

THE MAKING OF THE NEOLIBERAL PROJECT: A CONTRIBUTION FROM ITALY

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Abstract

The first 1947 meeting of the Mont Pelerin Society is considered the certificate of birth of neoliberalism. But the making of the neoliberal thought after WWII is the result of fervent intellectual efforts in the previous decades.

The paper aims at highlighting the role of Luigi Einaudi in the Italian way to the making of the neoliberal project and enquire into the intellectual foundations of his thought on the institutions of international liberalism.

1. Introduction

According to Plehwe (2009), the international neoliberal project was born soon after WWII, at the first meeting of the Mont Pelerin Society (MPS) in April 1947. He further claims that only its “prehistory” starts from two pioneering contributions of the Twenties (Hecksher 1921; Honegger 1925) and that the term “neoliberalism” is coined at the Walter Lippmann’s Colloquium, which was held in Paris in August 1938.

Although it is widely acknowledged that the foundation of the MPS represents the *starting point* of neoliberalism as a global cultural and political international project (Mirowski, Plehwe 2009), we suggest that the Swiss meeting should also be considered the *result* of the intellectual efforts made in the earlier decades to design a peaceful and stable economic and political order worldwide built upon the values of the liberal thought.

In this respect, one of the prominent figures of such effort was the Italian economist Luigi Einaudi (1874-1961). He believed that only as an international project, liberalism could aspire at winning the struggle against the other ideologies. It is in this respect that he became a member of the Mont Pelerin Society.

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The aim of the paper is to enquire into his writings and thought until the foundation of the MPS to find out what concept of international liberalism Einaudi had, how it evolved and assess the specific contributions he gave to the international debate that gave birth to the neoliberal project.

In the next section we will look at his early (until the end of WWI) contributions on this topic. In the following two sections, three and four, we will try to understand how his later writings on the international liberal architecture were influenced by two major sources, namely the Austrian School and the British federalist tradition. In the fifth section, before some concluding remarks, we will follow Einaudi's thought in his writings soon before the founding meeting of the MPS.

2. Einaudi's early writings: between utopia and political realism

At the end of the Nineteenth Century, the young Luigi Einaudi thought of Europe as a *work in progress*, envisaging a common path towards political unity. It is very likely that Einaudi drew such ideas from the British liberals (Cressati 1992: 34). In 1897, in the newspaper *La Stampa* of Turin, appears an article, *Un sacerdote della stampa e gli Stati Uniti europei*, where Einaudi shares the view of a renown British journalist, Thomas Stead¹, who had considered the joint intervention of the six major European powers to defend peace in Creta (after the outbreak of a violent anti-Turkish revolt) as “the birth of the United States of Europe”². The most interesting part of Einaudi's article is the reason why such idea could be agreed upon: the fact that the six powers were

“acting together as if they were a European cabinet. Until now the decisions of that cabinet have been managed according to the rule of the *liberum veto* which dominated the ancient Polish State. From this imperfect phase when even only one of the six powers, with its opposition, could make any plan accepted by all the others inapplicable, we will slowly come to a point when the majority will be able to impose decisions to the minority without making recourse to the *ultima ratio* of the war” (Einaudi 1897: 37-38).

The liberal Einaudi claims that freedom, at the international level, does not depend on the freedom to act according only to national sovereign choices but on a set of rules where international decisions are taken according to the majority principle and, therefore, “State sovereignty has to be limited” (Morelli 1990: 21).

This is the crucial point: the absolute and exclusive sovereignty of each national State, embodied in the veto rule at the international diplomatic level, makes it im-

¹ William Thomas Stead was a liberal intellectual who became Editor of the *Darlington Northern Echo*, of the *Pall Mall Gazette*, founding member of the *Review of Reviews* and of the weekly magazine *War against War*; he would die on the sunk Titanic, on 15 April 1912. On Stead, see Whyte F. (1925). *The Life of W.T. Stead*. London: Jonathan Cape.

² Quoted in Cressati (1992: 35). Stead considered the foundation of the United States of Europe as “the specific commitment of British politics” (Masini 1994: 77).

possible to pursue any collective action and provide a collective public good such as international peace.

Nevertheless, as the first world war approached, Einaudi apparently lost part of the awareness of the faults of a liberal international system designed on mere economic institutions, without questioning the political sovereignty of each individual State.

In fact, in 1912 he writes a summary of a book by another British journalist (later Nobel Laureate, in 1933), Norman Angell. The book, titled *The Great Illusion*, was first published in 1909 and claimed that the war was “outdated” (sic!) because the greater economic interdependence in the world had enormously raised its opportunity cost. Angell then envisaged a global liberal agenda which would guarantee peace and prosperity for the whole mankind. Einaudi also wrote a very short preface to the summary, where he adhered to Angell’s optimism and claimed that “the ideal of peace will become, or better is becoming, a real fact, as the net of debt and credit relations among countries increase”³.

After the outburst of the first World War, such optimism disappears and Einaudi probably feels a new urge to find a viable path towards a political federation of Europe and shifts his attention on the economic aspects of supranational cooperation. In 1916 he writes an article *Unioni politiche e unioni doganali [Political unions and custom unions]*, where he explicitly reverses the previous relative importance of the economic and political factors suggesting the creation of a federal system of institutions. An economic federation (which in some passages he also calls “confederation”⁴, i.e. “the existence of a federal finance system and a unified custom system are the necessary foundations for a federation and a vital political union”).

