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**FROM THE PAST TO THE FUTURE:
IDEAS AND ACTIONS FOR A FREE SOCIETY**

CHAPTER SEVEN

**THE ROAD NOT TAKEN OF
“NUOVO LIBERALISMO”**

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The Road Not Taken of “Nuovo liberalismo”

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In 2009, the German Parliament approved a balanced budget amendment of the German Basic Law (article 109). The amendment prohibited any degree of structural deficit for local government (Länder) and allowed a very limited deficit (0.35% of the GDP) for the federal state. A balanced budget was aimed for 2016. Since 2012, Germany has run budget surpluses.

In 2012, the Italian Parliament approved a reform of Article 81 of the Constitution, aiming to enshrine into the Constitution a structural balanced budget rule. Italy run a fiscal deficit ever since.

There are certainly reasons other than political culture which explain the different fiscal behaviour of Italy and Germany in this period. In particular, Germany enjoyed “ an unexpectedly dynamic recovery since 2010” (Rietzler and Truger 2019: 12) whereas Italy only returned to a positive growth rate in 2015 and has had sluggish growth ever since.

Yet political culture certainly played a role, also in defining other countries’ and investors’ expectations. Today Germany is the country most closely associated with “austerity” (Blyth 2013), to the point that “Ordoliberalism” is seen as sort of a code word for German imperialism.

Left-of-center commentators and economists seem to believe that “the problem” (as they see it) lies in the fact that in Germany “Keynesianism never really took hold” (De Long 2015). While the idea that “German economists feed at the trough of ‘Ordoliberalism’” was previously exposed as a myth (Burda 2015), it is clear that some Ordoliberal ideas did stick with the German political imagination. The German CDU, the Christian Democratic Party, regularly pays lip-service to Ordoliberal ideas (see Gauck 2014): now, lip-service is a big thing in politics, it means politicians believe there is something to gain by associating themselves with some thinkers and ideas. Furthermore, consider the constant polemics between the Bundesbank and the European Central Bank, with the first emphasising the limits of the latter’s mandate, and in particular the need to focus on keeping inflation under control. This *leitmotif* of the European political discourse would escape our understanding, if there was no ground to Jacques Delors’s famous observation that “not all Germans believe in God, but all believe in the Bundesbank.”

In recent years, the turn towards fiscal probity in Germany originated in the government’s previous reliance on borrowing to take up almost the whole fiscal brunt of the country’s unification in the early ’90s. Germany has had very few classical liberal, “supply side” reforms in the last eighteen years, after the liberalisation of the labour market with the Hartz reforms. Yet there seems to be a widespread allegiance to the ideas of sound money and fiscal responsibility.

It is easy to forget that in the 1990s Italy experienced a short phase of fiscal probity too. In 1994, after a whole ruling class had been wiped away by the “Mani pulite” (Clean hands) investigations in

Milan, the country was weak and perceived as an economic basket case. Public debt reached 121% of GDP (it had reached 100% of GDP as recently as 1990). Entering the European common currency was seen as a necessity to re-establish the country's reputation. With such a goal, Italy did its homework. In the course of six years the government enacted fourteen "budgetary corrections" and two substantial reforms of the social security system (1992 and 1995). The country also enacted a wide program of privatisations, ranging from the state telephone company to highways to banks and insurance companies.

But Italy's 1990s fiscal probity proved to be a fleeting endeavour and was happily abandoned by the whole of Italian political parties. Its "fiscal populism," a bipartisan rejection of fiscal rules, has deep roots (Boggero 2020).

In *The Birth of Biopolitics*, Michel Foucault observes that for a government to *stay* relatively limited and frugal, it ought to be established on some classical liberal foundational myths: in the U.S., for example, "the demand for liberalism founds the state rather than the state limiting itself through liberalism" (Foucault 2008: 217). Something similar may have happened to post-WWII Germany, where de-nazification required a profound change in the pantheon of political symbols.

We are on safe ground if we observe that, in Germany, the influence of the Ordoliberals contributed to "institutionalize" some key ideas, like the independence of the central bank or competition policy (on the influence of Franz Böhm, see Kolev 2019). Neither the Bundesbank's independence nor the Bundeskartellamt (the anti-trust authority) were mentioned in the German constitution, but they came to enjoy such a reputation that it made them semi-constitutional bodies.¹ The famous Godesberg Program, adopted by the Social Democratic Party in a "reformist" drift in 1959, can be seen as an attempt to come to grips with such institutions.

Italy lacked a similar development. Italian "neoliberalism" therefore was pretty much a road not taken: this, in spite of the fact that, in the immediate aftermath of WWII, it was actually a reality as concrete as the German one.

