

The reception of Austrian economics in Italy[☆]

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Abstract

Nowadays the Austrian School enjoys high reputation in Italy: books by Mises, Hayek and other Austrian economists are constantly republished and reviewed with great interest, both inside and outside academic circles. The situation was very different decades ago, when just a few Italian economists devoted attention to the Austrian School. This work studies the reception of Austrian Economics in Italy, from the beginning to our days, so as to bring out, by way of comparison, relevant features of Italian economic culture. We will try to offer just an overview of the entire story, in an attempt to provide useful elements for a deeper analysis of further topics and periods.

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1. Introduction

One of the great challenges of our time is to better understand the nature of the global society in which we live and discover what exactly allows individuals and countries to cooperate or compete fairly with each other, rather than looking at those different from ourselves as enemies. A key role is played by *economic culture*, construed as a general vision and perception of one's own interest in relation to that of other people.

Economic culture is the result of a complex process of understanding general and abstract economic principles and adapting them to particular and concrete economic situations. General principles come from the progressive dissemination over time of grand theoretical systems. Therefore, studying the processes of international transmission, assimilation and adaptation of economic ideas is a means for better understanding the spirit of particular economic cultures.

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This work studies the reception of Austrian Economics in Italy, from the beginning to the present day, in order to bring out, by way of comparison, relevant features of Italian economic culture.

This is a long and controversial story. Nowadays, the Austrian School enjoys a high reputation in Italy: books by Mises, Hayek and other Austrian economists are constantly republished and reviewed with great interest, both inside and outside academic circles. The situation was very different decades ago, when just a few Italian economists devoted attention to the Austrian School.

Why is that so? How can we explain today's success and yesterday's failure? The reasons, as usual, are many and interconnected. For example, the crisis of liberalism and the revival of the market after World War II, in Italy and all over the world, had an impact both on the crisis and on the rediscovery of the Austrian School, in Italy as well as elsewhere. However, theoretical reasons as well must have been at play. There must have been analytical reasons that, over time, induced Italian economists to accept or reject the ideas put forward by the Austrian school. In order to explain today's success, we must understand yesterday's rejection. We need a full-fledged narrative of the reception of Austrian economics in Italy, which is largely unwritten as yet. In the literature, one can only find articles referring to specific topics or periods.

In the present paper, I will try to offer just an overview of the entire story, in an attempt to provide useful elements for a deeper analysis of further topics and periods. Three great waves of reception can be detected.

The first one covers the period between 1871, the year of publication of Menger's *Grundsätze*, and 1918, the final year of the Great War, which marked the end of an epoch. The Austrian School was one of the three "souls" of the so-called Marginal Revolution and maybe the only really revolutionary one. Austrian economists were proposing a new, radical theory of value, aimed at replacing completely classical economics. We will see if and to what extent Italian economists accepted the tenets of the Austrian revolution.

The second wave covers the interwar period, known as "the years of high theory". The economic debate was dominated by the dispute between Hayek and Keynes over the best policy to adopt in order to mitigate the effects of business cycles and to put an end to the Great Depression. Meanwhile, Italian economists were trying to find a "third way" between socialism and liberalism, at the time labelling itself corporatism. They shared with Hayek an explanation of cycles and crises based on an excess of credit-fuelled investment over saving, but rejected his do-nothing policy.

The last wave occurred after World War II and was characterized by the "death and resurrection" of Hayek. In 1944, the publication of *The Road to Serfdom* gave him a short and intense period of fame. Then he disappeared from the economic scene, overshadowed by the tumultuous spread of the Keynesian Revolution. Thirty years later, in 1974, Hayek was awarded the Nobel Prize in Economics and he regained center stage. We will see how Italian economists followed suit.¹

¹ We will only cite a few basic works. On the international spread of economic ideas, see Hall (1989) and Cardoso (2003). On the concept of economic culture, see Barucci (2005), Phelps (2006) and Gregg (2013). On Austrian Economics, see Kirzner (1987) and Schulak and Unterköfler (2011). On the history of Italian economic thought, see Faucci (2014).

2. The first wave (1871–1918): Marginalism is not a revolution

On 3 February 1871, Rome was declared capital of the United Italy. Just a few years before, Massimo d’Azeglio—a statesman, painter and novelist—had remarked: “We have made Italy—now we have to make Italians.”

