

REVIEW OF *LA VERITÀ, VI PREGO,
SUL NEOLIBERISMO*
BY ALBERTO MINGARDI
(Verso, 398 pages)

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I
INTRODUCTION

There are few things nowadays that ignite more hatred, especially within university campuses, than declaring oneself to be a neoliberal (if the reader is not convinced, he is invited to try it himself and see what happens). Both exponents from the Right and from the Left, in fact, view Neoliberalism as the *instrumentum regni* with which global political leaders and their special interests have tried, especially since the 1980s, to squeeze out the middle class and the poor¹. International institutions such as The European Union, The International Monetary Fund, or the World Bank, according to this popular view, are all part of the same great neoliberal scheme that aims to centralize power in the hands of the few by advancing policies that are in line with what leftist billionaire George Soros dubbed 'market fundamentalism'²: a "grab-bag of ideas based on the fundamentalist notion

¹ The birth of Neo-Liberalism is commonly attributed to this period due to fall of Keynesian economics and the concomitant Rise of Thatcherism in the UK, Reaganism in the US and the Washington Consensus as an International Economic Policy for lesser developed countries. Supposedly, at the centre of all these political platforms, were reforms that pushed for radical privatization, de-regulation and liberalization. For an exposition of this standard view see Thomas I. Palley (2004). *From Keynesianism to Neo-Liberalism: Shifting Paradigms in Economics*. [online] Available at https://www.researchgate.net/publication/241645271_From_Keynesianism_to_Neoliberalism_Shifting_Paradigms_in_Economics

² Soros, G. (1998). *The Crisis of Global Capitalism*. London: Little, Brown.

that markets are self-correcting, allocate resources efficiently, and serve the public interest well”³.

This story, which the media and intellectuals are repeating *ad nauseam*, is both intriguing and tempting to swallow. Identifying a scapegoat is always a very comfortable way of avoiding responsibility when push comes to shove, and even more so when this scapegoat is so abstract and impersonal as an ideology that everybody talks about but which nobody can really point their finger to. It is therefore not a surprise that Neo-Liberalism has even been blamed for causing such non-economic problems as the dispersion of Ebola: the deadly virus disease that emerged in sub-saharan Africa. On this matter, the bravest readers are encouraged to take a look at the work of scientists Robert and Rodrik Wallace or at the words pronounced by the ex-president of the Italian Chamber of Deputies Laura Boldrini.

There is just one minor problem with this story: it is wrong. Alberto Mingardi, director of the Istituto Bruno Leoni, has tried to burry this myth once and for all in his last book, *La verità, vi prego, sul neo-liberismo* (The truth, please, on neo-liberalism). In a lengthy essay of 398 pages, the Italian scholar shows how the idea that we have been dominated in the past quarter of a century by a political class determined to increase the scale and scope of private enterprise is simply unfounded: never has government spending, taxation and regulation been as high in the history of modern nations as they are today. Vilfredo Pareto (1897), the great classical liberal economist and sociologist, remarked with an eye to future historians that even if free markets and free competition were to be considered contemptuous, one cannot blame them for the evils that follow where they are not present⁴. The case Pareto had in mind was that of Italy in the latter part of the 19th century, but, as Mingardi shows, his admonition is largely applicable to our present day.

³ Stiglitz, J. (2008). *The End of Neo-liberalism?* [online] Project Syndicate. Available at: <https://www.project-syndicate.org/commentary/the-end-of-neo-liberalism?barrier=accesspaylog> [Accessed 28 Jan. 2020].

⁴ Pareto, V. 1943. (1897). *Corso di Economia Politica*, Torino, Einaudi.