1. Luigi Einaudi and the Italian Reconstruction

"Postwar Italy was initially made by economic liberals such as Luigi Einaudi ... Einaudi's emphasis on the importance of rules in framing economic life had a clear similarity with the thoughts of the German Ordoliberals" (Brunnermeier, James and Landau 2017: 238). Indeed Luigi Einaudi (1874-1961) himself spoke of a "'nuovo' liberalismo," though he quickly specified that "in principle, there is no substantive difference between the two strands of liberalism. Liberalism is one, and endures in time, but each generation needs to face its own issues, different from yesterday's and renewed by tomorrow's problems" (Einaudi 1945). Thus neoliberalism is simply an attempt to adapt the great principles of 19th century liberalism to the issues and challenges of the contemporary era.

I think we can safely say that, during his lifetime, Luigi Einaudi was second to no other liberal of his generation when it comes to personal prestige.. "Very few individuals anywhere in the world

¹ The Bundesbank's independence was consolidated in a series of conflicts with the executive and political parties over economic policies. See Bernhard (2002: 60-64).

have accomplished so much in a single life,” to echo Alberto Alesina. Einaudi was “economist, historian, moralist, editor of several academic journals, public intellectual and regular contributor the Italian newspapers, correspondent of *The Economist*, Senator, central bank Governor, and the President of the Republic” (Alesina 2009: 16). Plus university professor and minister.

His career as a journalist, in a time when newspapers forged public opinion, made him a household name. But perhaps his achievements have something to do also with Einaudi’s moral qualities, his reputation for probity and sobriety,² which made him a recognisable “personaggio” in the Italian political theatre.

Einaudi was invited to the first meeting of our Society in 1947 – but he was busy elsewhere. After the fall of fascism, he was appointed President of the Italian Central Bank in 1945 and in June 1947 he became Budget Minister and Deputy President of the Council of Ministers. The first meeting of the Mont Pelerin Society was instead attended by another Italian, philosopher Carlo Antoni (1896-1959), who was a follower of Benedetto Croce (1866-1952) and a prominent man of letters.³

The Mont Pelerin Society traditionally had only a handful of Italian members. This was true from the beginning, and surely it is consistent with the unpopularity of classical liberalism in Italian academia to this day. Yet in the very years our Society took its first steps Italian liberals had a unique opportunity to make a sort of “benign neglect” the de facto economic policy of the Italian government. As it turned out, they only succeeded in part and miserably failed in many respects.

The Italian post-war reconstruction can be seen as akin to the German one. Similarly, policies of liberalization that allowed for rapid industrial development were followed in both countries. Similarly, they can be traced back to a group of intellectuals that, since they have not been tainted by any allegiance to the fascist regime, enjoyed a certain prestige and could “transfer” it to their liberal ideas.

However, there were also substantial differences, two being the most notable.

First, different than in the German case, Italian liberals never came to be perceived as a “school.” They were for the most part economists that had been educated in the pre-fascist era, when Italian economics was “second to none” (Schumpeter 1954, 855)⁴ and achieved international prominence thanks to Pantaleoni (1857-1924) and Pareto (1848-1923). Younger economists, educated to believe and preach fascist corporatism, respected them but clearly saw economic life differently.

Second, whatever the benefits of benign neglect in the short term, they were never quite “institutionalized.” The Bank of Italy, though enjoying a wide prestige, was never the counterpart of

² The most famous anecdote dates to Einaudi’s tenure as President of the Republic. Journalist Ennio Flaiano was invited to the Quirinale, the Head of State’s residence, for a dinner together with other intellectuals. When fruit was served at the end of the dinner, Einaudi said: “I’d like to have some, but these [pears] are too large. Does anybody wish to share half with me?” Referring to widespread corruption in the Italian Republic, Flaiano noted that after Einaudi the era of “undivided pears” begun (Flaiano 1970).

³ It is likely that Antoni was an acquaintance of Wilhelm Röpke and recruited as such (Cubeddu 2002: 163fn).

⁴ Einaudi and the group of scholars headquartered around him in Turin were the main catalyst of such developments in scholarship (Marchionatti, Cassata, Becchio and Mornati 2010).

the Bundesbank in its economic preaching. A constitutional proviso on competition policy and monopoly was discarded and the country chose not to have a competition agency until 1990.⁵ The constitutional article which was meant to require a balanced budget was substantially ignored ever since the 1950s.

2. *The Free Market element in the Italian reconstruction*

According to a major critic of Italian free marketeers, Italy enjoyed a de facto classical liberal economic policy "from February 1944 up to 1952" (Saraceno 1977: 143). This could be explained by "several factors" A substantial one was that "a number of much esteemed and extremely learned economists participated from a privileged perch to the government operations and the public debate in those years. [Yet] a greater weight should be placed on ... the widespread inclination to identify anti-fascism with free-market economic ideas... and, of course, the political influence of the interests advantaged by free-market policies" (Saraceno 1977: 125).