The period from 1871 (actually 1861, the year of the first unification) through to 1918 is known as “Liberal Italy” and, during those years, the country was run first by governments of the so-called Historical Right and then (starting in 1876) by governments of the Historical Left.

The political debate focused, from the very beginning, on which was the more appropriate development model to adopt. The choice was between more or less open models. Governments of the Historical Right, following Cavour’s lesson, chose a strategy based on free trade and on the gold standard, while the Historical Leftist governments advocated a model more geared towards the domestic market. Maybe the two alternative strategies can be epitomized by two laws: in 1861, under Cavour’s leadership, the Italian Parliament enacted a law promoting free trade, while in 1887, with a Leftist government, it approved a trade-protection law.²

The economic debate followed a similar path. The classical economists had explained that economic development by and large depends on the voluntary acts of exchange that take place in free markets. It is therefore associated with the domestic and international division of labor which, raising labor productivity, increases the wealth of nations. Ricardo, in particular, had made a distinction between domestic and international markets. In the former, goods are exchanged on the basis of the absolute costs required for their production. In the latter, because of imperfect mobility of labor and capital, they are traded on the basis of comparative costs. In both cases, however, the cost of production is the real determinant of the exchange value for goods and services. In the classical view, the entire economic system can be thought of as a top-down process, from physical resources to final goods: it is the value of the means of production that determines the value of final goods.

The Marginal Revolution erupted in the early 1870s. Three economists—Jevons, Menger and Walras—independently of one another, came up with a new theory of value and distribution. They shared a basic concept: the exchange value of a good depends on its marginal utility. The key question was: does it depend on marginal utility only? The answers given were totally different.

Both the Cambridge and the Lausanne Schools stood by the classical theory of production costs. In Marshall’s partial equilibrium analysis, the (real) marginal cost of production depicts the (upward) slope of the supply curve, at the same time as the (subjective) marginal utility of goods allows the (downward) slope of the demand curve to be drawn. The exchange value is simultaneously determined—as if by the two blades of a pair of scissors—by cost and utility. However, the “inferior” blade given by utility cuts more sharply in the short run, while the “superior” blade, which represents the cost, is more effective in the long run. In Pareto’s general analysis, equilibrium results from the contrast between “people’s tastes and the obstacles to their satisfaction”, amongst which there is scarcity of (physical or real) resources.

² See Toniolo (2014) and Zamagni (1993).

Therefore, according to both Marshall and Pareto, value depends simultaneously on utility and cost.

The major Austrian economists—Menger (1871/1925), Böhm-Bawerk (1889/1957) and Wieser (1889/1982)—gave an altogether different explanation: value depends entirely on marginal utility. Maybe the “true” revolution belongs to them. Austrian economists overturned the Classical view of how economies work. They described the economy as a bottom-up process where the value of final goods (available at the bottom of the supply chain and closer to consumption) determines the value of the means of production (at the top of the chain or at a higher stage) and not vice versa, as in the classical approach. The value of final goods in its turn is determined by the marginal utility that the consumers attach to them, based on entirely subjective preferences. If consumers wish to smoke, then entrepreneurs will organize production so as to satisfy their need: they will be willing to pay high wages and high rents to be able to supply the desired cigarettes. They will be willing to incur high costs to produce goods to which consumers attach a high level of marginal utility. But—according to Austrian economists—value is determined by marginal utility and not by (marginal) cost. And utility is purely subjective, at the same time as consumers’ subjective preferences can only be revealed, valued and satisfied in a free market.

As Kirzner (1987, pp. 146–147) writes: “Values are not seen (as they are in Marshallian economics) as *jointly* determined by subjective (utility) and objective (physical cost) considerations. Rather, values are seen as determined *solely* by the actions of consumers (operating within a given framework of existing commodity and/or production possibilities). Cost is seen (by Menger and especially by Wieser, whose name came to be associated closely with this insight) merely as prospective utility deliberately sacrificed (in order to command more highly preferred utility).”³

At the beginning of the 1890s a sharp debate arose concerning the Austrian School. The classical historicist S. M. Macvane (1890) wrote that they had made an important contribution to the theory of market prices, i. e. to the role played by marginal utility in determining the exchange value of goods in the short term. However, in his view, the normal or natural price was determined by the (classical or labor) cost of production.

