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## RESEARCH ARTICLE

### THE *OLD* NEO-LIBERALISM

#### The neo-liberalist germ in Mises' and Hayek's theories

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**ABSTRACT:** What is neo-liberalism? I'm going to affirm here that, as well as being a political doctrine born in the 1970s, neo-liberalism is the construction, the extension and the final reinforcement of a number of classical elements. My argument is that many of the typical aspects of contemporary neo-liberalism were already present in theories expressed by thinkers such as L. von Mises and F. A. von Hayek. As proof of this fact, I reclaim some characteristics of the present neo-liberal phenomenon as having been conceived by the above authors. These characteristics actually imply the ongoing spread of a dominant ideology that tends to pit the concept of liberty against those of rationality and critical consciousness. First, the article will analyse the changes that have occurred within the phenomenon of consumerism, which becomes entwined with the competitive and entrepreneurial spirit of the individual; second, it will reflect on the widespread aversion to socialist policies, and in fact to all policies that provide for public intervention by the State and that change the relationship between State and economy; finally, it will relate these investigations to the ideological and structural model that supports the European Union.

**KEYWORDS:** Hayek, Ideology, Lippmann Colloquium, Mises, Neo-liberalism

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## **1. The new neo-liberalist tradition**

In the study of neo-liberalism, we must consider the connection between our present economic paradigm, and its past. We do this largely within the contemporary sociological literature, although this literature is mostly focused on theories that have been formulated since the 1970s. There is no doubt about the decisive influence of the Chicago School, and in particular of Friedman, who made dominant the neo-liberalist logic through publications, television presence, think tanks and other strategies to shape the collective consciousness, starting from the 1970s. Nevertheless, it seems to me that the contribution of prior theories to the birth of this logic has been undervalued, as in the case of the authors of the Austrian School. Too often, this school's theories have been considered complementary to the ones that came after. Their role has been minimised and marginalised in comparison to the Chicago School's more popular and analyzed theories. I have no intention to undervalue the decisive function of the Chicago School in the construction of the neo-liberalist collective consciousness of the 1970s, but I want to reconsider the former theories of L. von Mises and F. A. von Hayek as contributive to or even constitutive of this consciousness.

Today's neo-liberalist paradigm is innovatively and extensively using concepts and theories developed by the economic thinkers of the Austrian School during the 1930s and 1940s. Therefore, neo-liberalism can be viewed as the construction, the extension, and the final reinforcement of a number of classical elements that had already been theorised, even if an embryonic way. According to the exponents of the Austrian School, the main constitutive elements of that economic model were extreme competition and deployment of decision capability. Their reasoning was that these elements are used by individuals to differentiate themselves: to craft a more distinct definition of their identities. This vision reveals a clear antagonism toward the socialist model, which was thought as a limiting and coercive model concerning self-determination. In its, particular, resilient radicalisation of the idea of freedom, the model is clearly different from the one proposed, for example, by the Enlightenment – and by Gramsci – that considered freedom as critical awareness and humanistic maturation. It is also different from the liberal model, which is based only on the claiming of rights connected to 'freedom of owning', prior it is in private ownership. By contrast, the theorists of the Austrian School subordinate freedom – particularly political freedom – to economic freedom, theorising, at the same time, the reduction of the State to an ancillary role with respect to the market and its needs. In other words, for the Austrian researchers, "freedom" is synonymous with "market freedom", and this is the reason why they conceived of society wholly as an environment in which to form a new type of individual

whose *modus vivendi*, characterised by self-entrepreneurship and the [unceasing] acquisition of resources, aims principally at success in a regime of competition.

My idea is that these features of the model of capitalism, theorised at the time by the researchers of the Austrian School and faintly resonating still, are identical to those in the model under deployment nowadays almost everywhere in the western world and actively favoured by the neo-liberalist paradigm. The obvious implication of this strong resemblance is that we can analyse many social, political and economic contemporary phenomena as beginning from the theoretical positions expressed at the dawn of the twentieth century. This is true for at least three fields of study:

- a) the analysis of the present consumer phenomenon and the regulatory role of the market in people's daily lives;
- b) the analysis of the current task of the State and its place inside the new political and social world order; and
- c) the study of the economic and political system on which the European Union is based.

Through this analysis, we will see how Hayek's and Mises' ideas shadow all three fields: theorising a market that forms and governs the entire society; formulating an idea of State that raises this public institution to the status of guard of the neo-liberalist system and diminishes the ideology of socialist politics; and extending liberalist ideas from the national to the supranational (the European Union), ostensibly with the aim of limiting State sovereignty.