The last point – the eternal burden of economic liberals, namely the prejudiced view that *laissez-faire* would be a boon to industrialists – reflects Pasquale Saraceno (1903-1991)'s own views (he was, in today's jargon, a champion of "state capacity"). More worth considering, in our context, are two other points he made: the identification of anti-fascism with economic liberalism, and the prestige of economic liberals..

Among the latter, Einaudi was clearly the leader. But there were other notable figures too, both on the strictly political and on the scholarly side.

Liberal politician Marcello Soleri (1882-1945) was briefly Minister of Labour. He enjoyed substantial prestige because he never acquiesced to fascism.

Epicarmo Corbino (1890-1984), a self-described "Marshallian" economist (Cavaliere 2012) and a stubborn advocate of free enterprise, was Minister of Industry in 1945 and Treasury Minister in 1946, successfully opposing the Communists' plan to levy a real estate tax.

Giovanni Demaria (1899-1998), deputy rector of Bocconi University in 1945 and later a Mont Pelerin member, had an intense journalistic activity at the time and chaired a committee that produced some preliminary work on economic matter for the Ministry for the Constitutional Assembly – and, thus, the work of the Constitutional Assembly itself (the Ministry was created to pave the way to the Assembly).

Costantino Bresciani-Turroni (1882-1963), whose highly renowned *The Economics of Inflation* was published in 1931 and translated into English in 1937, was a member of the Constitutional Assembly and wrote in 1945 the economic manifesto of the Liberal Party. Publishing the second edition of his *Introduction to Political Economy* in 1945, Bresciani-Turroni attempted to lay down some principles for post-WWII Italy.

⁵ Classical liberals are rightly skeptical of antitrust (see, *inter alia*, Armentano 1990) but, in the Italian case, the decision *not* to have an antitrust authority was motivated by the political will to preserve government monopolies as they were – not by an understanding of the dynamics of competition inspired by the Austrian school of economics.

Ernesto Rossi (1897-1967), who later became more famous as a journalist, was a high school teacher who had been jailed by fascists in 1930. In jail, he studied economics (that Einaudi took him under his wing enabled him to receive books) and translated an abridged version of *Collectivist Economic Planning* (without Enrico Barone's essay), which was published by Einaudi's son publishing house. After the war, Rossi was appointed President of ARAR (Azienda Rilievo Alienazione Residuati): this was an agency established to privatize the "left-overs" of the British, American and German armies on the Italian territory. Rossi deployed ARAR to the service of free-market policies. He needed to deal with the U.S. government, which was claiming 160 million dollars (at 1945 values) as the price of the military equipment left in Italy on the one hand, and with several Italian industrialists on the other, who strove to grab valuable resources, from rubber and metals (steel, nickel, copper, tin) to vehicles (some 300,000, at a time when the motor-vehicle fleet circulating in Italy was in the low 10,000s). This material proved to be an essential resource for the Italian post-war reconstruction. As Chairman of ARAR, Rossi established the principle of public bids for the sale of small batches of materials, to counter the demands of great organised groups, corporatist influences and the assaults of trade unions.

Thus, we can indeed see that, like Germany, Italy had quite a few prestigious figures, who steered it in a more, albeit precarious, classical liberal direction.

Such a turn was helped by the fact that it was recognised (at least then!) as antithetical to the way in which fascism attempted to "manage" the economy.

It is true, as our intellectual opponents never cease to remind us, that when Benito Mussolini took office he expressed some moderate support of a free market economy, and balanced the budget in 1923. Yet he soon took another path, becoming a champion of a "corporatist" economist reminiscent of Medieval guilds. The bulk of Italian banks were nationalised when IRI, the Istituto per la ricostruzione industriale [*Institute for Industrial Reconstruction*], was established in 1933. On May 26, 1934 Mussolini could declare to Chamber of Deputies that "Three-fourths of the Italian economy, industrial and agricultural, is in the hands of the State." By 1939 the IRI and other government agencies "controlled over four-fifths of Italy's shipping and shipbuilding, three-quarters of its pig iron production and almost half that of steel." According to Martin Blinkhorn (1994: 35) "this level of state intervention greatly surpassed that in Nazi Germany, giving Italy a public sector second only to that of Stalin's Russia."

Price controls were established first in 1935 and tightened in 1940, when Italy entered the war. Italy's participation in WW2 was "an economic disaster. Whereas between 1915 and 1918 GDP had grown on average by 1.9 percent per annum, it decreased on average by almost 10 percent every year between 1940 and 1945" (Toniolo 2013: 20). In 1945, Italy's GDP per capita stood at the level of 1906.