Wieser’s (1891–1892, p. 603) reply to him is highly significant: “In his [Macvane’s] view we only make some contributions to the explanation of the fluctuations of value which follow utility through supply and demand, but nothing to the ‘broad and permanent features’ of value as determined by labor. If this criticism were true we should consider our efforts to be a failure. We tried, above all, to abolish the dualism of labor and utility.”

During the 1870s, Italian economists were busy with methodological questions which involved the economic role of government. They were divided into two rival economic schools: the first one, led by Francesco Ferrara within the “Società Adamo Smith” (Adam Smith Society), gathered the free marketeers; the second one, led by Luigi Luzzatti and Antonio Scialoja in the “Associazione per il progresso degli studi economici” (Association for the progress of economic studies), brought together the interventionists.

³ Other Austrians, like Rau, were closer to the classical tradition: see Kurz (2016).

In 1875, Jevons' *Theory of political economy* was translated into Italian. It was the first step towards accepting the Marginal Revolution. But, as stressed by Piero Barucci (1972), it was a step taken in the wrong direction. In fact, the Italian translation was only a publishing deal and Jevons' treatise was presented as just an example of mathematics applied to economics.

A real acceptance of the Marginal Revolution, including the Austrian version, occurred only in 1889 with the publication of *Principii di economia pura* (*Principles of Pure Economics*) by Maffeo Pantaleoni, "the prince of Italian economists," as Piero Sraffa defined him. The book was translated into English in 1898, with the title *Pure Economics*.⁴

Pantaleoni's book is a kind of enigma for the topic we are analysing. Despite clear similarities with Austrian economists, these were the target of sharp criticism, at times just short of abuse: Menger was accused of plagiarism and, together with Böhm-Bawerk, he was described as a provincial scholar unaware of the foreign literature (namely Italian) that dealt with the distinction between direct and instrumental commodities. Only von Wieser was depicted as an economist who had given an original contribution to the topic and was described as "the economist to whom we are indebted for what we know with most certainty about it" (Pantaleoni, 1889/1931, pp. 88–89).⁵

Pantaleoni adopted an original partition compared to J.-B. Say's classical one, followed by many economists of the time and more akin to the one suggested by Ferrara. He divided his treatise into three parts: in the first part, he describes the relationships between goods and needs; in the second one, he illustrates the theory of the exchange value of goods in conditions of perfect competition and monopoly; in the last one, he extends the new theory of value to include capital goods, proposing a new theory of distribution.

His general thesis is that marginalism permits a generalization of the main theorems developed by the classics on the real cost of production. These theorems may in fact be expressed, indifferently, in terms of utility or of cost. That is so because the exchange value of the goods originates from the utility of the last available quantity of the goods themselves or their final degree of utility, but the available quantity of it depends on its cost of production. At the margin, cost and utility coincide: "In this sense the cost of production of something is first of all *just another term for its final degree of utility*" (Pantaleoni, 1889/1931, p. 232, emphasis in original). However, cost is understood, as in Marshall's theory, as the sacrifice and pain that production entails. It is a "real psychological" cost of production, which materializes in the worker's pain and in the capitalist's abstinence: "Now the original and exact meaning of the phrase cost of production is *sacrifice, or the pain one suffers for the attainment of a good*. Such a sacrifice may take many forms: the form of work in the strict sense, that of thorough attention, of prudence, of abstinence from an immediate pleasure etc.; but they are equal from the economic point of view; they may simply be encompassed in a generic concept of *labor, or cost, or pain*" (Pantaleoni, 1889/1931, pp. 231–32, emphasis in original). In other words, cost is equivalent to but not comparable with utility, as the economists of the Austrian School believed.

⁴ See Barucci (1972) and Gallegati (1990).

⁵ On this issue, see Nuti (1998).

According to Pantaleoni, marginalism represents only an integration and a broader reformulation of the classical theory.

In 1909, the first edition of Menger's *Grundsätze* was translated into Italian with a *Preface* by Pantaleoni. The Prince of the Italian economists introduced readers to the masterpiece of the Founder of the Austrian School with the following words: "Carl Menger's work, which was published in 1871, appears still as the best preparatory book that can be offered to a beginner."⁶

It was the best "preparatory book" because it supplied a clear explanation of the fundamental categories of economics (commodity, utility, etc.). It was just a "preparatory" text, in Pantaleoni's opinion, because it lacked advanced theoretical tools, such as the concept of general economic equilibrium, the law of input substitution (instead of the law of constant proportions) and the distinction between static and dynamic phenomena.