## 2. The inception and spread of neo-liberalist precepts

We can claim that the birth of neo-liberalist thought corresponds exactly with the end of the Lippmann Colloquium, which was organised by Louis Rougier in August 1938, and whose results led to a clear dissociation from classical liberal thought.

The meeting was born of the need to reconstruct the liberal doctrine in a theoretical way, in order to obtain a politics that could limit the disadvantages of *laissez-faire*. Effectively, the Lippmann Colloquium aided the inception of a reinvented liberalism, afterwards called *new liberalism* (Dardot and Laval 2013 [2009], chap. 2).

According to Foucault (2008 [2004], 160-161), the importance of the Colloquium to the history of modern and contemporary neo-liberalism is also in its crossing of different theoretical positions. The contribution proceeded respectively from traditional liberalism, from the ordoliberalism of Röpke and Rüstow, and, of course, from the Austrian School, in particular Hayek and Mises.

Foucault also reminds us how, during the Colloquium, the participants presciently talked about a self-regulating market, where in there should not be any interruption of flow imposed by the State or by any kind of moralism. In that situation, with his formulation of “catallactics”, Mises imagined and described a society based on self-determination and entrepreneurship. Afterwards, those ideas would act as mediation between the German ordoliberalism and the American neo-liberalism, leading to the anarcho-liberalism of the Chicago School and particularly of Friedman (*ivi*, 161).

Nowadays these ideas are fully deployed in western society, most obviously since the 1970s. In the 1950s and 1960s, due to *force majeure*, capitalism had to come to terms with a new working class, grown stronger after the war and with competition between systems; the result was the acceptance of Keynesian policies (Streeck 2014 [2013]). The new world order – shaped from the Bretton Woods system and the creation of new institutions such as the United Nations, the International Monetary Fund and the Bank for International Settlements of Basil – would guarantee relative peace and quiet between nations for many years to come. In effect, in this renewed contest, the economic and political organisations of *embedded liberalism* recovered from the world war, working towards full employment rates, economic growth and citizens’ welfare (Harvey 2007 [2005]). Through the instating of ‘social ownership’ (replacing some functions of ‘private ownership’), post war society embarked on a nascent system of social protection. Eventually, the fusion of capitalism and established sociopolitical aims permitted a transformation of the entire society, which became – according to Castel (2003, 33) – a “*société de semblables*”.

But, in the 1970s, the fiscal crisis intervened in this postwar landscape of the forced public regulation of capitalism. This is the moment when the features of turbo-capitalism, rampant today and already delineated by the researchers of the Austrian School, became more and more evident. The fiscal crisis downsized the Keynesian policies, which began to be deliberately thwarted by measures intended to downsize the welfare state. Some examples of structural changes that have intervened since the 1970s as direct attacks on the welfare state system are: reduction of the rights to be protected from dismissal; authorisation and promotion of underpaid forms of employment; privatisation of public services in order to reduce public employment; reduction of the cost of labour; inflation at a greater rate than increase in wages; attacks on unions and their consequent exclusion from pay bargaining; and outsourcing of production to places in the world where pay is lower (Gallino 2005, 99; Streeck 2014 [2013], 41-41).

The anti-welfare theories of the Chicago School, and particularly of Friedman, circulated during the 1970s, were decisive for the political choices of the Thatcher and

Reagan' governments in the 1980s (see Friedman 1982 [1962]; ID. 1980 [1979]). As an example, we can review Friedman's position on the issue of politics against poverty:

the liberal will therefore distinguish sharply between equality of rights and equality of opportunity, on the one hand, and material equality or equality of outcome on the other. He may welcome the fact that a free society in fact tends toward greater material equality than any other yet tried. But he will regard this as a desirable by-product of a free society, not its major justification. He will welcome measures that promote both freedom and equality — such as measures to eliminate monopoly power and to improve the operation of the market. He will regard private charity directed at helping the less fortunate as an example of the proper use of freedom. And he may approve state action toward ameliorating poverty as a more effective way in which the great bulk of the community can achieve a common objective. He will do so with regret, however, at having to substitute compulsory for voluntary action (Friedman 1982 [1962], 195).

According to this point of view, it is the duty of each single individual to voluntarily, and preeminently, think about the wealth of the collective above his/her own wealth. This simple idea would become the focal point of government political propaganda during the 1970s and 1980s. The support of poor people would be the responsibility of voluntary charitable actions and organisations, not of a compulsory tax-funded effort by the State. At the same time, the theory criticized public housing, legislation of minimum wage, nationalisation of the retirement system, and mandatory pension contributions (*ivi*, chap. 11). Individual freedom became an *opportunity* for those who could afford it (others would have to try to gain it, devoting themselves to acquiring more and more skills).