The reconstruction was fast: by 1949 Italian GDP was already 10 percent higher than in 1939, the best pre-war year. 1945 had seen the worst depression in consumption⁶ but by 1950 consumption reached back its pre-war highest levels⁷ (Saraceno 1977: 7). In 1953, "Italy's pro-capita income,

⁶ Consumptions decreased to 40% of pre-WWII levels.

⁷ In the meanwhile population increased by 2 million people: Italian population was 43,4 million in 1938; 45,3 million in 1945; 47,7 million in 1953.

with a population increase of some 3-4 million as compared to the pre-war years, was 31% higher than the highest pro-capita income reached before the war” (Saraceno 1977: 16)

Furthermore, the integration with the international economy was a success: “the share of exports of goods and services as a percentage of the national product grew to 21% in 1965 from 8% in 1938” (Baffi 1966: 12).

Can these successes be considered the outcome of free-market policies?

In 1947, price controls, beginning with the administered price of bread, were basically abolished. The country had a period of runaway inflation, instrumental in wiping off most of the government debt. Yet, summer 1947 onwards, the Bank of Italy took an “orthodox” (as the critics would call it) macroeconomic policy stance (the lira was a remarkably “sound” currency for the 1950s), was admitted to the Bretton Woods institutions and chose firmly to integrate into the international economy.

It is widely recognised that, if “since the time of the crisis of 1929 an autarkic drive had impacted [Italy’s] production development, ... after the war, in contrast with the previous autarkic policies, a policy was adopted of deeply engaging our country with the international economy” (Saraceno 1977: 4).

Can we trace these policies back to the action of classical liberals?

Einaudi was surely personally responsible for the masterful management (between discretion and injunction) of the central bank. He and Corbino could be credited for pushing the idea of a profound Italian integration in the European economy. Such an idea found a friendly hearing from Prime Minister Alcide De Gasperi (1881-1954) who, though being relatively unschooled in economics,⁸ had a strong sense of the new Republic belonging to Europe and the Western world.

Furthermore, we can say that liberals perceived the reconstruction as an opportunity to foster a different understanding of the relationship between state and market.

Costantino Bresciani-Turroni published the second edition of his *Introduzione alla politica economica* published in 1944. In the book he argued explicitly that price controls, even relatively successful ones as the ones he saw implemented in Germany, won’t survive peace. “The issue of government-imposed price controls should be reviewed in the light of the requirements of a peacetime economy. The challenges, the flaws, the inherent systemic unbalance – accepted today as the consequences of measures justified by the anomalous circumstances created by a war – will appear increasingly serious as the need of those measures will disappear and new needs will made themselves manifest, namely, the need of repair, by means of a swift increase of production, of the material destruction occasioned by the war” (1944: 166)

That work by Bresciani-Turroni aimed, in a certain measure, to rebuke the idea, popular at the time as it is today, that “the semi-liberal economy of the past is definitely waned and that, even after this war is over, a system of regulated economy will persist” (371). A regulated (corporatist) economy

⁸ Yet De Gasperi had a good grasp of fundamental questions, being for example personally committed to the idea that only a balanced budget could help to restore confidence in the Italian lira (Gioli 1980: 69).

for him was not “a new economic system, a synthesis of sorts between individualism and socialism. it is but a series of encroachments that – albeit on perfectly justified political, social, and moral grounds – hinder the achievement of the maximum production” (372). Its key feature was the rejection of “economic laws” (373), by which he meant the principles of classical political economy that “foist ... limits on the government’s scope” (379).

Breciani-Turroni (a gifted scholar though perhaps not the most gifted of economic popularizers) set to explain to the public why the command and control economy should not survive the war.

Indeed, for a little while at least this notion seemed to have traction, in Italy. The circumstances were helpful: the dramatic collapse of the fascist state, the time needed to re-engineer the bureaucracy, the sheer lack of concrete proposal for planning and top-down regulation of the economy left a *vacuum* which the liberals filled. I do not want to suggest that they had an honeymoon with the other Italian political parties, as they needed to play the political game in full, including resigning as Corbino did in 1946 (from a government that included communists and socialists), but to the effect to save the policy of limited spending and moderate taxation which he pursued as Treasury Minister (Gioli 1980).

Leftist parties were strong but the strongest of them, the Communist Party, exhibited a certain degree of prudence in moving its agenda forward. Even at the first Economic Congress of the Italian Communist Party “there was no request for a planned economy” (Martinelli 1976: 36). The idea of a thorough socialisation of means of production were postponed until after electoral victory, were it to come in 1948. More “moderate” left-wing parties (the Socialists and, in particular, the Republicans, always the political arm of Italian Keynesianism) were more pressing in their demands but, overall, the policy the De Gasperi government followed was one of liberalization, control of inflation, limited spending.