The economic factor becomes predominant in the reflection of Einaudi: the first and most important task of European governments during the war and in view of its end is to guarantee a complete unification of the market and the complete disappearance of any kind of tariff.

Another testimony of his more pragmatic attitude (which Cressati 1992: 55 interprets as lack of coherence) towards proposals for supranational institutional change is a review article to a book he writes soon after the end of WWI. In 1916 Giovanni Agnelli (the founding father of the FIAT, the Italian automobile producer) and Attilio Cabiati (an economist of Turin) had started to write a pamphlet, published two years later, *Federazione Europea o Lega delle Nazioni? [European Federation or League of Nations?]*. The book was a strong claim against a mere confederative pact and in favour of a European federation which could only avoid the shortcomings of absolute and exclusive national sovereignties from clashing one against the other. They strongly opposed the confederative bias imposed by Wilson upon the

³ See the lines written by Einaudi before the summary of Angell, N. (1912). *La grande illusione: guerre di ieri e guerre di oggi*, *La riforma sociale*, XIX(XXIII): 265-266.

⁴ Verificare fonte, gioli p.3. The question is hardly irrelevant because, as we shall see, the general critique against the League of Nations was based on its mere confederal status instead of a binding federal coercive power. It is not clear why Einaudi, on such occasion, refers to a “confederation” and whether this should be considered a trivial mistake or a fully aware and volunteer choice.

construction of the Society of Nations, as this is “after all, a mere league of nations, which maintains each national sovereignty [...] but history has shown the vanity of such concept and the dangers it brings along” (Agnelli, Cabiati 1916: 81).

Arguments which very much resembled those used twenty years earlier by Einaudi. Nevertheless, Einaudi (1918b) attacks the book as excessively utopian and underlines the difference between what he calls “economic rationality” and “political irrationality”. He in fact argues that their plan is:

“not realistic enough because it is too rational, too economical. If people were able to think only in terms of their own advantage, that plan would be viable. But I do not think nowadays it is, because it does not consider enough the unthinkable: the feelings of nationality, traditions, love for independence, decisions to live miserably if this serves the cause of conquering a mountain or a sacred river.” (Einaudi 1918b: 201-2)

Actually, Einaudi does not argue against the federal hypothesis. He in fact sympathized with the fact that the “vital point” in the book of Agnelli and Cabiati is “the European federal State” and that “as in a State there are municipalities, provinces and central government, also in the world there can coexist different governments, some engaged in solving national problems, others in supranational and worldwide ones” (Einaudi 1918b: 203).

Where Einaudi is in disagreement with the Authors concerns the geo-political delimitation of the federation suggested by Agnelli and Cabiati. They in fact thought of a European federation which would include the whole continental Europe but exclude Britain. This seemed to Einaudi a major weakness as, without Britain, a European continental federation would run the risk of degenerating into a new *Mitteleuropa* under German hegemony. In the same year, two newspaper articles by Einaudi help better understand his approach to the question of which international architecture would best serve the ideals of peace. In these articles, appeared in *Corriere della Sera* in January and December 1918, Einaudi underlines how the major weakness of the Wilsonian project lies in its confederative architecture, which does not question the absolute sovereignty of nation-States: “everybody implicitly admit that the allied or confederated States should remain completely sovereign and independent” (Einaudi 1918a: 82). He contrasts “a society of nations in terms of a confederation of sovereign states, with the magnificent success of another kind of society of nations, which eventually transforms the previously sovereign states into provinces of a whole and wider sovereign state” (83). Einaudi is thinking of the example of the thirteen colonies which in Philadelphia (1787) federated into the United States of America. With that convention, “a ‘contract’ has substituted the ‘agreement’ among sovereign states in order to rule ‘some’ questions of common interest” (85). And such an aggregation model should not be confined to Europe but eventually become the goal of the whole world: “the United States of Europe should associate, while waiting for the birth, in a further moment of human civilization, of the United States of the world” (81).

In the second article of late December 1918, Einaudi goes even a step further. He argues that “the dogma of *absolute* and *perfect in itself* sovereignty is mostly maleficent” (Einaudi 1918c: 147), that “the isolated and self-sufficient sovereign state is a fiction of imagination” (151). And further on:

“It is necessary to destroy and ban forever the dogma of perfect sovereignty, if we want that the society of nations is born vital. [...] The truth is the constraint, not the sovereignty of States” (151). “Only integrated nations can reciprocally constrain themselves to guarantee that they, as parts of a superior State organism, are given the true security against the attempts of hegemony towards which, in the present anarchical situation, the strongest state is unavoidably attracted by the deadly dogma of absolute sovereignty” (156).

But even more interesting is an article published in 1919, again in *Corriere della Sera*, where Einaudi explicitly explains the role of a “federal” (Einaudi 1919: 159) supranational institution, designed according to the principles of the “Federalist” by Alexander Hamilton (from which Einaudi quotes). According to him, it is necessary “to go straight to the final goal, which is the creation of supranational governing bodies” (162). The specific question which Einaudi tackles with in the article is the proposal by Wilson to transfer the territory of Fiume (now in Croatia) from Italy to the Austro-Hungarian regime.