II NEO-LIBERALISM VERSUS CLASSICAL LIBERALISM

Mingardi starts his essay by reminding us, first of all, that “words are important”. Taking a step back he thus asks: what is the origin of the modern concept of Neo-Liberalism and what were its significant features? The reader might think these questions to be trivial but very few writers who have employed this term have actually taken the time to define it correctly and trace back its origins: a further indication that the very term is simply an academic catchphrase used by leftist intellectuals to ridicule their opponents⁵. Mingardi interestingly points out, in fact, that in 2009 Taylor Boas and Jordan Gans-Morse surveyed 148 scholarly articles, published between 1990 and 2004, that identified neo-liberalism as a variable in the process of economic development. What they found was that 65% of them did not even bother to define such term.⁶ What one learns is that, strictly speaking, the actual neo-liberal movement had very little to do with a political platform that aims *to* have society capitulate to what the market wants, as critics like Philip Mirowski want us to believe⁷.

The term Neo-Liberalism is said to have been proposed by German sociologist Alexander Rustow in 1938, but the movement’s intellectual father was the American journalist Walter Lippmann—a strong supporter of the New Deal until he realized, in 1935, the

⁵ According to economic historian Philip Magness, the term Neo-Liberalism has been an academic catchphrase with deeply negative connotations since the 1920’s, when it was first employed by collectivists such as Max Adler, Alfred Meusel and Othmar Spann in order to designate with a touch of disgust the liberal marginalism of writers such as Ludwig von Mises. See Magness, P. (2018). “The Pejorative Origins of the Term ‘Neoliberalism’”. [online] AIER. Available at: <https://www.aier.org/article/the-pejorative-origins-of-the-term-neoliberalism/> [Accessed 3 Feb. 2020].

⁶ Taylor C. Boas and Jordan Gans-Morse. (2009). “Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan”, in *Studies in Comparative International Development*, 44, n. 2, p. 142.

⁷ Mirowski, P. (2014). “The Political Movement that Dared not Speak its own Name: The Neoliberal Thought Collective Under Erasure”, in *INET Working Paper*, n. 23, p. 12. For a constructive and articulate critique of Mirowski ideas on Neo-Liberalism, see Bagus, P. (2015). *Why Mirowski is Wrong About Neo-Liberalism and the Austrian School*. [online] Mises Institute. Available at: <https://mises.org/library/why-mirowski-wrong-about-neoliberalism-and-austrian-school> [Accessed 28 Jan. 2020].

monumental growth in government power that took place after the great depression. After the crash of 1929, Lippmann noted, something unprecedented had in fact happened: for the first time in American History, recovering from a downturn became the job of the state and not a responsibility of individuals. He thus was able to realize, before many other 'sophisticated' intellectuals, the essential continuity between Herbert Hoover and Franklin Delano Roosevelt, a fact that was explicitly recognized by members of FDR's brain trust themselves, figures such as Rexford G. Tugwell and Raymond Moley⁸.

Disillusioned by this sudden encroachment on the part of the government, in his famous book, *The Good Society*, Lippmann (1937) warned of the dangers of a centrally planned economy and underlined the benefits of a largely free and competitive market. However, notwithstanding his many good intuitions, as Mingardi points out, Lippmann was far from embracing classical liberalism: his "bête noir was discretionary power, not necessarily government intervention" (p.53). He even went as far as to consider classical liberalism as an "ideological weapon used to justify injustices and oppression" (p.47). This ambiguity in Lippmann's thought was already evident in his acknowledgments: on the one hand, he felt indebted to the insights of Ludwig von Mises and Friedrich von Hayek for their critique of socialism and, on the other, to John Maynard Keynes for demonstrating to "the free peoples that the modern economy can be regulated without dictatorship"⁹.

The Neo-liberal project, which emerged around Lippmann's book during a Paris meeting among fellow liberals in 1938 organized by Louis Rougier- known as the Walter Lippmann Colloquium- was, then, already from the start infected by some sort of third way dream that would mitigate the excesses of central planning and those of market sovereignty¹⁰. As Mingardi himself put

⁸ Horwitz, S. (2011). "Herbert Hoover: Father of the New Deal". *Cato Briefing Papers*, [online] 122. Available at: <http://www.cato.org/publications/briefing-paper/herbert-hoover-father-new-deal> [Accessed 1 Feb. 2020].

⁹ Lippmann, W. (1938). *The Good Society*, Boston: Little, Brown and Company, p. viii.