At the beginning of the 20th century, a new series of textbooks appeared in Italy, in which for the first time the Marginal Revolution was systematized. Following different paths, leading Italian economists (Cossa, Nazani, Supino, Graziani, Valenti, Barone, Loria, Dalla Volta) came closer to Pantaleoni's view: the cost of production is the sum of the worker's pain and the capitalist's "waiting." The cost factor is present both in Barone's general equilibrium scheme and in Valenti's, Supino's and Graziani's period analysis.

With marginalism, the analysis of equilibrium gained center stage in the twofold version of partial equilibria *à la* Marshall and of general equilibrium *à la* Pareto. Pantaleoni believed that the two approaches were complementary rather than alternative. Initially Pareto also seemed to accept the idea (which he afterwards strongly rejected) as the basis of the Pantaleonian synthesis, that an approach based on partial equilibria did not allow the catching of the essence of economic phenomena, i. e. the simultaneous interdependence present in all markets.⁷

In Pantaleoni's view, voluntary exchanges allow the economy to reach both the best allocation of available resources and a balanced growth over time. We could say, borrowing Haberler's scheme, that through them the economy can attain both a horizontal and a vertical equilibrium. The former is reached in the markets of consumer goods and the latter in the market of capital goods (or between saving and investment). Pantaleoni indicated the basic conditions required to achieve the twofold equilibrium: they were in essence the classical (usual) conditions, flexible prices (and costs) and stable exchange rates.

However, in Italy the neo-classical theory of equilibrium and growth inspired two alternative and rival strategies of economic policy. According to the first one, the government must not interfere — with money, duties or trusts — with the spontaneous functioning of markets. The leading interpreters of this line of thought were Pantaleoni himself, Pareto, Antonio De Viti de Marco and Luigi Einaudi. According to the alternative strategy of economic policy, the government, within the limits set by a regime of flexible prices and stable exchange rates, can and should carry out an active economic policy, so as to reconcile the goal of growth

⁶ Pantaleoni (1909/1925, p. XIII), my translation. The first edition of Menger's treatise was initially translated into Italian in "Il Giornale degli Economisti" in 1906–1907 and later published in a volume in 1909. The second edition, edited in 1923 by Menger's son, appeared in Italian in 1925. On the fortune of Menger in Italy, see Monceri (2001).

⁷ For more details, see Magliulo (1999a, 2000).

with that of domestic stability. The most influential interpreters of this line of thought were Enrico Barone, Rodolfo Benini and Marco Fanno.⁸

In brief, the major Italian economists, following Pantaleoni's approach, considered marginalism as an integration to and a broader reformulation of classical economics. They did not see it as a scientific revolution. Consequently, they valued and accepted the analysis of Austrian economists only as a contribution to the theory of market value, while rejecting their claim to remove the real cost factor from economic analysis. In 1916, at the end of the first wave of reception, Riccardo Dalla Volta published a book on value theory. About Austrian economists, he wrote this short and telling sentence: "It is a great mistake to believe that the economy is governed solely by utility" (Dalla Volta, 1916, p. 127).

3. The second wave during the 1930s: Between Hayek and Keynes

On 31 October 1922, Benito Mussolini was appointed Prime Minister of Italy. On 25 July 1943, the Grand Council of Fascism called for a vote of no confidence against him. These two dates represent the rise and the fall of the Fascist regime.

During the so-called *ventennio*, Italy became a totalitarian state and tried to build a command "corporative" economy. It was supposed to be a third way between communism and liberalism: ownership rights were guaranteed but the market was subjected to state control.⁹

The economic debate during the 1930s, in Italy and elsewhere, was dominated by the kin issues of business cycles and of the Great Depression. In its turn, the economic debate on business cycles was dominated by the dispute between Hayek and Keynes and by Wilhelm Röpke's attempt to find a middle way.

The key question was how to explain the switch from a state of economic equilibrium (the great theoretical achievement of marginalism) to a business cycle (the main economic phenomenon of the time).