The solution suggested by Einaudi is that the Italian-speaking people living on the territory may remain Italian but give up some economic and political powers to an international institution which guarantees infrastructures and free access to the harbour for all surrounding states. We are not inclined to support Cressati’s judgement⁵ of ambiguity which Einaudi allegedly shows on this occasion. Rather, the insistence on a detachment between political and economic questions is a first seed of the neoliberal attitude to act on a constitutional level, with formally established public institutions, to leave more room to the market.

Einaudi recognizes the importance of “nationalistic” feelings⁶ which, if denied, may become a source of political uncertainty in international relations and of military conflict. But he deems that constitutional economic arrangements and institutions can be designed to assure a collective, trans-national use of such territories. Einaudi aims at challenging the identification of *nationality* with *State sovereignty*. And it is exactly such a dangerous attitude that would become the crucial policy of the fascist regime, which would soon after take the power in Italy until the end of WWII.

⁵ Cressati (1992: 55) writes: “In Einaudi’s thought coexisted both a lucid analysis of the historical-political necessities and solutions not always coherent with such analyses. He was in fact influenced by a Nineteenth-century vision anchored to concepts such as ‘natural border’ and ‘principle of nationality’, which were both claimed for even when patently incoherent”.

⁶ In this case Einaudi simply refers to the feeling of belonging to a specific cultural heritage.

3. Any influence from the Austrian School?

During the Twenties Einaudi seems to increase his detachment from the topics related to international liberal institutions. Other domestic urges are pressing. Nevertheless, this does not mean Einaudi is detached from the international economic debate. Quite the contrary. With the increasing disillusion against the Italian fascist regime, Einaudi often goes abroad, where he maintains intense relationships with many other economists⁷. For example, in June 1928 Einaudi, is invited by Rappard to Switzerland, where he gives some lectures at the *Institut des Hautes Etudes Internationales* of Geneva. The *Institut* (founded in 1927 by Paul Mantoux and William E. Rappard) was at that time directed by Rougier, which would in 1938 organize the *Lippmann's Colloquium* in Paris (Einaudi was invited but could not attend it) and Rappard himself (who had attended the seminars of Böhm-Bawerk at the beginning of the century).

It should be noted that exactly in the same period, Rappard started to think of a “Liberal International and an association of liberal economists”⁸, which would later become the MPS project and the invitation of Einaudi was certainly part of this idea. Nevertheless, although good friends, Einaudi and Rappard did not share the same idea of international institutions. The latter was a supporter of (and also financially supported by) the League of Nations; Einaudi was among its strongest critics, in company of – according to Busino (2005: 158) - Mises, Kelsen, Hayek and Robbins.

In fact, in that period, the economists Einaudi mostly seemed to sympathize with, where the Austrians, which probably also helped him find arguments in his well known intellectual struggle with Croce on the question of the nature of liberalism (Faucci 1986: 294-302). During a travel to the USA in 1926 he meets Ludwig von Mises⁹. And in 1931 starts between Einaudi and Hayek a relationship which, in the following years, would become very close, “almost friendship” (Noto 2007: 162). Both Mises and Hayek were to become the leading figures of the MPS adventure. Mises, soon after WWI, had extensively dealt with the questions of which institutional arrangement should be compatible with both national and international liberalism. And some of his ideas would later and further be elaborated and spread abroad by Hayek. It is therefore necessary to have a look at Mises's and Hayek's approach to such topic.

In his *Nation, Staat, und Wirtschaft*, Mises (1919) had underlined the political aspect of economic freedom but also the economic goal behind political action: “Liberalism, which assumes full economic freedom, tries to solve the difficulties which the different political institutions pose to the development of the market, detaching economics from the State” (Mises 1919: 35). Liberalism implies, under this point of view, a political struggle designed to free economics from the influence of politics.

⁷ From 1920 to the late 1930s he also frequently writes in *The Economist*.

⁸ This “confession” is reported to have been made by Rappard to Busino (2005: 159).

⁹ See <http://mises.org/misesbib/m62olugi.asp>.

Such early reflections would be further dealt with in his 1927 book, *Liberalismus* (with a first English translation of 1929). Mises explains the international aspect of the liberal struggle in connection with the question of how the liberal ideology can best serve the goal of world peace. In this respect, he seems to resemble the arguments of the first articles written by Einaudi where he denies the possibility of pursuing peaceful international values and institutions only in one country. He writes:

“for the liberal, the world does not end at the borders of the state. In his eyes, whatever significance national boundaries have is only incidental and subordinate. His political thinking encompasses the whole of mankind. [...] He realizes from the very first that it is not sufficient to establish peace within each country, that it is much more important that all nations live at peace with one another. The liberal therefore demands that the political organization of society be extended until it reaches its culmination in a world state that unites all nations on an equal basis. For this reason he sees the law of each nation as subordinate to international law, and that is why he demands supranational tribunals and administrative authorities to assure peace among nations in the same way that the judicial and executive organs of each country are charged with the maintenance of peace within its own territory.” (Mises 1927: 148)

Like Einaudi, also Mises’s approach seems to be very *institutionalist*, in the sense that he attributes a crucial role to international institutions to promote and defend a liberal political and economic system, even hoping that “a world super state really deserving of the name may some day be able to develop that would be capable of assuring the nations the peace that they require” (Mises 1927: 150). Hence his critical attitude, again like Einaudi, against the League of Nations:

“Nothing has done greater harm to the idea of a supranational world organization than the intellectual confusion arising from the belief that the present League constitutes a complete or virtually complete realization of what every honest and sincere liberal must demand. It is impossible to build a real League of Nations, capable of assuring lasting peace, on the principle that the traditional, historically determined boundaries of each country are to be treated as inalterable fixed. The League of Nations retains the fundamental defect of all previous international law: in setting up procedural rules for adjudicating disputes between nations, it is not in the least interested in creating any other norms for their settlement than the preservation of the *status quo* and the enforcement of existing treaties. Under such circumstances, however, peace cannot be assured unless it be by reducing the whole world situation to a state of frozen immobility.” (Mises 1927: 149-150)

Mises stresses that liberalism requires binding norms and institutions at the international level. But, contrary to the (early) Einaudi, it is also clear that Mises’s final goal is economic freedom, not a peaceful juridical arrangement worldwide where national sovereignties are limited so that war becomes impossible. Peaceful international relations are, again, as in Bentham and Mill, the by-product of economic freedom: “The starting-point of [the liberal] entire political philosophy is the con-

viction that the division of labor is international and not merely national” (Mises 1927: 148). In fact, Mises’s critique is against the Covenant of the League of Nations *because* it does not adequately guarantee private property and economic freedom *from* the political power, not because it is ineffective to make, pass and enforce the international law. Wondering about “how to create the social conditions that will eliminate the causes of war”, Mises writes:

“The first requirement in this regard is private property. When private property must be respected even in time of war [...] an important motive for waging war has already been excluded. However, this is far from being enough to guarantee peace. So that the exercise of the right of self-determination may not be reduced to a farce, political institutions must be such as to render the transference of sovereignty over a territory from one government to another a matter of the least possible significance, involving no advantage or disadvantage for anyone”. (Mises 1927: 111-112)

Mises fundamental message is that the domain of economics shall be defended from and against politics:

“under conditions of interventionism and etatism, there is no way of making the borders of the state correspond to the linguistic frontier. [...] It would be just as unthinkable after every few minutes or quarter of an hour on a railroad trip to have to face a tariff barrier with all its formalities. It is thus easy to understand why etatists and interventionists reach the conclusion that the "geographic" or "economic" unity of such areas must not be "ruptured" and that the territory in question must therefore be placed under the sovereignty of a single "ruler." (Obviously, every nation seeks to prove that it alone is entitled and competent to play the role of ruler under such circumstances.) For liberalism there is no problem here at all. Private railroads, if quite free of government interference, can traverse the territory of many states without any trouble. If there are no tariff boundaries and no limitations on the movement of persons, animals, or goods, then it is of no consequence whether a train ride in a few hours crosses over the borders of the state more or less often. (Mises 1927: 112)

The solution lies in the general acceptance of the liberal principle:

“This frame of mind can be nothing less than the unqualified, unconditional acceptance of liberalism. Liberal thinking must permeate all nations, liberal principles must pervade all political institutions, if the prerequisites of peace are to be created and the causes of war eliminated. As long as nations cling to protective tariffs, immigration barriers, compulsory education, interventionism, and etatism (Mises 1927: 150) new conflicts capable of breaking out at any time into open warfare will continually arise to plague mankind”. (Mises 1927: 151)

Mises claims that the goal of international peace can be served through a liberal agenda to be pursued at the national level, supported by international economic institutions to guarantee the best operation of the market. Hence the neoliberal

agenda of post WWII, aiming at spreading the liberal principles, values and policies in the most relevant countries of the world.

Mises seems to fall in the same trap which Einaudi denounced concerning the naïve idea that a Society of Nations among countries where the liberal values have won their domestic struggle cannot have military conflicts. For Mises, the international liberal project is essentially economical and pursuable by national political strategies.

An analogous approach would accompany Hayek's works. He claims often in favour of a European federation as a way to international federal institutions; but for Hayek such an architecture is only a means to cancel the distortions imposed on the market by national sovereign decisions concerning the economy. Let's follow his reasoning.

In 1931 Hayek publishes *Prices and Production*, where he provides the first outlines of his idea of the business cycle based on undue interventions of monetary authorities in the market. Building on it, in the following years Hayek deals more directly with the international economic and monetary relations (Hayek 1932; 1933b; 1937; 1939).

The first element which should be underlined is that Hayek is against economic international cooperation, in the sense that "the conscious cooperation between Central Banks certainly played a great role" (Hayek 1932: 124) in the creation of the conditions which degenerated in the 1929 collapse, a cooperation aimed at "the attempt to nevertheless avoid the inevitable fall in the national level of prices" (Hayek 1932: 123). Nevertheless, he is in favour of an international system of economic and political institutions designed along the federal constitutional principles (Hayek 1937; 1939).

The apparent contradiction can be easily explained if we observe that his reference to the international institutional framework based on a federal political structure is clearly aimed at strongly reducing the intervention of (national) public authorities into the realm of economic relationships. Accordingly:

"The rational choice would seem to lie between either a system of 'free banking', which not only gives all banks the right of note issue and at the same time makes it necessary for them to rely on their own reserves, but also leaves them free to choose their field of operation and their correspondents without regards to national boundaries, and on the other hand, an international central bank" (Hayek 1937: 77).