¹⁰ Emphasis on this point was also made by Austrian economist Richard Ebeling. As he wrote: "Neo-Liberalism was not born as an attempt to rationalize and restore a *laissez-faire* unbridled capitalism, but as an idea to introduce a wide network of regulatory

it: “Neo-Liberalism in its true sense, that of Lippmann and of the German Ordoliberal, was an attempt to save *something* [emphasis added] from the market economy in a world that had decided, convincingly, to turn its back on it (p. 70).

III

THE INVISIBLE LAND OF THE ‘NEO-LIBERAL’ REVOLUTION

Unlike what the neo-liberal critics keep telling us, in the aftermath of WWII, cases where the scale of state intervention diminished have been extremely rare: even the proclaimed neo-liberal revolutions of Margaret Thatcher and Ronald Reagan in the 1980’s did little or nothing to cut the size of the welfare state and to implement systematic deregulations. Some regulated sectors were left untouched, and other sectors, like that concerning labour contracts and health insurance, ended up being more regulated than before (p. 153). On average, moreover, social expenditures in OCSE countries have increased in the last quarter of a century: from slightly over 15% of GDP in the end of the 1980’s to 21% in 2016.

Even the globalization process, which followed the fall of the Berlin wall, has been characterized by multilateral trade agreements which are far more restrictive, binding and protectionist than the unilateral or even bilateral free trade agreements of the 19th century. As Mingardi writes: “From the mid 19th century to this day, the functions of the state have increased dramatically. The idea that has spread is that every aspect of social life must, if not controlled, at least be regulated and that the complexity of reality requires... that rules be every day more complex. The 1.700

and redistributive programs that would enable the political salvaging of some of the essential elements of a competitive market order. The tricky task, in the eyes of most of the attendees, was to figure out how to do this without the interventionist system itself threatening to get out of control and degenerate into that type of piecemeal system of collectivist privilege, plunder and corruption that Walter Lippmann had, himself, said easily can be an incremental backdoor to a planned society”. Ebeling, R. (2018). “Neoliberalism Was Never About Free Markets” [online] Fee.org. Available at: <https://fee.org/articles/neoliberalism-was-never-about-free-market> [Accessed 28 Jan. 2020].

pages of NAFTA reflect this vision of the world... there is very little deregulation in modern day international trade" (p. 125).

Even though in the last century fundamental free market reforms were both rare and temporary, they always gave rise to a wave of creativity, innovation and prosperity. This was, for instance, the case in Germany, France and Italy in the 1950's and 60's when these countries were guided respectively by policies of Ludwig Erhard, Jacques Rueff and Luigi Einaudi: all of whom were close to the ideas of the Austrian School of Economics¹¹. It wasn't, however, the case of Great Britain, for as Mingardi notes, this was "the only country that never had a neo-liberal phase in its true sense" (p. 83). Under the leadership of Clement Attlee, in fact, Great Britain embarked on the road of Welfarism and Unionism, and, most importantly, influenced by the Keynesian "fetish of full employment"¹², it began to develop "a love story with nationalizations" (p. 86). For this reason, Great Britain experienced the slowest post-war economic recovery.

But what about the United States? Doesn't the fact that its economic golden age coincided with the dominance of Keynesian Economics disprove the core message of this book? Mingardi skilfully rebukes this position with both theory and history. Although on the face of it the US Tax System seemed pretty invasive- with marginal tax rates for incomes above \$200,000 reaching 91%- its relative complexity made it possible for wealth-creating entrepreneurs to find a way out of it. Mingardi cites here economist Lawrence Lindsey, according to which, in the year 1960 the 91% tax rate was actually paid only by 8 individuals¹³. The real tax burden was thus much lower than what one might think at first glance.

On top of this, starting in 1947, the US government slashed spending by some 75% compared to previous years, thus creating the conditions for scarce resources to freely move toward their

¹¹ Guglielmo Piombini. (2016). *I Successi della Scuola Austriaca e i Fallimenti Keynesiani*, [online] Libertycorner.eu. Available at: <http://libertycorner.eu/index.php/2017/05/18/successi-della-scuola-austriaca-fallimenti-keynesiani/>. [Accessed 28 Jan. 2020].