Both Hayek and Keynes took Wicksell's work as their starting point, but they were to reach opposite conclusions. Both thinkers saw the economy as divided into two interconnected circuits, where firms produce consumer and capital goods and households buy consumer goods and save the balance of their income. If firms' investment (that is, the production of capital goods) were equal to households' saving, then the supply of consumer goods would result in being equal to its demand and the entire economic system would be in equilibrium. Two types of (macroeconomic) disequilibrium can appear. The first one is a "vertical" imbalance, to quote Haberler (1963): if investment (i.e. the production of capital goods) exceeds saving, then the demand for consumer goods exceeds their supply; an excess of capital goods and a parallel lack of consumer goods will arise (and vice versa). The second imbalance is less severe. The entire economic system is in vertical equilibrium (saving equals investment and therefore the supply of capital and consumers goods equals their demand), but a "horizontal" imbalance may manifest itself in submarkets of the consumer sector. The dispute between Hayek and Keynes was about the possibility of a "vertical" disequilibrium in mature market economies.

⁸ See Magliulo (1999b).

⁹ On the Italian economics during the interwar period, see Faucci (2014, ch. 7).

Hayek was proposing an over (and mal-) investment theory of the business cycle. He assumed an initial situation of full employment. This assumption, which is necessary to establish a link between the concept of equilibrium and that of cycle, implies that, in order to increase the output of capital goods, a number of inputs must be channelled to their production and that this causes, at least for a period of time, a reduction in the output of consumer goods. The switch to more roundabout methods of production may be permanent or temporary. In the first case the change is triggered by a free choice of individuals, who decide to consume less and to save more income. In the second case, the change is induced by the banks which, even though consumers' preferences have stayed the same, artificially reduce interest rates, boosting investment. What results from this behavior is a boom followed by an inevitable crisis. The fundamental problem of advanced economies is their temptation to accelerate the pace of production, something they do by financing an amount of investment which is greater than available savings. There is, however, a trade-off that must be taken into account: to increase investment, savings must be augmented (and therefore consumption must fall). This way, available savings determine the size of feasible investments.

According to Hayek, crises can be prevented with a policy of "neutral money", aimed at preserving equilibrium between savings and investment and, when necessary, they can be tackled with a do-nothing policy, i. e. waiting for the spontaneous re-adjustment of markets. What absolutely must not be done is deepening the initial imbalance with a stimulus to consumption and/or investment.

At the beginning of the 1930s, Keynes proposed an alternative theory of business cycles, based on over-saving. In his view, the fundamental problem of advanced economies is the instability of investment versus a stable and increasing flow of savings. The economy grows as long as banks, even at the cost of provoking some inflation, are able to support private investments. It collapses when banks decide, possibly under rules such as those of the gold standard, to raise interest rates, with a view to stopping inflation. In 1929, the major central banks, at a time when the economy was experiencing the peak of a prolonged expansion and in a phase of falling expectations, raised interest rates. Investment fell below the level of savings, short-term losses were registered and a general crisis set in: "The whole matter may be summed up by saying that a boom is generated when investment exceeds saving and a slump is generated when saving exceeds investment" (Keynes, 1931/1973, p. 354).

Keynes believed that crises can be prevented with an active (not only monetary) economic policy, aimed at boosting investment and also that, when necessary, they can be dealt with by stimulating, with expansionary fiscal and monetary policies, both investment and consumption. What absolutely should not be done is to passively await a spontaneous recovery.

As one can see, these are opposite analyses of the causes and remedies of business cycles and economic crises.

At the climax of the Great Depression, Röpke put forward a special case, which could be considered as a possible synthesis between Keynes's and Hayek's theories. In Röpke's opinion, a normal crisis of over-investment can degenerate, as it happened in the early 1930s, into an abnormal crisis of over-saving. Due to uncertainty and lack of confidence, firms do not invest the savings accumulated

by households. A primary (and positive) deflation is then followed by a secondary (and negative) deflation: prices continue to fall and investments keep on being lower than savings. A Keynesian situation of over-saving is generated, which calls for expansionary policies.¹⁰

After the Great Depression, Röpke advocated the abandonment of old or classical liberalism based on *laissez-faire* policies and the adoption of a new or neo-liberalism, able to effectively protect competition through a series of public acts “conformable” to the market order, beginning with pervasive anti-trust legislation. This new or third way—the so-called social market economy—was, in his view, the only one that could save capitalism.¹¹

The reception of Austrian economics in Italy during the 30s largely coincides with a constant theoretical reflection on Hayek’s work and thought. It would be naive to assess the influence of Hayek’s ideas in Italy only by looking at the number and quality of reviews and translations of his works, only some of which (not many) were published. In 1935, an essay by Hayek (together with one by Mises) was included in volume VIII of the prestigious and influential “Nuova Collana degli Economisti” (New Economists Series) with an Introduction by Marco Fanno, while Francesco Vito and Costantino Bresciani Turrone, among others, published reviews of Hayek’s books in international journals.¹²

The crucial point is that leading and influential Italian economists shared with Hayek an over-investment theory of business cycles, but not his do-nothing policy. This is in fact the crux of the issue, if we are to understand the Italian attitude towards Hayek, an Austrian economist.