The transfer of monetary sovereignty from nation-States to a supranational authority is clearly a means to minimize public interventions into the operation of the global market, not a matter of conflicts resolution.

International federal structures and institutions are for Hayek the best substitute for the complete negation of any public intervention into the economy. For this reason, in 1939, he would join the association *Federal Union*, born in Britain to promote some sort of political, military and economic federation between Britain and France, as his contributions to the debate within the association demonstrate (Ran-

some 1991). And along the same lines he publishes an article in *New Commonwealth Quarterly*, also in 1939, titled *Economic Conditions of Inter-State Federalism*, where he argues in favour of federal supranational institutions to support the principles of economic freedom (Hayek 1939).

In synthesis, not only Hayek's political liberalism could be labelled as "instrumental" (Kley 1994), but also his claim for political federalism can be said to be *instrumental* to an economic and social *Weltanschauung* aimed at preserving the spontaneous social order expressed by the market from the interference of any collective political body. Far from being a classical liberal, as he liked to define himself, Hayek's idea of a spontaneous order was far away from the one by Hume and Smith (Petsoulas 2001), who all argued in favour of some kind of coercive power to sustain and guarantee both individual and collective choices.

The liberal wind coming from Austria, both from Mises and Hayek, had a very clear orientation. It was a wind which promoted supranational institutions with the mere goal of eliciting national authorities, therefore diminishing public interventions and distortions into the global market. And both Mises and Hayek were to become the most important engines of the neoliberal project which would be born at the founding meeting of the MPS. Einaudi, during the Italian experience of fascism with its strong claim for political control over economics, was obviously to become very sensitive towards the strong political commitment involved in their particular way to the promotion of international liberalism.

4. Back to the British federalist thought

During the Thirties, freedom, in all its forms, is increasingly becoming a scarce resource under Italian fascism. In 1933 university professors are obliged to sign an allegiance of oath to the regime (which Einaudi also does); some months later Mussolini declares that "liberalism is dead" and most (non-fascist) scientific and academic journals are closed.

In this very unsympathetic context, Einaudi tries to defend the economic profession by the interference of the ideologies of the political regime and develops a peculiar approach to economic epistemology, based on a positivistic approach to Robbins's *An Essay on the Nature and Significance of Economic Science* but also to a militant role for the economist in society. Economics is detached from politics and so should it remain; but economists are supposed to testify the *truth* of economic laws¹⁰ against the pretensions of political ideologies.

It is in the very heart of this cultural atmosphere that, in the second half of the Thirties, Einaudi comes back on the questions concerning the institutional architecture for international liberalism.

In a letter to the wife of Ernesto Rossi, dated 31 July 1936, Einaudi indirectly replies to the economist, who had asked Einaudi if he knew anything interesting about "the problems concerning the organization of the United States of Europe". His answer is negative: "I know nothing serious. I know that a certain Earl Kuden-

¹⁰ In a couple of essays, Einaudi (1932a; b) speaks of "the economic dogma".

hove-Kalergi, an Austrian, organizes meetings, etc. But I have never read anything”¹¹.

There is no doubt that in the following years Einaudi was engaged in filling the gap, because from 1939 to 1941 he sent lots of books to Rossi concerning the European and international political and economic architecture. What happens between July 1936 and the beginning of 1939?

As we noted earlier, the major sources of Einaudi’s early reflection on the international liberal order were the contributions by 19th Century British liberals. When, in the Thirties, he came back to these arguments, it was through one of the exponents of the federalist liberal tradition¹², which comprised economists such as Sidgwick¹³ and Cannan¹⁴. Among the leading figures of such tradition in those years was in fact Lionel Robbins. Einaudi already sympathized¹⁵ with Robbins’s first important books, *An Essay on the Nature and Significance of Economic Science* (Robbins 1932) and *The Great Depression* (Robbins 1934). As we have suggested a couple of lines earlier, both writings helped Einaudi in his ideological struggle against corporatism and fascism.

It is therefore quite easy to imagine that when Robbins (1937) published *Economic Planning and International Order*, Einaudi was eager to read the new book and most likely appreciated it. In fact, he immediately thought of Rossi’s request to inform him about books concerning the idea of the United States of Europe and sent him the book, while Rossi was still in prison. The book would for that reason become the reference volume for the elaboration of the federalist *Manifesto for a United Europe* (written by Altiero Spinelli and Ernesto Rossi during the period spent in the isle of Ventotene, where they were both imprisoned for anti-fascism) and of the foundation of the European Federalist Movement, in 1943, to which also Einaudi immediately adheres.

Robbins’s intellectual role in rescuing Einaudi’s international federalist project is therefore crucial. Robbins’s (1937) book was the transcription of the lectures he was invited to give in the summer of 1935 at the *Institut des Hautes Etudes Internationales* in Geneva. What were the main content of that book and why can we

¹¹ Einaudi to Rossi, 31st July 1936, in *Carteggio (1925-1961)*, Edited by G. Busino and S. Martinetti Dorigo, Torino, Fondazione Einaudi, 1988; p. 27. The name is wrongly cited, as the Earl is Coudenhove-Kalergi.

¹² See Pinder (1992), Masini (1994).

