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3.1 Liberalism

PLEASE NOTE: This book is currently in draft form; material is not final.

LEARNING OBJECTIVES

In this section, you will learn:

1. What liberalism is.
2. The different types of liberalism.
3. The difference between American liberalism and American conservatism.

Classical Liberalism

Liberalism can be a confusing term because it can mean more than one thing. **Classical liberalism** describes a major direction in western politics, of which American liberalism is a subset. Despite some wild-eyed conservatives accusing President Obama of being a socialist (because that's still dirty word in American politics), both Democrats and Republicans in the United States fall under the umbrella of classical liberalism. In the big picture, U.S. politics are fairly homogenous.

Classical liberalism has two prominent features:

1. A reliance on markets for economic decision making.
2. A reliance on democratic institutions for political decision making.

A reliance on markets means that people get to vote with their dollars, pounds, rupees or euros on what they want to buy and how much they're willing to pay for it. A market is all the producers, sellers and buyers of any product or service, such as the market for smart

phones. In classical liberalism, we tend to try to leave markets alone to function as consumers and businesses see fit. So instead of the state deciding what gets produced and how much it will cost, the market decides through millions of individual transactions. Individuals can own and invest in businesses; businesses have some ability to choose what to make and what to charge for it. We call this economic system **capitalism** (a term first used, perhaps, by the English novelist William Makepeace Thackeray in 1852, although the term “capitalist” appears to be older).

Capitalism aims to promote maximum wealth by letting people try, fail and succeed in business. The Scottish philosopher Adam Smith (who didn't call it capitalism) described this in his work *An Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776. Smith (1723-1790) noted that just letting people do what they wanted to do produced more wealth, more efficiently, than did the prevailing economic theory of the time, mercantilism.

Mercantilism was a very Euro-centric theory (though it has since been applied elsewhere). It argued that the nation with the most gold was the best off. It also argued that nations should maximize imports and minimize exports, while maintaining overseas colonies to serve as sources of raw materials and markets for finished goods. This was the kind of policy that helped spur the American revolution, by limiting the British American colonists' ability to make what they wanted and trade with whom they wanted to. Ironically, perhaps, it is the very strategy that allowed the “Asian tigers”—Japan, South Korea, Taiwan, Hong Kong and Singapore—to grow so much in the post-World War II era—limit imports, maximize exports, and build up domestic industries so they can compete effectively on world markets.

Adam Smith's book is long enough, and few enough people have read it, that it gets used to justify almost any sort of behavior. To our eyes, he didn't understand so much about how prices are set, particularly rents on property (he wrote, more or less, that it was about costs). But he did seem to grasp some ideas that are still with us today. In perhaps his most famous (and in some ways, most unfortunate) phrase, Smith wrote that if people simply tried to take care of themselves (make money), they would in fact make others better off (as if, he wrote, guided by “an invisible hand”—a verbal construction that makes it seem as if economics was some mystical science. It isn't). What Smith was really saying was that by working hard, saving, investing and consuming, people in a market economy generate more wealth, which means they are able to take care of themselves and their families, in the process of which they spend some of that wealth which generates more economic activity elsewhere in society. What is sometimes overlooked in Smith's work is that he understood, explicitly, that people are often trying to rig the market to limit competition, raise prices, and increase profits. Smith reserved special scorn for the East India Company, the government-sponsored monopoly that was in the process of robbing and conquering India and the Indians. In particular, Smith criticizes the company for how bad it was treating the Indians, who were in the process of being excluded from meaningful participation in the economic and political life of their country. Despite (and perhaps because of) its monopoly status—it had no legal competitors for British trade with India—it was a terribly inefficient business, so much so that the British government had to repeatedly bail it out. This led the Brits to dump tea on the North American market, which led to the Boston Tea Party and the American revolution.

The British economy of the time still featured a lot of medieval laws restricting trade and the movement of workers, both of which kept prices high, supply down and the wages of most people lower than they would be otherwise. Smith understood that capitalism would

generate more wealth for more people, as long as markets could be kept free of restraints.