In the first place, Italian economists believed that business cycles are brought about by a number of facts (and not just by monetary disturbances). Gustavo Del Vecchio and Francesco Vito referred to real factors, such as waves of technological innovations or forced saving coming from corporate self-financing. Mauro Fasiani applied the principle of acceleration, introduced by Aftalion and Spiethoff. Giuseppe Ugo Papi based his explanation on Mitchell’s error theory and Guglielmo Masci had his own, based on the Harvard Barometer.

Secondly, they described, in Röpke’s fashion, how a normal recession may degenerate and become a Great Depression which requires, to be overcome, active Keynesian measures rather than passive Hayekian policies. The debate in Italy was dominated by three influential economists—Einaudi, Bresciani Turrone and Fanno—who, at the same time as Röpke, viewed the crisis of 1929 as a recession which was caused by an excess of investment and consumption and then degenerated into an over-saving depression. The three economists shared a neoclassical theory of the business cycle and they considered Keynes’ analysis to refer to a special case (“The critical point of deflation”).

Bresciani, in particular, supported the deflationary policy conducted by Brüning in the early 1930s. Germany squeezed domestic demand to reduce external indebtedness and foreign currency (US dollars) needs. The measure proved unsuccessful because of exogenous factors that the German government could

¹⁰ For further details on the debate (also with reference to the vast literature on the subject), see Magliulo (2016).

¹¹ See Felice (2008) and Gregg (2010).

¹² See Hayek (1932/1935, 1934), Mises (1928/1935), Cabiati (1932), Bresciani Turrone (1934), Vito (1934).

not control: the fear and uncertainty provoked by Hitler's rise, accelerated capital flight and reduced labor demand—in spite of a rise in interest rates and a reduction in wages—while the depreciation of the pound reduced the competitive elements of German firms on international markets.

During the recession, unused production resources piled up: raw materials, plants and labor. A Keynesian situation of over-saving set in, because savings were not invested in production. In 1933, Hitler, who had become Chancellor of the Reich, launched a big plan for public works, financed by domestic credit. According to Bresciani, the plan was successful in so much as there were unused resources. The extension of credits to the economy helped to mobilize these resources, but investments were in fact financed with savings, as usual.

Bresciani identifies two phases in the German recession. The first one, from 1929 to 1932, was characterized by a shortage of savings and required a restrictive policy *à la* Brüning (less consumption and more saving). The second one, from 1933 to 1935, was characterized by an excess of saving and required an expansive policy, like the one undertaken by Hitler (less saving and more investment).¹³

In general, Italian economists were in favor of an economic policy which was broader and much more active than Hayekian “neutral money.” Einaudi and Bresciani Turroni were closer to Röpke in advocating “conformable” acts of public intervention, external to the market, in order to protect both competition and some social rights. Fanno, who was not a “fascist economist” and other scholars more sympathetic to the attempt to build a corporatist economy, created a model of economic policy “conformable” (or in line) with the neoclassical theory of equilibrium and growth, but which included public actions internal to the market. The aim was to ensure the neoclassical goals: flexible prices, stable exchange rates, a balance between saving and investment, i. e. “vertical” and “horizontal” equilibria. However, they believed that, after the crises and the structural changes that had occurred in the modern economy (changes relative to war, trust and national interests), the free market was no longer capable of ensuring the attainment of the desired goals. These could be achieved only with an “organic” public sector. Fanno (and others) set out the lines of an organic policy for a regulated economy. The (horizontal) target of flexible prices and stable exchange rates would have to be reached with a policy of public control on wages, prices, trusts and, when necessary, on the main items of the balance of payments, while the (vertical) target of a balance between saving and investment was to be achieved through public control of banks and large corporations.