¹³ Sidgwick deals extensively with the federal government in *The Elements of Politics*, where he argues in favour of a federation of the States of western Europe as the best compromise to gain the maximum economic and military advantages of the greatest countries and the minimum sacrifice of local independencies and individual freedom (Sidgwick 1891: 542-544)

¹⁴ Cannan had dealt with federal governments mainly in two articles, later published in *An Economist’s Protest in 1927: International Anarchy from the Economic Point of View* and *A Plea for Large Political Units*, both written in 1916. In them, Cannan anticipates Robbins’ arguments that classical economists were “anarchists” rather than liberals (Cannan 1927: 66-7) and underlines the need to share the sovereignty on crucial matters if nation-States really desire to establish a durable peace.

¹⁵ Einaudi had extensively quoted from Robbins’s *Essay* in his writings and edited an Italian translation of *The Great Depression* in 1935.

say that when it was published it was the last product of the British liberal federalist tradition?

As concerns the latter question, it should be noted that, according to O'Brien (1988: 136 ff) Robbins's interest towards the international aspects of economic life is attributable to Hamilton, Torrens, Bentham, Mill, Senior and Cannan. Furthermore, Robbins lived in the very active and vivid cultural and intellectual London of Philipp Kerr (later known as Marquis of Lothian), Lionel Curtis, Arnold Toynbee. All of them, in the Twenties and early Thirties had pamphleted in favour of a European federation to promote an international political architecture founded on the liberal principles.

Notwithstanding all these Authors, who certainly played a role in the intellectual foundations of Robbins's federalism, in his *Autobiography*, explaining the birth of his 1937 book, the first on the constitutional architecture of an international liberal project, he only cites Hamilton's *The Federalist* as an intellectual source. And he explains:

“The traditional case for liberalism in the sphere of international economic relations had relied chiefly upon national self-interest, leaving the international case to emerge inferentially. Why should I not reverse the procedure and tackle the international interest directly?” (Robbins 1971: 159)

This is what he does in his books and articles published between 1937 and 1940. The core of Robbins' reasoning was the following. Peace is not a mere and temporary absence of conflicts but a permanent condition which requires a specific economic, political and institutional structure. The causes of war are therefore to be found both in inefficient institutions and in market failures depending on a perverse concept of *sovereignty*, which is exclusively attributed to nation-States: “The ultimate condition giving rise to those clashes of national economic interest which lead to international war is the existence of independent national sovereignties” (Robbins 1939b: 99).

In this respect, Robbins accuses classical liberalism to be “anarchic”, as international relations are only tackled with through national diplomatic efforts, without any superior coercive institution. But the existence of a power with an exclusive and absolute sovereignty is not coherent with the necessity to safeguard peaceful international relations nor with economic efficiency. The economy is in fact founded on the production and consumption of private and public goods. As concerns the formers, they need to be produced and exchanged on a plurality of territorially concentric markets because each good and service is called to satisfy the needs of more or less wide groups of individuals. Each market for each good needs to be backed and guaranteed by specific rules and juridical systems¹⁶. Similarly,

¹⁶ Robbins (1937a) several times recalls Edwin Cannan's *Wealth*, London, Staple Press, 1928 (cap. IV) and Adam Smith's *Wealth of Nations* (the beginning of Book Four, Part Three) as his main sources for the extension of the externalities and spillover effects of human choices to the international planning as a whole and to a pyramidal institutional architecture.

there are collective and shared needs that require the production of public goods which are not to be provided necessarily at the national level. In both cases, the economy needs an institutional, political and juridical system which has to be structured from the local to the global dimension, following a principle which we would now call “subsidiarity”.

According to Robbins (1937a,b; 1939a,b; 1940) the most adequate constitutional framework coherent with these urges is the federal one. Federalism provides an optimal constitutional equilibrium between decentralization and centralization, between local and global. “Independent Sovereignty must be limited” (Robbins 1939b: 104) and “the national States must learn to regard themselves as the functions of international local government” (Robbins 1939a: 105).

A mere confederative agreement among national states, as those who had characterized the several international conferences in the Thirties, would be incapable of providing the necessary collective public goods which are necessary for the constructive operation of global market forces. What is required is a constitutional architecture based on a multilevel federal system which allows decentralized choices and, at the same time, central strategic unity: in Robbins’s own words: “There must be neither alliance nor complete unification, but Federation; neither *Staatenbund*, nor *Einheitsstaat*, but *Bundesstaat*” (Robbins 1937a: 245).

For Robbins, the federal structure does not necessarily imply less government, in a negative-sum game as for Hayek. Federal authorities may decide whether or not to intervene in economics and to what extent (Robbins 1940: 240-1). A federal structure is therefore a constitutional architecture where different ideological approaches can politically confront, not necessarily a means to reduce public intervention in the economy. Robbins’s *constitutional federalism*, as had been Einaudi’s, is therefore the opposite of Hayek’s *instrumental federalism*.

And Robbins’s liberalism is much closer to classical liberalism than is Hayek’s. The only difference between Robbins and classical liberals idea of international relations is that Robbins does away with the myopic obsession for nation-States as the framework of coercive power and enforceable constitutional laws.