The other half of the classical liberal prescription is a reliance on democratic institutions: In classical liberalism, political decisions are made in some way by people casting votes. States decide who is a qualified citizen, and those people get to vote in free elections. The state may set rules on who can run for office, such as a minimum age requirement, but if you reach that age, the state cannot decide that you can't run. Candidates don't have to be approved by the government before they can seek office. In most if not all instances, citizens elect people who make decisions on their behalf. This kind of government is called a republic.

As with every approach to government and the economy, classical liberalism has its share of strengths and weaknesses. By allowing people to spend and invest as they wish, and by depending on open elections, it provides a higher degree of individual liberty than do some alternatives. It creates opportunity for participating in the economic and political life of a country. By relying on markets to make economic decisions, it tends to produce more wealth, more efficiently (at lower cost). Because it depends upon elections for political decision making, it gives citizens an outlet for their discontent, and allows them to make changes to law and policy.

On the other hand, while classical liberalism tends to produce more wealth, it may distribute that wealth unevenly. An uneven distribution of wealth can lead to wealthy people dominating the political system. They have more money to contribute to election campaigns, and more resources with which to lobby the government. The U.S. Senate is pretty much a millionaires' club now, for example, and while it's not impossible for a very wealthy person to understand the concerns of someone who is poor, it may also be harder for them to understand the concerns of the less wealthy. Because the creation of wealth often gets tied to the broader concept of liberty, the system may have a difficult time dealing with problems generated by market activity, such as pollution. State controls on pollution, because they cost money, lower profits, and, under this equation, loss of profits gets portrayed as a loss of liberty.

Conversely, if the specific political system is more inclusive—gives everybody a real voice—it may not be very efficient in decision making, and may in fact be slow to respond to people's needs. So, for example, in the United States, the financing of the Medicare system faces problems down the road. Although it's a train wreck that everybody can see coming, the political system has so far been unable to deal with it because, in part, because of pressure from so many interest groups. Nobody wants to pay higher taxes to pay for the system, but nobody wants to reduce benefits in any way. While the political system may eventually deal with this, it might be better to deal with it sooner rather than later.

The form of the republic is not terribly important in considering how liberal it is. So it doesn't matter if the republic is a constitutional monarchy, a parliamentary democracy, or has an American-style division of power between president and the Congress. What matters is the availability of free and fair elections. Scholars classify some republics as "illiberal democracies," because although there are elections, they don't appear to be completely free and fair, such as in Russia. They may have either a parliamentary or a president/legislative government, but the system does not always work as advertised. Singapore is sometimes called an illiberal state, because of the dominance of a single party and restrictions on civil liberties. Mexico was an illiberal democracy for much of

the 20th century, when the Institutional Revolutionary Party won every national election, regardless of the actual vote count.

American Liberalism

Classical liberalism isn't what many people in the United States mean when they say "liberal," however. **American liberalism** is a particular flavor of classical liberalism. Originally, it was a political philosophy that argued that government had a positive role to play in society. This movement and its cousin, **progressivism**, grew out of the reaction to the excesses of late 19th and early 20th century capitalism—no protections for workers such as a 40-hour week and mandatory overtime, child workers chained to factory floors, and very few health, safety and environmental laws.

Progressives (which some liberals have begun to call themselves, after American conservatives managed to turn "liberal" into a dirty word) saw a world that was dominated by big business and by big city political machines. Big business limited competition and raised prices through the creation of trusts, conglomerations of firms in the same market so that one really big company dominated the entire market. Big city political machines dominated urban politics for much of the first half of the 20th century, uniting blocks of immigrant voters behind regimes that controlled much of what happened in large cities. While they empowered the powerless, who had been excluded from the political spoils of city life by business interests, they tended to exclude all the people who didn't agree with them. So the Progressives pushed for electoral reforms such as non-partisan elections (in which candidates don't run on the basis of party), open primary elections (previously dominated by party organizations, who thus controlled which candidates got on the ballot), and a stronger role for government in economic management (such as breaking up the trusts).