The Fascist regime supported the same (neoclassical) goals and used similar (unusual) tools. They chose a policy mix of private deflation and public reflation. In November 1930, the Italian government, with the backing of the fascist unions, imposed a reduction of nominal wages and salaries, so as to lessen the burden of deflation. At the same time, it financed a long-term programme of “integral renovation” of farmland, i. e. public works and, in January 1933, the *Istituto per la*

¹³ See Magliulo (2012). In *Prices and Production*, Hayek (1931/1935, p. 131) comments on Bresciani's opus magnum, published in 1931 and titled *Le vicende del marco tedesco*, writes: “Few other foreign books on economic problems would deserve as much to be made available in English.” The English edition of Bresciani's book was published in 1937 under the title *The Economics of Inflation*, with a foreword by L. Robbins.

Ricostruzione Industriale (IRI) was established: it was a public holding which had the task of rescuing private banks and enterprises on the brink of bankruptcy through nationalization. In the same month, Parliament passed a bill requiring that private enterprises ask the State for permission to build new plants or enlarge existing ones. The aim of the new ruling was to force the economy to finance a volume of investment that did not exceed available savings. The measure, however, caused a rise in the public deficit and worsened the external imbalance of the country. In July 1933, Italy joined the so-called “gold block”, which comprised France, Belgium and other countries. In April 1934, the government imposed a further reduction of salaries and wages, which however proved unable to correct the external imbalance. In December, Italy followed in the footsteps of Germany’s policy and adopted state control of exchange rates. The measure was enforced for just over a year. In 1936, the gold block crashed and Italy, too, depreciated its currency, in an attempt to boost its international competitiveness.

As we can see, Italy’s economic policy was, to a large extent, in line with the “neoclassical” view, but it was also a policy that envisaged public control of prices and quantities.

Prominent Italian economists wrote reviews of Hayek’s two books on business cycles, published in the early 1930s. Attilio Cabiati (1932) and Francesco Vito (1934) made the point that a policy of “neutral money” was unable to ensure a balance between saving and investment. Bresciani Turrone (1934, p. 345), in a review published in *Economica*, supported the leading idea of Hayek’s book (*Monetary Theory and the Trade Cycle*), which was that “the mere fact of a change in the volume of money, even if the general price level remains constant, is sufficient to ‘disrupt the closed nature of the system’ and ‘to lead away from equilibrium.’” Bresciani refers to the (unsustainable) boom of the late 1920s, when the main central banks, in order to avoid deflation, decided to stabilize the price level through an expansionary monetary policy. However, even if forced saving—as emphasized by Hayek—may be the cause of business cycles, there are different types of forced saving and that makes the question more complex, hampering the achievement of “vertical” equilibrium. Bresciani (1934, p. 346) wrote: “The situation is different when forced saving is brought about by taxation, or by industrial firms saving part of their profits instead of distributing them to shareholders.”

As is well known, Piero Sraffa (1932a, 1932b) also took part in the debate and he made a radical criticism. Hayek, as we have seen, had outlined two different cases for a switch to more roundabout methods of production and therefore two different paths to economic growth. The first is triggered by a spontaneous increase in voluntary saving by households, the second by an increase in forced saving due to expansionary (inflationary) monetary policy. In the first case, in Sraffa’s view, there was a multiplicity of “natural” interest rates, so that it would be impossible to keep the “monetary” rate at the same level or, to put it differently, to apply the “neutral money” rule. In the second case, since inflation had permanently destroyed a part of the real income of the workers, a way out of the crisis and a return to the initial equilibrium could not be given, as Hayek thought, by an increase in consumer demand relative to the demand for capital. Therefore, according to Sraffa, Hayek had not been able to explain properly the two different cases of expansion, one fuelled by voluntary and the other by

forced saving. The Austrian economist replied to the criticism, thus adding to a debate already under way.¹⁴

In brief, during the 1930s, Italian economists devoted their efforts to the development of a model of a regulated economy, termed “corporative.” They took part in the international debate on business cycles and on the Great Depression, dominated by the dispute between Hayek and Keynes. They felt closer to Hayek in believing that the main source of cyclical instability was the economy’s tendency to finance a volume of investment greater than available savings. However, they held a position more similar to Keynes’s in interpreting the Great Depression as a case of excessive savings. Perhaps most of all, in any case, they were close to Röpke in thinking that modern capitalism requires a neo-liberal policy, with a series of “conformable” acts of public intervention. Bresciani and Einaudi supported public action outside the market (antitrust legislation and welfare state), while Fanno and the corporatists went beyond that and advocated public action “within” the market for achieving the usual, neoclassical, goals. Finally Piero Sraffa, who from Cambridge made a more radical criticism of Hayek’s positions, backed up the idea, shared by many Italian economists, that neither a neutral money nor a do-nothing policy were sufficient to stabilize the economy.