3. The Italian Constitution

What did go wrong, then?

Buchanan (1919-2013) distinguished between two levels of public choice – the initial or first level sets the rules of the game through the choice of a constitution and the second or post-constitutional level involves playing the game within the rules.

The liberals, in the immediate aftermath of WWII, played a good game in the post-constitutional level, in crafting policy choices – but they lost the game at the constitutional level, where at that time the rules were being rewritten.

The Italian Constitution was not the brainchild of a team of jurists or of one or more “technical” committees: it was the outcome of a Constitutional Assembly, elected with a pure proportional representation system.

In such an Assembly, the Christian Democrat, the Socialist and the Communist Parties commanded 75% of the votes and, therefore, of the seats. The first Liberal list gained 6,79% of the votes.

A Ministry of the Constitutional Assembly was to prepare some preliminary work for the future Constitution, and had a specific economic committee, chaired by Demaria. Yet they had little time to work and, according to most commentators, limited influence.

The drafting of the Constitution was done by a “Commission of 75,” an appointed group of the 556 elected members of the Assembly. Luigi Einaudi was a member of such a Commission, though he resigned when he became Treasury Minister. He was part of a group of three liberals, and the only economist. The Commission had quite a few academics within its ranks, but mostly jurists.

The Italian Constitution enjoys a distinctive peculiarity: it was written before it was clear (in 1948) whether the newborn Republic was to stay within the “Western” bloc, or to join the Eastern one. That choice was, understandably, left to voters. The Constitution had therefore to be versatile, possibly accommodating both options. As the leader of the Communist Party, Palmiro Togliatti, noted: “we are drafting a Constitution which is not socialist, but is instead a Constitution fit for a time of struggle for an economic regime of co-existence between different economic forces, which strive to overcome each other” (cited in Beretta 1988: 407).

The first article (the rather sibylline “Italy is a Republic founded upon labour”) and, in general, the discipline of labour relations reflect the wide convergence between Catholic social thinking and full fledged socialism. Italy has a “constitutional right to strike” for workers and four articles of the Constitution that deal with matters pertaining the organization of trade unions. On the other hand, article 41, the core of the “economic Constitution,” reads as follows:

Private enterprise is free.

Its operation may not be in contrast with social utility, nor it may harm safety, freedom, and human dignity.

The law establishes the suitable programs and controls such as public and private economic enterprise may be directed to social purposes.

[L’iniziativa economica privata è libera.

Non può svolgersi in contrasto con l'utilità sociale o in modo da recare danno alla sicurezza, alla libertà, alla dignità umana.

La legge determina i programmi e i controlli opportuni perché l'attività economica pubblica e privata possa essere indirizzata e coordinata a fini sociali].⁹

It is safe to say that the Constitutional convention was driven by a highly skeptical view of free markets. There, as noted by Pasquale Saraceno (1977, 24), “Marxist thought and Catholic social thought met on the issue of controlling the capitalist anarchy.” The result was a Constitution that values private enterprise only for its ‘social utility’ and does not consider private property a necessary bulwark of liberty (on this, the most relevant influence was the Catholic social thinking,

⁹ Bizarrely enough, this formulation, mentioning “programs,” was justified by socialist politician Giuseppe Arata (1901-1990) mentioning Hayek’s Introduction to *Collectivist Economic Planning*, where he advanced “the distinction between a permanent legal framework so devised as to provide all the necessary incentives to private initiative to bring about the adaptations required by any change, and a system where such adaptations are brought about by central direction” (Hayek 1935: 22). If “programs” were mentioned, economic planning was not, because of opposition by Corbino and Einaudi but also by others, including socialist Antonio Labriola (1873-1959) who commented that “at least in Italy, a comprehensive planning would mean the subjection of industry ... to officials” (Barucci 1980: 51 fn).

see Barucci 1980: 39-41). Insofar as they scored some points, the liberals did so in limiting damage, so to say. It is worth noting that such successes came in plenary meetings of the Assembly, and not in the committee of 75 where the actual drafting was done (Barucci 1980: 53-54).

It is worth mentioning two of the battles that Luigi Einaudi fought, and lost, in the Constitutional Assembly.

There was a wide discussion over monopolies and competition. The liberals tried to amend the above-mentioned Article 41, adding a section that could somehow constitutionalise the idea of free competition as a public good. After a first proposal from Guido Cortese (1908-1964), who wished to mention the idea of consumer sovereignty (“The law regulates by statute all economic endeavours with the aim of safeguarding the interests and the freedom of consumers”), Luigi Einaudi proposed his own solution: “Statutes may not be instrumental in establishing economic monopolies; where these do occur, they are subject by statute to public control by means of delegated or direct public administration.”