American liberalism can find its roots in the Progressive movement, but it really took flower after the Great Depression. Private charity was completely overwhelmed by the high level of unemployment, and so American politics turned heavily toward an active role for government in economic and eventually personal affairs. Liberals fought for more protections for workers and unions, a broader social safety net for the poor and unemployed, and health, safety and environmental regulations. As always, this approach to government has both costs and benefits—fewer people starving to death (which sometimes happened before welfare and unemployment compensation), versus higher taxes and higher costs for businesses and consumers, driven in part by complying with more regulations.

American Conservatism

American conservatism, like American liberalism, is a subset of classical liberalism, though perhaps a tiny bit closer to the ideal. American conservatives have tended to argue for less government involvement in the economy, a movement that also grew out of the Great Depression. As the size and scope of U.S. government grew in the post-World War II era, conservatives began to argue that taxes and regulation were hampering economic growth and actually lowering people's standards of living. Conservatives argue that people should be able to make their own choices about where to spend their money, pointing out that taxes to support government programs effectively make those choices for you. They also argue that too wide a social safety net discourages people from working and taking care of themselves.

Traditional American conservatives tend to favor lower taxes, a balanced federal budget and less regulation of the economic system. In more recent years, however, a subset of American conservatives have become more concerned about issue such as abortion rights and gay marriage, topics that traditional conservatives might have avoided. For some conservatives, less government means less government. Others, including some who might call themselves Christian conservatives because of their faith, support social legislation to ban some kinds of behavior and encourage others. Conversely, so while American liberals have usually tended to advocate more government involvement in economic life, they now tend to favor less government involvement in private life. Religious conservatives tend to favor less government involvement in economic life, but more government involvement in private life. And liberals and religious conservatives sometimes find common ground over environmental issues. As the American writer Charles Dudley Warner said in the 1800s, "Politics makes strange bedfellows."

Realistically, we shouldn't be surprised that people hold opinions (more government in some areas, less in others) that don't always appear to be logically consistent. When we consider the liberal/conservative dichotomy, it's difficult to draw a clean line. Many of us have issues on which we are conservative, and others on which we may be liberal. For example, conservatives are for less government involvement in the economy, and yet southern conservative members of Congress consistently vote for subsidies for tobacco farmers.

Populism

While we're on the subject of American political isms, we shouldn't forget **populism**. Populism is not so much an ideology as an approach to politics. At its best, populism displays a genuine concern for citizens whose rights and needs have not been considered. At its worst, populists can be as oppressive as the people they replaced. A lot of the time, populism often displays a sort of talk-radio level of understanding of complicated issues (which is to say, not very much. Talk radio hosts on the left and on the right often seem to oversimplify complex topics, without always grasping the difficult choices behind them).

Generally speaking, populists make an appeal to the common person, and claim to represent their interests, as opposed to the interests of the rich and powerful. American political figures such Huey Long, Ralph Nader, Ross Perot and Pat Buchanan were or are populists. Venezuelan President Hugo Chavez, who claims to represent the common people of his country but who has also enriched his family while in office, is a populist. Populism is a common theme in American politics; most American political candidates attempt to paint themselves as ordinary folks just like you and me. A movie such as *Dave*, a 1993 film starring Kevin Kline, plays on the American attraction to populism. Kline plays an average, well-meaning guy who's a dead-ringer for the president. When called upon to fill in for the incapacitated (and not very nice) president, Dave, among other things, manages to balance the federal budget with the help of his accountant over sandwiches one night. (Seriously, if it were that easy, wouldn't it have happened by now?) But the theme is common throughout American politics—if only honest, hard-working people of good moral standing could make it into office, all of our problems would go away.