¹² The expression comes from chapter 10 of Hazlitt, H. (1947). *Economics in One Lesson*. London: Ernest Benn.

¹³ *Tax policies for 4% Growth: Evidence from the States, American History, Markets, and Nations*. (2012). George W. Bush Presidential Center, p. 46.

most highly valued productive use. Moreover, low (real) taxes, low government spending and the stable institutional environment that followed, incentivised wealth producers to think big and long term, increasing their market share by saving, investing and accumulating capital: a race which ended up increasing production and real incomes across the board.

IV FREE TRADE AND FREE PRICES: TWO HALLMARCKS OF CIVILIZATION

Mingardi, however, does not simply content himself with showing that this “neo-liberal syndrome” we are supposedly suffering from is a pure invention: he also engages in some insightful positive analysis. This can be seen, for instance, in chapter 2 when he lucidly presents the benefits of free trade and globalization on the basis of the Ricardian law of association: “The opening of international trade tends to push toward a better allocation of resources: the greater competition [coming from outside] brings the least efficient to revisit the ways in which they operate in order not to lose ground to the new entrants, while the most efficient disembark on new markets” (p. 118).

His discussion in chapter 3 of the socialist calculation debate in light of recent calls to expand the role of the state in the economy, is also pretty suggestive. Mingardi explains the indispensable role that free money prices play in a complex economy by allowing us to give a rational answer to the fundamental questions that a world of scarcity poses us: which good must be produced with greatest urgency? In what quantity must these be produced? with which combination of production factors must one go about producing them? Where must one sell them and at what price? To show this he uses the example of the Italian Chef Antonino Cannavacciuolo, showman of the Italian Hell’s Kitchen, a programme in which restaurants on the brink of failure call for the help of the chief to recover their competitiveness.

Cannavacciuolo’s comparative advantage is to analyse the behaviour and choices of the various restaurants not in isolation or in the

abstract but with reference to the indispensable framework of monetary calculation. “Cannavacciuolo looks at the bills and tries to explain to entrepreneurs on the brink of collapse how to reason about their supplies: a pizza-hut cannot serve fine venison every night, because its clients are expecting something else and because it would incur the risk of having the fridge always full and a mountain of debts on its back; a small countryside restaurant from the hinterland of Turin cannot indulge itself by putting, on the menu, extremely expensive crustaceans and fishes, especially if, in the kitchen, it does not have the adequate touch to be able to gain a Michelin Star” (p. 200).

Cannavacciuolo’s lesson is that long-term economic success depends on the entrepreneur’s ability to improve his product and to reduce waste: two goals that can only be achieved thanks to the existence of money prices, which are themselves only possible in a regime that is characterized by private property, freedom of exchange and a politically independent money¹⁴. In connection to the latter, suggestive and informative is also Mingardi’s extensive, critical analysis of Mariana Mazzucato’s (2013) *The Entrepreneurial State*, and the many popular myths that have gone with it: from the statist account of the birth of Internet to the belief that Post WWII Japanese economic was caused by the wise and long-term planning decisions of the Ministry of International Trade and Industry.

V

THE PLACE FOR SOME CRITICISMS

Even though the book is mostly a libertarian tour de force, it is not immune from criticism on some points. In chapter one, in dealing with the Keynesian interpretation of the great depression, Mingardi states for instance that “The crisis of 1929 is a complex event, and as every complex event it is improbable that it originated from just one cause” (p. 76). Although this statement is to some extent

¹⁴ Von Mises, L. (2008). *Economic Calculation in the Socialist Commonwealth*. Auburn, Ala: Ludwig von Mises Institute.

reasonable, Mingardi would be wrong if he thinks that one cannot, therefore, determine the main or fundamental cause without which such a severe crisis could not have occurred: inflationary bank credit lent below the natural interest rate. Indeed, to discover and unravel fundamental causes and consequences is the very nature and purpose of economic theorizing.