The Chicago School of economics managed to spread these principles until they became real politics. But the origin of these ideas lies somewhere else. I believe that it is possible to find it in Mises' and Hayek's works, which strongly supported the subordination of social systems to market logic. Of course, the neo-liberalist perspective elaborated by these two authors was embryonic. Looking back superficially on all the socio-economic changes that occurred in the intervening decades, we might have the sensation that the contemporary scene is far more enveloped by market logic than the Austrian School economists would have hoped.

Today, the flexibility and uncertainty of what Beck (1992 [1986]) calls the "global risk society" — the consequence of the real reduction of welfare policies — have overwhelmed individuals, who are stranded by the pitiless politics of capitalism (Gallino 2011). Diffusion of financial activities throughout the economic system is how capitalism chooses to deal with its frequent crises. Factors that permit capitalism to buy time (Streck 2013) include governmental borrowing, the extension of private credit and the

acquisition of public debt by central banks. Moreover, capitalism employs efficient social instruments to build consensus in order to stay alive: being also a kind of culture, it has expanded and radicalised itself thanks to an intentional *ideology* that sustains its action. Besides classical forms of propaganda (mass media, educational institution, building of public opinion, etc.), capitalism is using new and more complex forms of 'narration', whose intention is to gain people's agreement and to spread the idea that capitalism is the best of the possible worlds (Harvey 2007 [2005]). To this end, capitalism is also using specialized forms of communication and specific machineries to disseminate ideology, such as new Research Centers that are scientific only by definition, being specifically created to spread 'belief' in capitalism on a public level. Among them, one of the most famous is certainly the neo-conservative Freedom House, founded in 1941 to measure 'democracy', which concept was mitigated over time to denote an unspecific 'freedom' rather than equality or social justice (Giannone 2010). Hayek himself had the distinction of founding similar centers, all in favour of the liberal market (*ivi*, chap. 1), among them the Institute of Economic Affairs in London in 1955 and the Fraser Institute in Vancouver in 1974. Together with Röpke he founded the Mont Pelerin Society, whose importance in the spread of neo-liberalist ideas is well-known and fully analyzed by Mirowski (2009) in *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective*. The Mont Pelerin Society has by now lost its influence, but it is still acting as a kind of ideologic "bridge" between its founder's thought and that of the ensuing Chicago School.

From 1970 onward, political support and ideological legitimation for the newly founded neo-liberalist paradigm increased. In 1971, Lewis Powell was appointed as a member of the Supreme Court by Richard Nixon. He worked to strengthen the fact that one of the aims of the National Chamber of Commerce was to influence, in a more substantial and pushy way, institutions such as universities, schools, media outlets, publishing houses and law courts, in order to change the individuals' opinions about the big firms and the market (Harvey 2007 [2005], 43). In the 70s, many public figures guided public opinion toward a renewed embrace of capitalism. For example, Friedman, who was Hayek's pupil, published articles and books, and appeared on TV programs, with the aim of gaining a new consensus in favour of the market. At the same time, he negatively stigmatised the public role of the State (Dardot and Laval 2013 [2009], 180). Harvey (2007 [2005], 44) documents the fact that from one of Friedman's books, *Free to Choose: A Personal Statement*, a TV program was made that was supported by Scaife, one of the many foundations aiming to spreading the neo-liberalist ideology.

Influencing political debate, there was in the 1970s a widespread and fundamental rise in neo-liberalist support. New 'think tanks' such as the Heritage Foundation, the Hoover Institute, the Center for the Study of American Business, the American Enterprise Institute and the National Bureau of Economic Research were born. All these institutions tended to corroborate and propagate neo-liberalist concept.

This thorough spread certainly contributed to the inception of the TINA (there is no alternative) logic, according to which neo-liberalism represents the only solution to human progress. TINA logic had its international consecration with the institution of the International Democrat Union (IDU) in 1983. This Union's intention was to compete ideologically with the big 'internationals' of history: Communist (Komintern, created in 1919) and Liberal (IL, Liberal International, created in 1947). Whereas the latter underline issues of social justice, poverty and community, and issues of the market, the IDU centers rather on the individual, free enterprise, open trade, minimalist government and private ownership. Its separation from the liberal issues of social justice, together with the universalist claim of its values, continue to increase (Giannone 2010, chap. 1).

Despite the neo-liberalist explosion during the 1970s, there exists, I will claim, a tight link back to the theories of the authors of the Austrian School. We could say that their theories lit the fuse of the neo-liberalist bomb, which was to explode years later thanks to its fueling by the economic theories of the Chicago School.

