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The following article is from the January 2010 “Ask the Professor” discussion about the economics of fascism with Dr. Steven Horowitz.

The topic of fascism is so vast that it will be very hard to do it justice in this short space. To make it manageable, I want to focus on the economics of fascism. That is, what were the economic institutions and practices that were put into place by fascist regimes in places such as Mussolini’s Italy and Hitler’s Germany?

In exploring this question, I hope to make two points. First, contrary to the accusations made by many on the Left, fascism is not some extreme form of capitalism. I hope to show that it’s more accurate to say that fascism is a form of socialism. Second, there are indeed similarities between the economic practices of 20th century fascism and some of the transformations we are seeing in the US economy and elsewhere in the Western world, particularly in the wake of the Great Recession.

What the fascism of Italy and Germany shared was a rejection of the liberal order of the 19th century. The influential thinkers in both countries disdained capitalism and democracy as both “individualist” and “internationalist.” The problem with both systems was that they paid insufficient attention to the collective needs of the nation. Capitalism in particular allowed individuals to profit as they saw fit and that led to them placing profit over the common good of the nation. It also led to the breakdown of international barriers through free trade. The intellectual architects of the various fascist movements thought that the collective goals, especially the military ones, of a nation were to be valued far more than the crass commercialism of capitalism. As a result, they rejected free markets and the other trappings of capitalism (and democracy).

At the same time, however, they also rejected classical socialism. Marxian socialism argued that one’s class was the most important element of one’s identity. For the fascists, putting one’s class over one’s nation was a mistake; one’s national (or racial) identity should be primary. The Italian worker had more in common with the Italian capitalist

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than the Italian worker did with a German or Russian worker. Nation trumped class.

What emerged as the fascist economic system then was a combination of the socialist rejection of capitalism and the nationalist rejection of internationalist socialism. It’s not coincidental that “Nazi” was short for National Socialist German Workers’ Party. The very name suggests that the fascists started from a socialist premise (including the emphasis on being a “workers’” party), but added the “nationalist” (and specifically “German”) twist. Rather than have full-blown socialism as we saw in the early years of the Soviet Union, the fascists generally preferred hybrid forms that often maintained the appearance of elements of capitalism, but with a much larger role for the state in allocating resources. A look at the Nazi Party platform of 1920 shows the very strong influence of socialism in the economic planks, including objections to the earning of interest, the desire to nationalize industries, the confiscation of profits, and land reform. Not all of these were put into place when Hitler gained power, but the Nazis’ antipathy toward capitalism is quite clear, even as they often co-opted big business into their power structure in during their reign. The trappings of private ownership were often preserved, but the Nazis used the power of the state to try to ensure that private ownership was used as a means toward the national ends that they defined.

The Italian model was similar in its broad outlines, though different in its execution. The Italians were more clear than the Germans about the way in which market competition was destructive of national goals. They didn’t see Russian socialism as a solution for the reasons noted above. Instead, they argued for industry-level partnerships among labor, capital, and the political class. The idea was that by working collectively, these cartel-like organizations could resolve questions of what to produce, what price to charge, what wage to pay, and the like all without the need for cut-throat competition among firms or workers, or the use of strike threats between workers and capitalists. By putting national interests first, these collectives could plan out production industry by industry and ensure a cooperative peace among Italians. So, once again, the system kept some of the trappings of capitalism, such as nominally private ownership, but set them in a system where collective planning of a limited, and nationalistic, sort was the overarching structure.

Both of these systems are probably most accurately called “corporatism.” In such a system, we get these sorts of private-public collaborations in which private ownership is combined with state control and privileges for labor, and where all are expected to serve some larger national goal. It looks like private ownership, which is often the source of the claim that fascism is a form of capitalism, but the degree of distrust of the unplanned order of free markets and the de facto power that falls into the hands of the state to set goals both point to it as being more accurately a form of socialism or planning.

This brief overview should shed light on what most people mean when they refer to the ongoing increase in government involvement in the US economy as “fascist.” Most people are not saying that concentration camps and book burning are right around the corner. The thoughtful folks are pointing out, quite seriously, that the bailouts, the government ownership stakes in the car companies and banks, as well as the various public-private partnerships that have characterized the end of the Bush years and the beginning of the Obama administration do represent (more of) a move away from market capitalism, though not toward true socialism but something else, namely something much like the economics of fascism. Many of these changes have been justified by reference to the need to “save” the US economy or other overarching national goals, again akin to the arguments the fascists made for rejecting both capitalism and classical socialism.

As I have argued in previous columns, any movement away from markets is likely to impoverish people. And as Hayek argued in...
The Road to Serfdom, giving people power over the economy also means giving them power over the rest of our lives as we cannot separate “economic ends” from non-economic ones. 

Unfortunately, ignorance about the economics of fascism has led to much misunderstanding of all of these points. Although a few people do think that the jackboots will be kicking in the doors any day now, they are the exception not the rule. Most of those who are seeing elements of fascist economics in the response to the Great Recession are genuinely concerned about the corporate-state partnerships and the increasing government role in the private sector in the name of national needs. These changes run a serious risk of damaging the economy permanently and do encroach that much more on individual liberty, both in the market and the rest of our lives. Recognizing it now for what it might become is the first step to ensuring that the future is one of more, not less, freedom.

Lisa asks:
If these fascist leaders felt that nation trumped class, isn’t this simply a way of encouraging the public toward nationalist pride, and thus entrusting more and more power to their “nationalist” leader who probably cares more about their own power than about the nation? Were these leaders always elected? Can we incorporate public choice theory here somehow?

Professor Horwitz writes:
Great questions, Lisa. I’m not sure the “national pride” stuff was as calculated as all that. I think they really did believe in it, although it certainly also made it more likely that they would have popular support. And yes, in fact fascist leaders were generally elected. Hitler was, although there are issues with how clean the election was.

You can read all of this as a giant rent-seeking machine if you want. It certainly helps to explain why so many capitalists went along with fascism so willingly—they stood to gain from it if those in power liked them. It also explains why we’re seeing movement in this direction in the US today. It’s Horwitz’s First Law of Political Economy: no one hates capitalism more than capitalists. It also helps to have a crisis (as Germany did after the hyperinflation of the 20s) to make the case that a strong leader is needed to restore national pride.

Frankie Paul asks:
It seems contentious to compare FDR and Mussolini. Regardless, was the reason FDR was less overt and militaristic because US citizens were more strongly rooted in the idea of fundamental freedoms?

Professor Horwitz writes:
It’s contentious alright, but it’s true. You can look it up. :)

I think you’re probably right, Frankie. We did/do have a stronger culture of individual freedom, but do keep in mind that many in the 1930s were willing to toss that away in the name of fighting the Depression (sound familiar?). I think probably more important was that we had a written constitution that provided protection for those freedoms, even if it did so imperfectly in time of crisis.

The two most fascist parts of the New Deal—the National Industrial Recover Act and the Agricultural Adjustment Administration—were both ended by Supreme Court decisions that declared them unconstitutional. I think that was the big difference. Had we not had a truly independent judiciary and written constitution, I suspect the history of the last 75 years would have been very different and we’d be a lot less free.
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