Mingardi seems to incur in another error at the end of chapter 2. When talking about sound money, the author rightly points that one of the main merits of the gold standard was to provide a check against discretionary action on the part of the political elite. As he writes: "In a model founded on gold convertibility, when the demand for bank notes increases (due, for example, to the state's decision to increase the retribution of its functionaries) the issuing bank, if it wants to accommodate this increase in demand, must also increase the gold reserves in which those notes can be converted... this by itself represents a constraint which tends make sure that the supply of bank notes increases only when it is really necessary, that is when productivity has increased" (p. 173).

The problem in the latter paragraph is to be found in the last sentence where Mingardi seems to assume, like a perfect monetarist, that a productivity increase must be compensated by an increase in the money supply. The injection of new money, however, not only decreases the real incomes and standard of living of productive people more than what they otherwise would have been by countering the effects of technological improvements, but ultimately, due to the non-neutral aspects of money, it distorts market signals, creating thus the conditions for a misalignment between the production structure and consumer preferences to take place. The story is even more problematic because, to the extent that the new means of payment enter through the loan market, the artificially low interest rate that will follow from such a policy will most likely lead entrepreneurs toward systemic errors in the intertemporal allocation of resources, thus setting the stage for a financial crisis and economic recession to ensue¹⁵. As Fritz

¹⁵ For an articulate exposition of the distortionary effects of credit expansion on the structure of production, see chapter 5 of Huerta de Soto, J. (2006). *Money, Bank Credit and Economic Cycles*. Ludwig von Mises Institute, Auburn: Alabama.

Machlup remarked: "In spite of their stabilizing effect on the price level, the emergence of the new circulating media in the form of money capital may cause roundabout processes of production to be undertaken which cannot in the long run be maintained"¹⁶.

In the last chapter, Mingardi, after providing his economic and 'humane' defence of free immigration (which he views as just an extension of the individual right of free association) goes into explaining why the real reason behind the realignment of both right and left toward populism and identity politics is the avoidance of any market reforms on the part of the elites. Implicit, however in Mingardi's position and analysis is that populism is somehow incompatible with libertarianism, a position which is untenable once one realizes that populism, in the words of Austrian economist Joseph Salerno, "is not a right-wing ideology but a strategy that may be used by any ideological group whose political agenda differs radically from that of the ruling class"¹⁷. Not only is it not incompatible with a defence of individual liberty, but it may well be the only feasible strategy- in the short to medium run- that, by circumventing the state apparatus and its intellectual bodyguards, can lead to the massive insurrection of the tax payers (the productive class workers and entrepreneurs) against the tax consumers (the unproductive class who run government and live off its coerced disbursements). Murray Rothbard, Mr. Libertarian, remained of this opinion from the early 1950's till the end of his life¹⁸.

¹⁶ Machlup, F. (1940). *The Stock Market, Credit and Capital Formation*. London: William Hodge, p. 177.

¹⁷ Salerno, J. (2016). *Populism Is Not an Ideology*. [online] Mises Institute. Available at: <https://mises.org/wire/populism-not-ideology> [Accessed 1 Feb. 2020].

¹⁸ Already in a manuscript written in 1954 one finds Rothbard stating the following: "All demagoguery, any disruption of the apple cart, would almost certainly come from the individualist opposition. Furthermore, the State is now in command, and whenever this condition prevails, the State is anxious to prevent disruption and ideological turmoil... In the short run... the only route to liberty is by an appeal to the masses over the heads of the State and its intellectual bodyguard. And this appeal can be made most effectively by the demagogue--the rough, unpolished man of the people, who can present the truth in simple, effective, yes emotional, language." Rothbard, M. (2002). *In Defense of Demagogues*. [online] Mises Institute. Available at: <https://mises.org/library/defense-demagogues> [Accessed 1 Feb. 2020].

VI CONCLUSION

In spite of these small disagreements, Mingardi's book is a very welcome addition to the literature on this obscure and rarely studied term that is Neo-Liberalism. The author is able to integrate sound economic analysis with interesting anecdotes and historical references that can be helpful for future researches. This essay then, must be read and studied: it reminds the reader, as US president Harry Truman famously said, that "the only thing new in the world is the history you do not know".