### **3. The evolution of consumerism: from the liberalist to the neo-liberalist model**

Another tenet contributing to the worldwide spread and growth of neo-liberalist capitalism has been 'consumerism' (as it was for liberalism). Deeply rooted since the dawn of the industrial revolution (see Sombart 1986 [1902]), consumerism has gradually expanded until it has reached the present phase, called "hyperconsumerism" by Ritzer (2005 [1999]). The economic boom of the 1950s and 1960s formed the basis for a consumerism which became exponentially progressive and unstoppable. The thinkers of the Frankfurt School described its extension in detail; according to them, consumerism was fed by "false needs" and delineated in order to reproduce the capitalistic system (Marcuse 2002 [1964]). Through the fostering of a "fun industry", capitalism appropriated people's free time and substituted "authentic" culture with culture that was prepackaged and projected (Pasolini, 1976). On this point, Baudrillard (1996 [1968]) had a more caustic opinion: he noted that the consumer had become a worker that didn't know he was working. Deviating from Marxist ideology, Baudrillard meant that capitalistic exploitation was not limited to the space of the factory, but had en-

tered the daily life of the populace. Debord (1995 [1967]) has a similar opinion: he thinks that, thanks to contemporary mass media and advertising consumerism is able to reach everyone's consciousness at every moment and everywhere, making the world "spectacular". For all these authors, the consumerism has become a total phenomenon embracing the whole individuals experience, it influencing consumers to continually seek solutions to superfluous 'needs'. According to Ritzer (2005 [1999], 9), in order to satisfy this compulsion special cult places, the "cathedrals of consumption", constructed. These are spaces of anonymity adapted to foster and facilitate feverish buying. In Ritzer's opinion (*ivi*, 29-30) "hyperconsumistic" logic is paradoxically democratic: the new technological and communication instruments, such as social networks and smartphones, don't exclude anyone. The simplicity of consumerism's ability to penetrate all individuals' daily lives recalls those original features, discussed above, of a consumerist model that we could define as 'liberalist'.

Cultural and social reproduction of capitalism via the capillary 'invasion' of consumerism has been happening since the 1970s. In effect, what consumerism is doing nowadays is actually spreading the machinery of competition in order to germinate the behaviour of single entrepreneurship or, as termed by Dardot and Laval (2013 [2009], 293), the behaviour of "self-help".

This concept proposes that the individual-entrepreneur does not have – or should not have – any other means than herself or himself. A process began during the 1970s that worked for a gradual elimination of welfare services provided by the State; according to its neo-liberalist ideology, State welfare systems are to be blamed for encouraging the laziness of poverty. However, unavoidable consequences of this process are lonely and abandoned subjects dependent only on their own professionalism and obliged to continuously demonstrate their knowledge so that no one can outstrip them. According to Sennett (1998), the removal of excessive bureaucratic constraints on firms, and their reorganisation into more flexible forms, favoured this state of loneliness, partly because it was easier to expunge redundancies from the productive arena. Exclusion from the labour market of those without their own and renewable means intensifies a competitive spirit, and as this spirit becomes widespread we must adapt to the new situation. This competitive spirit is the fundamental element of the *new* consumer model.

The features of this new model, briefly underlined here, bear close relation to those that Mises and Hayek theorised in the 1930s and 1940s. Although their theories came alive during the period of the economic boom of mass consumerism (and in a different socio-economic context from the present one), these Austrian School authors delineated the essential elements of what we can now call a *neo-liberalist consumer model*. For

example, in his most famous text, *Human Action: A Treatise on Economics*, Mises talks about the individual-consumer's personal choices. According to his vision, the subject – in a state of autarchy – would *naturally* be able to carry out market actions. Then the market, rendering *rational* what actors choose, would assume the role of *formative* agent. In other words, for Mises, the subject has the capability to (gradually) determine the market's prices and its functional laws, so that the market is a "social body", always changing, "that results from everyone's active participation" (Mises 1998 [1949], 312). In his words:

The market is not a place, a thing, or a collective entity. The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor. The forces determining the – continually changing – state of the market are the value judgments of these individuals and their actions as directed by these value judgements. The state of the market at any instant is the price structure, i.e., the totality of the exchange ratios as established by the interaction of those eager to buy and those eager to sell. There is nothing inhuman or mystical with regard to the market. The market process is entirely a resultant of human actions. Every market phenomenon can be traced back to definite choices of the members of the market society (*ivi*, 258-259).

