes's ideas were gradually replaced by those of the Austrian Friedrich Hayek (1899-1992) and Milton Friedman (1912-2006). Classical liberalism is a philosophy committed to the ideal of limited government and liberty of individuals including freedom of religion, speech, press, assembly, and free markets.

Classical liberalism developed in the nineteenth century in Western Europe, and the Americas. Although classical liberalism built on ideas that had already developed by the end of the eighteenth century, it advocated a specific kind of society, government and public policy required as a result of the Industrial Revolution and urbanization. Notable individuals who have contributed to classical liberalism include Jean-Baptiste Say, Thomas Malthus and David Ricardo. It drew on the economics of Adam Smith, a psychological understanding of individual liberty, natural law and utilitarianism, and a belief in progress.

There was a revival of interest in classical liberalism in the twentieth century led by Friedrich Hayek and Milton Friedman. Friedrich Hayek and Milton Friedman were two of the main intellectual leaders of conservative IPE. Their more orthodox economic liberal policy ideals and values featured “ minimally fettered” capitalism- or a limited state role in the economy. These increasingly popular ideas laid the intellectual groundwork for what became a distinct variation of liberalism, otherwise known as economic liberalism or neoliberalism.

Hayek’s most influential work, The Road to Serfdom, explored growing state influence that he felt represented a fundamental threat to individual liberty. In his view, the growing role of government to provide greater economic security was nothing more than the first step on a slippery slope to socialism or fascism. He warned against reliance on “ national planners” who promised to create economic utopias by supplanting competition with a government-directed system of production, pricing, and redistribution.

Drawing on older theories of economic liberalism, Hayek argued that the only way to have security and freedom was to limit the role of government and draw security from the opportunity the market provides to free individuals. Friedman wrote of the dangers of concentration of power in the state and the importance of freedom. According to Friedman, government “ is an instrument through which we can exercise our freedom; yet by concentrating power in political hands, it is also a threat to freedom. ” In his book Capitalism and Freedom, he consciously returns to the classical liberalism of Adam Smith.

Friedman stresses the classical liberal view that the market preserves and protects liberty. A state that takes its citizens' freedom through anything more than absolutely necessary action is no better than one that seizes their freedom guided by mercantilist, socialist, or fascist notions of security. Capitalism, with its free competitive market, naturally diffuses power and so preserves freedom. Conservative IPE is a resurgence of the classical liberalism of Smith and Ricardo, rejecting many of the state roles that Mill, Keynes, and others had identified.

Classical liberal thought grew in influence in the 1980s, often under the guise of neo-conservatism. President Ronald Reagan in the U. S. and Prime Minister Margaret Thatcher in Great Britain were influential in the advance of neo-conservative policies. These policies involved privatization of state-run enterprises, deregulation of markets, and tax cuts. In the early 1980s, the classical economic liberal view of IPE reasserted itself even more forcefully through a movement called neoliberalism, which emphasises economic growth over stability.

President Reagan promoted " supply- side economics", which is the idea that lower taxes instead of increased spending by government would increase the money supply and generate its own demand, unleashing capital to businesses and consumers. Other features were the deregulation of banking, energy, investment, and trade markets, promoting free trade. Many national industries were privatized to allow for greater competition and freedom to set prices. Many neoliberals argued that the state was too big and not to be trusted.

Echoing Smith, they maintained that its interests reflected powerful special interests, whereas the market was a neutral tool that redistributes income to those who are most efficient, innovative, and hard working. Although these policies might lead to a greater income inequality, economic growth at the top of society would gradually " trickle down" to benefit labour and society's masses. Finally, the rule of thumb for both popular leaders (Reagan and Thatcher) was that the state was to minimally interfere in all areas of public policy except security, where both advocated a strong anticommunist stance.