In the Assembly, he said that monopoly was “the deepest evil of this society,” a sort of theft of which government should not be an accomplice. He ridiculed the idea that nationalisation was the proper response to economic concentration: “It is tantamount of telling the constable facing the public highwayman who robs the traveller: you are not to seize the robber. Indeed, you are to change into a robber yourself, and you shall plunder those who travel the roads.”

The background to this controversy, besides the relevance of government monopolies such as the railways, radio communications or over particular goods (beginning with tobacco and salt), is the existence of IRI, the Institute for Industrial Reconstruction, which we have already mentioned. The mere presence of such a vast government-owned conglomerate in the Italian economy was bound to influence the future of the country’s economic life.

Only a few voices called for the privatization of state assets. One was Alberto Frassati (1868-1961), a newspaper man who became a gas and electricity entrepreneur, denouncing IRI to the Demaria committee as “the greatest immorality conceivable ... it amounts to an unbalancing element among all industries.”

“If, for instance, I am the owner of a humble pipe-producing factory – so Frassati explained – how can I survive when IRI enjoys every benefit and produces pipes as I do? Whatever liability it may accrue, IRI can easily disregard, as the State will cover it. It is impossible for a business to prosper whenever there is an actor which is not a business, but the State itself.”

This was exactly the kind of reasoning which inspired Einaudi’s attempt to enact an amendment to article 41 of the Italian Constitution. No private competitor could thrive, in the presence of such an incumbent. Yet IRI was untouched, and it was destined to remain active, and continue to grow, until the late 1980s. The reason why it was untouched was that there was no Italian capitalist who could acquire “heavy industries,” like steelmaking companies, and manage them properly. Private capitalists lacked resources and expertise: which is exactly the reason why they were criticised seventy years later, when IRI businesses were privatised. In a sense, the choice *not* to privatise IRI was key in keeping private capitalists “in captivity” – the best they could hope was to be a supplier of an IRI company!

This does not mean that IRI companies were necessarily badly managed, particularly at first. In a sense, private ownership was the conduit for the establishment in Italy of a particular blend of *managerial capitalism*. Most of the country's private businesses were small, mom-and-pop or formerly mom-and-pop establishment. IRI companies, on the other hand, were managed by an elites of civil servants turned CEOs.

The most egregious case is another state business – though not controlled by IRI – namely ENI, Italy's oil company. It came out of the entrepreneurial genius of Enrico Mattei (1906-1962), an undoubtedly spectacularly talented entrepreneur who, lacking his own capital and lacking possible Italian backers (as virtually none was in a position to sustain such a great endeavour), called on the state to be his shareholder. Mattei was severely criticised by Fr Luigi Sturzo (1871-1959), the Catholic priest who founded the Popular Party before WWI and that after WWII came to be, with Einaudi, the most vocal partisan of free enterprise. Sturzo understood well that, to gain latitude as a businessman, people like Mattei needed to pamper political leaders and saw that government ownership was to be a constant source of corruption. The “Clean Hands” investigations in the early 1990s proved him right, almost half a century later.

The other major battle in which Einaudi engaged dealt with the possibility of adding a debt brake to the government's budget. Einaudi originally wanted to restrict the spending enacted by Parliament since an expanded role of the legislature, meaning its capacity to amend budget decision, appeared as a potential source of deficit finance. Einaudi feared the degeneration of parliamentary debates, in which political majorities were to loosen the public purse strings in order to meet the interests of their constituents. So, originally Article 81 of the constitution was to forbid the Parliament from amending the state budget submitted by the cabinet for approval (Giannitti 2011), while Parliament would of course have retained the ability of approving or rejecting the budget in its entirety and certainly to hold the government accountable.

Such a proposal was considered too “extreme” (isn't [neo]liberalism always considered too extreme by its opponents?) and the final text of the Article read, in the last two commas, “The statute that approves the state budget may not establish any new taxes, nor any new spending items. Any other statute which enacts new or greater spending items shall provide for the means to cover them [*Con la legge di approvazione del bilancio non si possono stabilire nuovi tributi e nuove spese. Ogni altra legge che importi nuove o maggiori spese deve indicare i mezzi per farvi fronte*].”

According to Einaudi, but also to the Catholic economist Ezio Vanoni (1903-1956), this Article was meant to *imply* the need for a balanced budget. Such an interpretation lasted only for the 1950s and later on political parties started to happily engage in deficit finance: they passed laws requiring new expenses, without explicitly provide for a source of income to cover them.

We can thus say that the Italian economic boom, predicated on a sort of benign neglect, happened in spite and not because of the new republic's legal framework that was coming into being.