According to Mises, the market operates like the democratic constitution. If we assume (or recognise) that the citizens have the capability and the sovereignty of judging the government's behaviour, the same would apply to consumers in the market. Therefore in his thinking, every cent spent by a consumer is equivalent to a vote in a democracy (*ivi*, 271). Moreover, Mises allows that there is a greater attention to minorities in the market than in a social democracy, because its producers do not want to exclude their desires and needs. In other words, as in a parliamentary democracy, the market's entrepreneurs are virtually the consumers' mandataries (*ivi*, 272), perhaps having even more relevance than their elected representatives. Consumers, through their buying or their abstention, lend their place and their weight in society to various entrepreneurs. Mises describes this process:

Entrance into a definite branch of industry is virtually free to newcomers only as far as the consumers approve of this branch's expansion or as far as the newcomers succeed in supplanting those already occupied in it by filling better or more cheaply the demands of the consumers. Additional investment is reasonable only to the extent that it fills the most urgent among the not yet satisfied needs of the consumers. If the existing plants are sufficient, it would be wasteful to invest more capital in the same industry. The structure of market prices pushes the new investors into other branches (*ivi*, 275).

Differently from “biological competition”, where in the natural rivalry among animals looking for food is “hostile”, for Mises (*ivi*, 274) “social competition” a result of the social cooperation system in the division of labour, is the outflow of participation and mutuality. This type of competition is possible only when the market does not suffer external interferences and when everyone has the possibility to act freely toward reaching economic and social objectives. Mises defines this type of competition as “catallactics”. Offering relatively more or less beneficial and convenient products and services, sellers are mutually exclusive; meanwhile buyers are prepared to offer more or less, and to marginalize those whose offerings are not desired (*ibidem*). In catallactic competition, the human agent influences the market and the market, in turn, shapes people’s actions. Subjects bias the market depending on the presence of unsatisfied needs, but in this way, everyone becomes a potential entrepreneur, incessantly and obsessively honing self-assertiveness (for shadowing the present phenomena of the prosumer<sup>1</sup>). The market regulator principle is upturned: it does not turn on the simple exchange of goods, but on the spread of the “mechanisms of competition” (Foucault 2008 [2004], 147). This is the inception of the neo-liberalist consumer model.

In this complex new design of the market logic, the concept of freedom changes too. Now it aligns with a particular aspect – competition, and with a particular feature – egoism (Mises 1998 [1949], 283). Its legitimacy can be considered a change from the old liberalist consumer model. For the researchers of the Austrian School, modern complexity led to a reconsideration of moral principles, so that Hayek thought about these principles as *limits* (Hayek 2004 [1944], 61). He believed that the inclination toward a total satisfaction of one’s needs leads to a demolition of socialist moral principles, characterised by equalitarianism. In *Human Action: A Treatise on Economics*, Mises also expresses this idea. He writes that if the entrepreneurs’ task is to offer a specified and required series of products to satisfy consumers’ needs, this also means that they do not have any moral responsibility regarding what they are offering. Convinced that “man is not evil merely because he wants to enjoy pleasure and avoid pain” (1951 [1922], 453), Mises reaffirms the utilitarian logic, while eliminating all its negative fea-

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<sup>1</sup> ‘Prosumer’ is a term coined by Toffler in his text *The Third Wave* (1989). It is the result of the crisis of the terms producer and consumer. The term describes consumers’ attention-seeking behaviour in a period emerging from the first period of massive serial production servicing the multiple consumption needs of citizens. The web sites that absorb clients’ reactions are an example of prosumer behaviour: browsers, where visitors’ activity is determining and fixing the prices of the advertisements; e-commerce sites, where the sellers’ and products’ reputations are built by the judgments of former users; blogs; wiki sites crafted by the active collaboration of the community and its users. Prosumer television, by inviting common people to participate in reality shows, has also tried to downsize the threshold that divides public from producer.

tures. In order to understand his position we should note that for Mises commercial propaganda was nothing more than a neutral competitive instrument used by the entrepreneur to reach a valid aim.

Business propaganda must be obtrusive and blatant. It is its aim to attract the attention of slow people, to rouse latent wishes, to entice men to substitute innovation for inert clinging to traditional routine. In order to succeed, advertising must be adjusted to the mentality of the people courted. It must suit their tastes and speak their idiom. Advertising is shrill, noisy, coarse, puffing, because the public does not react to dignified allusions. It is the bad taste of the public that forces the advertisers to display bad taste in their publicity campaigns (Mises 1998 [1949], 316-317).

This example demonstrates the difference between neo-liberalist consumer theory and Marcusean 'false needs' theory. On one hand, there is the Frankfurt view of the subjected rationality of individuals that suffer media and advertisement as something that invades their private space and demands their alignment with capitalistic logic. On the other hand, there are the ante-litteram Austrian neo-liberalist economists who assert instead the existence of a perfect rationality that inheres in the capability of the subject to choose competently in a world of alternative products.