In this respect, Robbins’s liberalism could much better than Hayek’s one interpret the heterogeneous approaches and ideologies which met at the founding meeting of the MPS. It is not by chance that if one compares the two versions of the final statement of the meeting, differences appear to be relevant. Robbins was in fact asked to re-draft it in a way that a compromise was to become possible and this task was accomplished erasing any reference to the commitment that “as far as possible government activity should be limited by the rule of law”, as the first document stated (Mirowsky, Plehwe 2009: 22-25; Hartwell 1995: 41).

5. International institutions and European federation

As we have tried to show, at the outburst of WWII Einaudi’s intellectual sources were more heterogeneous than before. The fascist experience probably made him incline towards Mises’s and Hayek’s liberal agenda, but the war helped him come

closer to Robbins's arguments¹⁷, which were being reinforced by the elaboration of the Ventotene Manifesto by Rossi and Spinelli (1941) and were to become a political project, with the foundation of the European Federalist Movement in September 1943.

Between 1943 and 1948 Einaudi would come back very often on the questions related to the federal organization of Europe and of international relations; and all such intellectual influences appear to be quite clear, but mixed together. The first of these writings (Einaudi 1943) is a weird mixture of faith in the metaphysical features of the market (Einaudi 1943: 68) and an ambiguous concept of continental union.

The Austrian influence emerges from his strong claim in favour of extreme individualism. Only individuals can make legitimate economic and political choices. Whatever choice comes from a collective body is illegitimate (Einaudi 1943: 70-72). Accordingly, the only public choice coherent with the liberal values is the guarantee of economic individualism:

“The governments which aspire at being the expression of popular will, which do not aim at a hegemonic role for their state but desire to establish a pacific international life flourish in a world where economics is independent of politics” (Einaudi 1943: 73)

In an excess of historical determinism, Einaudi argues that “the economic world goes towards unification [...] The wars of 1914-18 and 1939-194? Have been the tragic manifestation of the historical necessity of the economic unification of the world” (Einaudi 1943: 77).

In fact, in 1943 his claim for the federation lies on his attack against economic dirigisme and, as Cressati (1992: 69-70) suggests, against “the superiority of politics on economics [...] The solution suggested by Einaudi is the distinction between politics and economics and on their reciprocal independence. And this can be achieved only through a federal structure, the only one capable of reconciling the human love for one's own land, language and culture with the Unitarian and universal scope of economics”. But it is a Hayekian Einaudi, convinced of the superiority of the market spontaneous order (Einaudi 1943: 68) which a political federation should best serve as a normative framework in view of the “economic unification of the world” (Einaudi 1943: 76). And later on: “The ideal solution would be that the federation embrace the whole world” (Einaudi 1943: 90). But practical difficulties suggest that “the centre of the economic federation should be Europe” (Einaudi 1943: 91).

The European federation is supposed to be very similar to the USA, as the federal level of government should be granted the strategic economic competences con-

¹⁷ To the influences of Mises, Hayek and Robbins we should also add Wilhelm Röpke (and the ordoliberalists), whom Einaudi met many times, especially when in late 1943 he escaped to Switzerland, where Röpke had been living for some years.

cerning: a) the free internal market; b) the rules concerning major (not local) public transports and communications; c) the rules concerning the free movement of people; d) the choice of an irreversible exchange rate among national currencies and the denial of any discretionary power by member-State authorities to issue money; e) the protection of (even intellectual) property rights.

The crucial question is that the list should be absolutely closed (Einaudi 1943: 81; 1944: 99), i.e. that the competences attributed to the federal government should have a constitutional relevance.

Among the competences of the federation Einaudi inserts monetary policy, which is supposed to be taken away from national political interests. In some lines he seems to support a Hayekian idea of an instrumental federal monetary authority, aimed only at cancelling monetary policy from the instruments of economic policy. But in 1944 he is already back and quotes Robbins: the competence on money management should be shifted to the federation, irrespective of the way it decides to manage it, even allowing for expansionary interventions which might be deemed necessary (Einaudi 1944: 99-103). As concerns the revenues of the federal government, Einaudi is thinking of duties (on imports from outside the federation) and accises, fiscal (tobacco) and natural monopolies (transport and communication services), thus envisaging a true autonomous status for the federal government.

He does not deny his aspiration towards a global architecture “the ideal would certainly be that the federation would embrace the whole world” (1943: 90). But the political realism suggests to reduce concrete political aims at part of the European continent (91).

Contrary to what was the explicit idea of Spinelli and Rossi, Einaudi did not think of a European federation as an example of super-national integration to be exported worldwide (Einaudi 1943: 87). He merely reasoned in terms of opportunity costs. At the global level, a European federation would reduce the probability of war simply because its dimension would discourage any attempt to challenge it militarily.

Also in the following years, Einaudi’s writings are split among: naïveté (“in the whole world, autarchy is pure nonsense”); instrumental federalism aimed only at economic integration and at the reduction of public interventions in the economy (“we federalists want the abolition of the customs among States”, 1947: 165 and “federalism is a synonym of the reduction of economic sovereignty of each of the constituent members”, 1947: 166); constitutional federalism, considering exclusive political national sovereignties as a prejudice to any peaceful international relation (“all those who long for peace shall be willing to establish the federation of States, the creation of a superior power top the ones of the single sovereign States”, 1948: 60), even with some utopian tones (“the necessary condition [for peace...] is a super-State” (1948: 61).