4. Why Italian liberalism didn't last

We tend sometimes to endorse a rather simplistic model of social change. “Ideas have consequences” is the title of an essay by Richard M. Weaver (1910-1963) but also the selling proposition of any think tank executive. Ideas walk on the legs of men

To quote John Stuart Mill:

Ideas, unless outward circumstances conspire with them, have in general no very rapid or immediate efficacy in human affairs; and the most favourable outward circumstances may pass by, or remain inoperative, for want of ideas suitable to the conjuncture. (Mill 1845: 370)

Circumstances conspired briefly with “neo-liberalism” in post-WWII Italy. Its success was contingent upon the needs of economic recovery but did not last. This gap between short term success and long term defeat is a matter to consider, in a conference like ours that deals with “ideas and action for a free society.” Policy successes can endure or not, depending on the wider constitutional framework.

Why did Italian “neo-liberalism” not endure, as opposed to its German counterpart?

This is a complex question, to which I will try to provide simple, and thus partial, answers.

The rather obvious fact is that, though Italy secularised fast, more Italians do believe in God than they do in the Bundesbank! Indeed, did they have a Bundesbank to trust in?

I do not want to be ungenerous to the Bank of Italy, an institution of great reputation that gave sound advice to the Italian government over time. Between the 1960s and the 1980s, monetary and fiscal policy were in a forced wedlock, in which the central Bank de facto lost its autonomy: the Bank of Italy concurred substantially with financing of the deficits, and its share of total debt more than trebled between 1961 and 1970.

Though the Bank subsequently regained autonomy, it never quite subscribed to an economic philosophy of her own. This reflected, of course, the state of the economic debate in the country. Culturally speaking, though Einaudi was the most prestigious of its Governors, it is surprising how little the Bank was influenced by its economics.

This lack of a tradition brings us back to a question that pertains to the world of ideas: why Italian liberals did deplete in numbers, in spite of their policy successes?

To assess how ideas percolate in society is always a matter of hypotheses. Let me advance some.

A most obvious one is that Einaudi enjoyed a wide prestige in post-WWII Italy, but he was an old man. His free-market comrades were old men too and they substantially failed in catching the imagination of a new generation, which was already mesmerised by different ideological approaches that shared a disdain for whatever the “spontaneous order” of the market economy produced. Keynesianism took off relatively late in Italy, but it was preceded by strong waves of Marxist economics, in its Sraffian incarnation. Indeed the Cambridge-tenured Piero Sraffa (1898-1983) “became a national symbol that radical political economists liked to invoke” (Brunnermeier, James and Landau 2017: 238). In the early 1970s, the then Governor of the Bank of Italy Guido

Carli (1914-1993) was flirting with the idea of establishing a PhD school under the auspices of the bank. As a director of the school, he was thinking of Piero Sraffa!

This was indeed the time when it was needed to “make the building of a free society once more an intellectual adventure, a deed of courage” (Hayek 1949: 423), to attract younger, brilliant minds. In Italy it did not happen and the Einaudi’s generation had no immediate heirs.¹⁰

Lacking any strong “institutional” presence (a publishing house, a think tank, an University department committed to act as a hub for liberal ideas), classical liberal ideas succumbed in the arena of intellectual debate.

This arena was not empty, and anti-liberal *Weltanschauungen* came to dominate it. The generations of Italian who grew under fascism clearly thought these worldviews to be more attractive than liberalism.

For one thing, “the corporatist practices of the interwar period remained quite powerful in postwar Italy, and many economists argued that there was a good way of thinking about how state action could overcome collective action problems” (Brunnermeier, James and Landau 2017: 238). Such a concept was naturally receptive to partisans of a mixed economy, if not of altogether nationalization.

Sraffa enjoyed a wide influence in Italy – but such influence should be seen in the wider context of a general strategy inspired by his friend Antonio Gramsci (1891-1937). Gramsci “was unique among Communists in persisting, at the nadir of the defeats of the thirties, to see that Russian experience could not be merely repeated in the West” (Anderson 1976: 50). Gramsci thought that the specific character of a socialist revolution in the West required a “war of position” to alter the balance of forces, to organize and expand proletarian hegemony and to prepare for the revolutionary event.

After 1948, the Italian Communist Party found itself in a difficult situation: it commanded one third of the electorate but could not win general elections, not even by a policy of alliances, as the country in 1948 committed to NATO and the Western bloc. This shifted the *locus* of political fight and made Gramscianism – i.e., the quest for seizing the commanding heights of culture and society – the obvious and sound political strategy.

The commanding heights to be seized were in the trade unions, in the judiciary, but first and foremost in the great cultural agencies (universities, publishing houses) in a sort of *entente cordiale* with the Christian Democrats: the latter were busy governing Italians, whereas the Communists could attempt to govern the minds of the Italians.