#### **4. The new function of the State and the neo-liberalist aversion for the welfare policies**

According to Foucault (2008 [2004], 147), in the neo-liberalist paradigm we try to go back to a kind of social ethics whose political, cultural and economic history has already been traced by thinkers such as Weber, Schumpeter and Sombart. Based on the assumption – already fully explained by researchers such as Samuelson (1947) and Arrow and Debreu (1950) in their models of competitive economy – that market logic is the only logic that can guarantee the freedom of the individual, neo-liberalism has the objective of prohibiting external market forces that could act to limit its power. Based on this assumption, during the 1970s, the classical relation between State and economy was completely redefined. Firstly, welfare policies that aimed to restore the social State role were considered damaging and superfluous. The gradual elimination of Keynesian policies during this period led to their substitution by market politics that did not allow interference from the State. As we have seen, a series of actions was taken to serve to this objective: from the reduction of the right to be protected from dismissal, to the authorization and promotion of underpaid forms of employment; from attacks

on Unions and their consequent exclusion from pay bargaining, to the outsourcing of production to places in the world where pay is lower (Streeck 2014 [2013], Gallino 2005, 99). What I want to underline here is how neo-liberalists acted with the deliberate intention of modifying the classical function of social defense by the State, in service of the advancement of market logic. Neo-liberalist politics do not prefigure a total elimination of State intervention and return to classical *laissez-faire* logic, but a re-definition of its tasks. In fact, the State has to become itself neo-liberalist, an apparatus that derives its own legitimacy from its protection of the functioning of the free market. The theoretical concepts formulated by Mises and Hayek tend toward this re-figuration of the role held by the State, and they can be used here to understand the present neo-liberalist paradigm.

According to van Dijk (1998), all ideology contributes to the production of dual significations that are translated into antagonism between “we”, right and truthful, and “they”, bad and liars. From this perspective, Mises’ and Hayek’s stances on socialism represent ideology stances. There is no doubt that the historical context in which the Austrian School researchers operated – circa 1944, when Hayek’s *The Road to Serfdom* and Mises’ *Omnipotent Government: The Rise of Total State and Total War* were published – favoured certain considerations. In these texts there are explicit parallelisms with dictatorships (such as Nazism and Fascism) and with socialist policies. Even where these parallelisms are not explicit, they are still present implicitly.

Mises believed that, market society is self-regulating. Via the subjectivism inherent in catallactic competition, the market forms individuals and simultaneously provides their context. From this point of view, there is no space for socialism or any other type of intervention. For Mises any point of interaction between the market and socialist system is not possible or even thinkable; production must be led only by the market. Therefore, there is no space for a mixed economy, for a partly capitalist and a partly socialist system (Mises 1998 [1949], 259). Hayek adds another element to this analysis. He maintains that it is modernity itself that makes more complex the division of labour and more difficult the task of controlling all the relevant facts, in order to reach a “synoptic view” (Hayek 2006 [1944], 51). In Hayek’s theory of knowledge, centralised planning would be useless because of the need for decentralisation, necessary to handle modern complexity. Because different agents have to be free to adapt their activity to facts known only by themselves, their co-existence can be realised only through the demolition of all centralised control, and through a price system based on the competition regime (*ibidem*). To sum up, in such a complex system as the modern one, the only way to coordinate individuals is to let them adapt to the price system that becomes “the impersonal mechanism for transmitting the relevant information” (*ivi*, 52).

The inability of State planning to satisfy the multiple needs of the complex modern system is due to the fact that it can maintain only *one* plan at a time, involving the elimination of any other plan (Mises 2010 [1944], 242). By contrast to the market economy, socialism favours a concentration of power that infringes everyone's right to self-determination. And the evident paradoxical consequence is the impossibility of the realisation of the socialist system.

Mises (1951 [1922], 451; 2010 [1944], 54-55) maintains that socialism cannot provide a real economic calculation so that, together with interventionism, etatism and nationalism, it can only remain a myth. Being unable to provide an economic calculation, socialism tries to demonstrate its ideas through the moralisation of the society (Mises 1951 [1922], 451). This tendency to moralising becomes its own worst enemy. Hayek (2006 [1944], 61-62) proclaims that the development of civilisation has led to a decrease of the rules that constitute our common moral system, and that therefore the socialist attempt to create an economic plan based on common moral principles (like altruism) is failing. In complex modern society, where individualism leads everyone to have a personal scale of values and to act according to personal needs (*ivi*, 62), both the presuppositions of the socialist system and its criticism of individualism are disastrous (Mises 1951 [1922], 452).