6. Concluding Remarks

The trajectory of Einaudi concerning the nature of international institutions is changing tones over time. In the first part of his intellectual formation, the debates

among British liberals give him the opportunity to come to know the American federalist constitution and the federalist political thought, which he starts to consider the best institutional arrangement to tackle with international conflicts. Only a constitutional coercive arrangement can overcome the exclusiveness of nation-States sovereignties and provide global public goods such as peace and a world-wide efficient market.

Before WWI this clear-cut approach gives room to a more optimistic attitude in the capacity of economic forces to overcome political and military conflicts. In this sense, Einaudi's naïve approach to the system of international relations is a perfect mirror of the general unawareness that would lead to the war.

After WWI, the disillusion in the capability of economics to overcome political conflicts is dominant and he comes back to rescue the importance of political global institutions to solve the crucial weakness of international relations, i.e. the existence of absolute and exclusive national sovereignties. In this phase, economic freedom is a by-product of the international political architecture based on federal principles, not an end in itself.

After many years under the fascist regime and the intellectual influence of some Austrian friends, Einaudi abandons, to put it the way Croce would have said, (political) *liberalism* to embrace mostly (economic) *liberism*. In that transition, the role of public sovereignty is no longer to solve only the political problem of conflicts resolution but (almost) exclusively an economic one, aimed at "saving" the market forces from political interferences. From a strong political utopia, the project of an international federation becomes an economic tool for keeping policy out of economics, to keep the State out of the market, *à lá* Hayek.

The influence of Robbins's writings in the late Thirties only partially reverses this trajectory. His strong sympathy towards Robbins's works reinforces his intellectual foundations along the tradition of British liberal federalism. And his early participation into the activities of the European Federalist Movement in Italy are an example of this.

But his writings of the Forties show that Einaudi is split between the two opposite approaches of Mises and Hayek on one side, Robbins on the other. Einaudi is divided between these two radical positions on the crucial question concerning the degree of *thickness* of the international constitutional rules and institutions. *Thickness* which can be defined as the degree of constitutional relevance, the possibility to intervene with coercive power and the fact that between market and such international institutions there might be a positive-sum or a negative-sum game.

A first question to be addressed concerns the reasons for Einaudi's alternate and sometimes mixed-up approach to the institutional framework of international liberalism. One might have suspected that wars played a major role in reinforcing his awareness of the need for coercive international arrangements to overcome clashing national sovereignties and prevent war by the strength of law. But we have seen that this attitude was more a characteristic of his early writings and it occasionally comes unexpectedly to the surface irrespective of the timing of external events.

Vigo (1986: 10) suggests that “the spread of protectionism” after WWI may have shifted Einaudi towards the economic rather than the political aspect of international institutions. This is probably true, but we suggested that this should be combined with an intellectual influence from Mises and Hayek, whose *instrumental federalism* placed a crucial role on Einaudi’s occasional stress on the need to preserve the spontaneous order given by the market from political institutions rather than build a new supra-national political architecture. And when Robbins reminds Einaudi of his early convictions in the virtues of constitutional federalism, his writings become more ambiguous and apparently incoherent.

In this story, in brief, it seems that ideas have been more powerful than facts. Or, at least, they have provided strong intellectual foundations to face the evolving events. But, given this evolutionary framework, there are two other crucial questions which remain to be answered: a) was Einaudi a neoliberal, and what kind of it?; b) what was Einaudi’s contribution to the making of the neoliberal thought before 1947, when the Mont Pelerin Society was founded?

According to Van Horn and Mirowsky (2009) the difference between *classical liberalism* and *neoliberalism* depends on the fact that the latter is “more economically oriented” (2009: 152), that “its political program will triumph only if it acknowledges that the conditions for its success must be *constructed*, and will not come about ‘naturally’ in the absence of concerted effort” (2009: 161) and, in the end, that conceiving freedom “only as the capacity for self-realization [... it allows...] to regard any economic transaction as coercive” (2009: 162). On the contrary, “the theorist of classical liberalism had exhibited a tendency to be either such inveterate optimists that they would perceive no need for concerted political and social organization in the interest of liberty” (2009: 160).

Using the lens of Van Horn and Mirowsky to assess Einaudi’s *degree of neoliberalism* it is plausible to attach to him the label of “neoliberal”. No doubt he was not “an inveterate optimist”, if we exclude a short period of his life; he was convinced of the urgent need for a strong political commitment in order to establish and guarantee an international liberal order and such an order increasingly became “more economically oriented”. But although he can be said to have been one of the major representatives of the liberal intellectual effort to build a new economic and political order based on liberal principles in view of the end of WWII, Einaudi’s conception of the role and nature of international institutions was the expression of the many different approaches of the leading figures of the MPS.

When Einaudi is invited to join the Mont Pelerin meeting in April 1947, a few weeks after celebrating his 73rd birthday, Einaudi is Governor of the Bank of Italy, Vice-President of the Italian Government and Ministry of Treasury and Finances. The following year he would become President of the Italian Republic. It is therefore very likely he did not join the meeting due to his public institutional commitments. But this was a pity, because given his peculiarities and plurality of views, he might have helped maintain the heterogeneity and richness of approaches which characterized the early MPS project and which would unfortunately disappear during the following years.

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