The quest for hegemony was by and large successful. In a way, this strategy implies an “all-embracing” vision of politics (which becomes a decisive factor not only in the social sciences, but in any kind of intellectual and even artistic endeavour, from biology to chamber music) which

¹⁰ It is telling that the most brilliant and articulate of Italy’s free market economists, Sergio Ricossa (1927-2016), a member of our Society who also served as Vice President in the late 1970s, began his career as the “importer” of linear programming (LP) models into Italian academia.

naturally resonated with the, however rebellious, sons of the fascist regime (“Everything in the State, nothing outside the State, nothing against the State”). The space for any intellectual option which was not openly inimical to Western capitalism was therefore severely limited.

But this would not be enough as an explanation.

Another important factor was that, whereas in other countries free-market policies found a natural ally in conservative sensibilities, in Italy that was not possible because of the anti-Catholic nature of Italian liberalism.

In a sense, it was liberals, starting with the Count of Cavour (1810-1861) that *made* the Italian State, that governed the unification process in the 1860s. The greatest casualty, in the Italian unification process, was the temporal power of the Pope.

This created a never totally resolved tension between Catholics and Liberals. If a number of Catholic active in politics – most notably Sturzo and De Gasperi – could have a not entirely hostile sensibility to the ideas of classical liberalism, distinguishing them from the particular case of their Italian followers, most Catholics involved in politics saw the secularist liberals as an enemy. And vice versa. Anti-clericalism long remained a feature of the small Italian liberal party.

In some instances, it was perhaps the only long-lasting feature. In the 1880s, when the Italian government was moving away from free trade, Pareto (1888: 5) noted that the very government that was seriously injuring liberty was keeping liberals happy with “some measures against the priests.”

The distrust between Italian liberals and Italian Catholics was mutual, though perhaps the best representatives of both camps (Sturzo, De Gasperi, Pareto, Einaudi) were immune to it.

In the post-war years, with the partial exception of a brief phase of the Jesuit journal *La civiltà cattolica* which seemed to support price liberalization, most Catholic intellectual ventures welcomed a possibile encounter with the socialist, and not the classical liberal, culture.

Bruno Leoni (1913-1967), a former Secretary and President of our Society, in his most famous book pointed out that economic planning needed legislation that was similarly inflexible and top-down. Such an understanding of legislation came naturally to Leoni, who, as an Italian, knew a country in which anti-clerical liberals typically identify with the state (instead of considering it at best a necessary evil), because of the way it formed and Catholics, though skeptical of the state precisely for the way it formed, embraced happily the idea of using legislation to solve whatever social evils. Liberals and conservative Catholics, who in other countries came to an agreement over a positive appreciation of bottom-up civil society processes vs top-down government decisions, in Italy never reached a common understanding.

In establishing the Mont Pelerin Society, Hayek wanted to name it after Acton and Tocqueville: two Catholics. He felt it was essential for the preservation of liberalism that its traditional antagonism towards Christianity be overcome (Caldwell 2020, 42). We know that, in following years, this was not always a theme at the center of the discussions in our Society, not least because the Society ended up being dominated by economists. If the Mont Pelerin Society had better pursued this goal, and if Italian members had been involved in some attempt to build bridges to the Catholic world, the Society may have had a bigger impact in the Italian cultural debate.

These “cultural” explanations do not substitute more “political” ones: the Italian Constitution was the result of a compromise, it was drafted by an elected body in which liberals were very few, and in subsequent elections the Liberal Party never commanded more than 7% of the votes.¹¹ I hope they complement them.

A lesson we may draw for our daily activity is that ideas that have consequences can never be examined, nor pursued, in isolation. Scholarly excellence is not enough to guarantee their victory, nor its intellectual prestige. To achieve success over time, they need somehow to be enshrined in the rules of the game. And for this to happen, they must gain ground against their opponents, and win some allies.

Italy had arguably three classical liberal phases in her own unitary history:

- right at the moment of the unification, when it enjoyed free trade and fiscal probity until 1876;
- in the aftermath of WWII, when the seeds of the transformation of the country from a country of peasants to an industrial powerhouse were planted;
- in the 1990s, when public finance was straightened, government industries privatised and Italy joined the euro (this latter produced by necessity more than any ideological commitment).

None of these phases produced a “hegemony” of liberal thinking, but they all had enduring consequences – and not bad ones. All three of these phases were marked by a strong belief in the integration of Italy in the world economy.

That liberal policies did not last *in spite* of their success is what demands explanation. I have advanced some hypotheses concerned with the world of ideas. Others can certainly be advanced that deal with the world of interests and with the very dynamics of the political process itself.

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¹¹ Curiously, that happened in 1963, when the Party campaigned against electricity nationalization. Later on, the Party put much water into its free-market wine.

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