Populists are fond of bashing big business, and/or big government; of promising to stand up for the little guy; and of vowing to save the nation from its certain doom. The problem with populists is that in those rare occasions where they get elected to major office, they

tend to run things in the very way they have criticized the establish order about—high-handed, unresponsive, with surprisingly little real concern for what might best serve the state as a whole. When Huey Long became governor of Louisiana in 1928, he raised taxes on oil companies, got free textbooks for school children, and got roads and bridges built for a state that desperately needed them. However, he also forced state employees to donate 10 percent of their wages to his re-election fund, doled out highway contracts based on who kicked back the most money, harshly punished political opponents, and, by the time he was assassinated in 1935, had become the virtual dictator of the state. So while populists, like most people in politics, mean well, they don't always perform well.

Libertarianism

Libertarians believe in the least amount of government possible—national defense, police and fire, and not much else. (I'm over-simplifying here, but not by much). True libertarians are not at all concerned with social issues, as they don't see that as government's job. Hard-core American libertarians tend to oppose a global role for the U.S. beyond trade and commerce, leaving most decisions about everything up to private citizens.

Libertarianism grew out of the reaction to Soviet-style communism in the post-World War II era. Soviet-style communism was not noted for its commitment to liberty of any kind, and a number of writers, such as the novelist Ayn Rand, and economists such as Ludwig von Mises, Friedrich Hayek and Milton Friedman pushed for hands-off approach for the state.

Libertarianism offers considerable freedom of choice on a range of issues, and this is its chief virtue. By not encumbering the economy with higher taxes and regulations, it may promote economic growth. And the idea of maximum personal freedom is often very appealing. But to argue that if less government is better, then nearly no government is ideal is a difficult assertion. For one thing, the government of the United States (and parts of Europe) in the late 19th and early 20th centuries was very much like the libertarian prescription. Government was incapable of dealing with economic downturns, and people suffered as a result. Workplace, food and transportation safety issues were not addressed, and the concentration of economic power tended to prod government to favor the wealthy even more. The first anti-trust laws, passed to break up business monopolies, were used instead to prevent workers from forming unions. You might think that's a good idea or a bad one, but if businesses can organize, why not workers? (You will, as always, have to make up your own mind on questions such as this.)

Libertarianism doesn't seem designed to deal with environmental issues in particular, as markets by themselves aren't always very good at dealing with problems such as over-fishing and air and water pollution. Libertarians would argue that such questions really are a matter of property rights, as in if what you do impacts the value of my property, then I have a valid complaint. However, that presumes that not much that happens on my property will impact your property, a notion that some ecological scientists would probably take issue with.

Libertarianism appeals to some people in current American politics, perhaps because when government does not seem to be performing well, the idea of less government sounds like a potential improvement. Many Americans are sympathetic to the notion of keeping the government from telling people how they should live. We might call that small "l" libertarianism, as opposed to those who belong to or support the Libertarian

Party, which seeks to win elections to put their principles into practice. Some citizens probably also find appeal in the notion of a smaller government in hopes that would mean lower taxes.

It's an open question whether libertarianism could be made to work better than it did in the 1800s. Some people would tell you that it worked just fine; others point to the problems of the era as evidence that it didn't work all that well. A lot of services that government provides would go away, and how much infrastructure investment—roads, bridges, port facilities, public education—would happen under a libertarian government is not clear. Obviously, I'm skeptical of this ideology, though you may not be (and that's OK). Libertarian students will sometimes respond to my criticisms of libertarianism by saying "But Any Rand said..." to which I reply, "For an economist, Ayn Rand was a helluva novelist." Suffice it to say that libertarianism, like most ideologies, has its strengths and weaknesses.

KEY TAKEAWAYS

- Classical liberalism is currently the dominant political and economic philosophy in the world.
- Classical liberalism and its variants all have strengths and weaknesses.

EXERCISES

1. What seems to be different between American conservatives and liberals at present? In what ways would you say you are conservative or liberal in your political beliefs?
2. If Libertarians were to win enough elections to take charge of a government, what changes would happen? How would people respond to the changing mix of public services and taxes? How would this work?