The *defense* of individualism as a fundamental value of modernity has to pass through the State, and the Austrian researchers purported that the likelihood of its total inaction or *laissez faire* in the face of this force of change is nil. The State has to suffer a deep change. There is not only the need for a reduction of its function, but of a shift in the direction of its internal objectives. The State has to support market politics through a rule system, having as it does the task of safeguarding private ownership, and also the health, the life and the functioning of the market (Mises 2010 [1944], 138).

Issues of the State role inside the neo-liberalist framework acquire a great importance on these points. In the chapter *Planning and the Rule of Law* (2006 [1944], chap. 6) in Hayek's *The Road to Serfdom*, he reflects on the issue of the rule of law. He maintains that, in a liberalist society, individuals should have the ability to predict State action, in order to use this knowledge like data on the basis of which they can create their own plans. This is the only way in which the State can abide by liberalist principles – the only way it can guarantee freedom and take steps to foster the individual's wealth. It has to apply constant, predictable and general laws in order to promote individual interest. Specifically, if the constitutional State wants to work *inside* the economic order, it has to formulate laws that are *formal* and that do not interfere at any juncture in the economic game, establishing what is more or less right for collective welfare. It must avoid domination of the economical process from above, and must

leave this process to follow its own flow inside the formal juridical frame (*ibidem*). According to this vision, the economy is a game and the juridical institution is the rule of the game (Foucault 2008 [2004], 173). The actors in the game are still the individuals and the financial firms, and it is up to them to create the most rational frameworks in which to each achieve their distinct aims. Therefore, a renewed liberalism renders emergent multiple individual objectives, and precludes the State from controlling the resources of the society (Hayek 2006 [1944], chap. 6).

## **5. The European Union as neo-liberalist instrument**

The study of neo-liberalism, as an economic and ideologic project, is necessary in providing a frame for the present European situation and an informed perspective on its problems. I assert that through the lens of Mises' and Hayek's theories it is possible to read the limits of the European construction and to view how the European Union has become an instrument for the final consolidation of liberalist principles. In effect, the economic and ideologic order upon which it has been based since the fall of the Berlin Wall in 1989 seems to fully reflect the ideal federation as thought by Hayek. Staying true to what it has been since 1993 – an economic community (Enzesberger 2013 [2011]) – the European Union still faces obstacles arising from the inability to achieve a European 'demos' that operates beyond economic interests.

I have already remarked how the Keynesian policies upon which the newborn Europe was based crumbled in favour of liberalist politics during the 1970s. According to Streeck (2014 [2013]), since World War II neo-liberalism has become absolutely the most important engine of the European economy, dissolving national power and reducing the assistance and safety level that the social States guaranteed to their citizens. European citizens have found themselves more and more alone in dealing with the risks of the new society, without the lively presence of any national State as a guarantor for their social rights. The European Union has been oriented mostly towards 'austerity' politics and based on stability pacts, rather than guaranteeing its citizens assistance. In this way it has developed progressively more rules supporting capitalist economic principles. For Streeck, the common social and political space is modelled more and more on a logic that defends "market justice" over "social justice" – a kind of "hayekization of the European capitalism" (*ibidem*). According to this view, governments conformed to market needs, capitulating to the authority of the European Court of Justice which, to promote free movement of services and capital, handed down many verdicts that undermined workers' rights to co-determination and to strike

(*ibidem*). Moreover, the monetary union makes it impossible to amend the existing rules, disadvantaging the weakest countries' economies. These found themselves in trouble and had to apply internal devaluation politics, pay cuts, social benefit cuts, labour flexibility and so on: features characteristic of the present European model. These features patently reflect what Hayek imagined as basic regulations for the future European federation.

The Austrian School elaborated their theoretical concepts inside an historical context. This context influenced their reflections about the most propitious conditions for the creation of an international order characterised by peace. For example, Hayek's 1939 essay *The Economic Conditions of Interstate Federalism* and Mises' 1944 text *The Omnipotent Government* both work from the assumption that the inception of a global society of mutual trade of goods and services can be the basis for a pacific cohesion among States and nations (Mises 2010 [1944], 122). Starting from the presupposition that in a planned economy everyone has to obey an established will that follows a subjective moral order, both theorists arrive at the conclusion that socialism is a totally improper means by which to reach pacific cooperation (*ivi*, 242). According to Hayek, the complexity of modern society will not admit the pacific coexistence of people inside a unique moral and economic scheme, as the socialist regime wished.

Despite their refusal of the idea of a social matrix of State control, Mises and Hayek are conscious that the creation of a federation of States implies inevitably the idea of *unanimity*. Their opinion is that we do not have to produce this unanimity in a unifying vision, as proposed by socialism, but instead in a unique economic order that guarantees the maintenance of internal differences. And that's why the creation of a liberalist federation represents for them the only solution. According to them, it is only in federation with an economic order based on the free trade of goods, people and capitals that we can weather nationalism – perceived by them as a direct consequence of socialism. Through free trade practices, it is possible to avoid, inside the federation, the creation of "solidarities of interests" among some member States to others States' disadvantage (Hayek 1939, 256-257) and it is also possible to ward off conflicts, wars and totalitarian oppressions (Mises 2010 [1944], 93).

Hayek (1939, 261-262) extended his reflections to predict the consequences of a liberalist economic order inside the European federation. In his opinion, this order would be able to strongly limit national sovereignty and its consequent nationalism because the federation forbids each State to continue in the promotion of a national currency politics. Moreover, opening the borders and facilitating people's movement within the federation makes it more difficult for the States to tax their own citizens. For Hayek, the transference of possible market regulator politics from the States to the federation is completely useless and deleterious. The supranational membership ties that should

support the new task are too weak, and risk reduction of the supranational power, as well as of the discrete national powers. Hayek's (*ivi*, 256) conclusion is that if the objective is to realise a federation, it is necessary to have "less government".

The European Union, as plotted out by Hayek, is a simple set of economic policies rather than a place to share values and ideals. His supposition is primarily about the role of the federation in the economic game. If we configure his analysis to the present economic order of the European Union, we realise how farsighted the Austrian researchers were. We can read the EU as using the neo-liberalist model to root its economic policies, and the outsourcing phenomenon both as one of the most patently clear manifestations of a *targeted* opening of the national borders, and as a practical new proposition regarding the Hayekian theory about limiting State power.

## 6. Conclusions

In this article I firstly sketched the passage from liberalism to neo-liberalism that transpired during the 1930s, perhaps starting from the Lippmann Colloquium. Organised in 1938, this was the first occasion for a delineation of the characteristic features of a reinvented liberalism. The presence of exponents of traditional liberalism, of ordoliberalism and of the Austrian School theories gave life to a complex discussion regarding the prospective features of this *new liberalism* (Dardot and Laval 2013 [2009], chap. 2; Foucault 2008 [2004], 160-161). I have stressed the theoretical concepts formulated by two of the most influential exponents of the Austrian School, Mises and Hayek, and my main claim is that they perceptibly influenced the creation of the new neo-liberalist model that has been tangibly in evidence since the 1970s.

In particular, I have underlined how these concepts have influenced three specific fields. First, the consumer phenomenon: these Austrian economists based their theories about capitalism on a subjectivist concept of reality, on the idea that the market *forms and rules* the entire society, and on the upturn in the roles of entrepreneur and consumer. In their view, consumers' choices determine market prices, not the other way around; the theorists favour the inception of a competition called "catallactics" by Mises. This competition would tend toward eliminating those who do not adapt to the market, and toward supporting those who possess the right skills and assets to adapt. Consequently, the failure or the success of an entrepreneur depends directly on consumers' choice, because the consumers are the real *sovereigns* of the market and the absolute decision-makers of the economic luck of entrepreneurs who are reduced to market *servants* (Mises 1998 [1949]). In this view, consumerism becomes an incessant

and anonymous force that pushes development of newer and newer products of exchange, pushing them into a market that no longer valorises its goods, but instead aims to stimulate “competition machineries” for bio-political effect (Foucault 2008 [2004], 147).

The second field is the State role. Mises’ and Hayek’s theories help us to understand the present function of the State inside the new neo-liberalist social political order. The neo-liberalist order arrives on the back of an ideological of socialist politics. This process was already active in the theoretical formulation of the Austrian School, and it proceeds from the opinion that planned policies, such as socialist policies, are not able to preserve freedom, including *market freedom*. The State has to guarantee this condition of market freedom on the understanding that it reformulates its tasks. For example, according to Hayek, in order to let the economic system work the State has to limit itself to being a grantor of formal laws that do not interfere at any point in the economic game. Eschewing dominating the economic process from above, and instead allowing it to freely flow inside a *formal* juridical frame, the State becomes subordinated to market logic and indirectly supports it (Hayek 2006 [1944], chap. 6). The State takes on a neo-liberalist function, because its intervention is required only as a defense of the principles of this order.

Thirdly and finally, Hayek’s and Mises’ analyses are useful in clarifying the logic of the competition among States, as a possible condition for a durable and stable international peace. In this sense, these authors extended the field of application of their ideas from the national field to the entire European federation, with the deliberate aim of limiting the national sovereignty of the local governments. Nowadays the European Union is very similar to the entity theorised by Mises and Hayek, regarding the limitations of power that the national governments incurred a consequence of federation.

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