4. The last wave after WWII: A market oriented economy is not the road to serfdom

The year 1992 marks a real turning point in Italy’s history: the Maastricht Treaty was signed and the so-called “Mani Pulite” (clean hands) judicial investigation began, which was to cause a radical change in the country’s political regime; at about the same time, a large privatization process was set in motion, which resulted in a radical change in the economic regime. We can thus divide recent Italian history into two sub-periods: before and after 1992.

Before 1992 (beginning with the foundation of the Italian Republic in June 1946), the country’s history was characterized by a series of attempts to steer the national economy towards the social aims (and rights) protected by the Constitution (work, education, welfare, etc.).¹⁵

After 1992, Italy’s history has been marked by a series of attempts, in the name of a liberal revolution, to build a genuine free economy with pervasive measures of privatization of public assets and of market liberalization.

In Europe and in the rest of the world, radical changes began earlier. Hayek was in fact one of the main symbols and muses of this revolution, which was also an intellectual one.

In 1944, he wrote *The Road to Serfdom*, which meant to sound an alarm: after the end of the war, Great Britain and Europe generally were on the verge of abandoning a safe path to freedom to take, almost inadvertently, the deadly way taken by Germany in the past. There are no third ways between capitalism and socialism. Since socialism cannot function, there is only one way which allows the retention of both freedom and welfare: the free market. Any attempt to interfere with the spontaneous order of the market is destined to trigger a process

¹⁴ A synthesis of the debate is in Kurz (2015).

¹⁵ See Faucci (2014, ch. 8).

of successive limitations of individual freedom, a process which leads to socialism and to totalitarianism. The only way to avoid the “road to serfdom” is to embrace federalism. But federalism according to Hayek does not mean, as in Altiero Spinelli’s idea, a government endowed with strong powers to manage a supranational economy. On the contrary, a federation can be a political tool to restrain the role of government in the economy. In the past, nation-states had accepted to limit their sovereignty by abiding by the gold standard rules. They had agreed to be bound together with a golden chain. The war had, however, broken the chain. The European (or International) Federation could be a new path to take in order to attain the same destination: set limits to states’ power and to politics while widening the freedom of individuals and markets. It could be a new way to tie the Ulysses of politics to the mast of freedom, so that he would not fall into the deadly arms of the “planning” Sirens. As Hayek (1944, p. 172) wrote: “But this does not mean that a new super-state must be given powers which we have not learnt to use intelligently even on a national scale, that an international authority ought to be given power to direct individual nations how to use their resources. It means merely that there must be a power which can restrain the different nations from action harmful to their neighbors, a set of rules which defines what a state may do, and an authority capable of enforcing these rules.”

In 1947, Hayek established the Mont Pèlerin Society by gathering from all over the world a few, determined defenders of liberalism and, amongst them, Wilhelm Röpke.¹⁶ A few years later, at the Mont Pèlerin Society, the two souls of the newborn neoliberalism started to debate which were the most powerful tools to defend competition from cartels and monopolies. The Ordoliberalists, led by Röpke and Eucken, favored a constitutional order and therefore antitrust legislation, while the Austrians, led by Hayek and Mises, favored an unfettered market.¹⁷

The *Road to Serfdom* gave Hayek a short period of fame and then a long period of marginalization from the community of economists. Thirty years later, in 1974, he was unexpectedly awarded the Nobel Prize in Economics for his contribution, during the 1930s, to business cycle theory. He regained center stage and went back to thinking and writing about cycles and crises.¹⁸ It may be of interest to note that during the 1970s, he conceded that the Great Depression represented a special case and required expansionary policies.¹⁹ The year 1992, the time of the Italian turning point, was also the year of Hayek’s death, after which he became a hero of liberalism.

The reception of Austrian Economics in Italy after World War II coincides also with a critical assessment of Hayek’s work and thought. The leading Italian economists, mentioned above, moved from Fascism to a Republican order. They updated their major works and textbooks by simply erasing the adjective “corporative.” The contents and the aims of their publications, however, remained

¹⁶ See Hartwell (1995) and Mirowski and Plehwe (2009).

¹⁷ See Gregg (2010, p. 35). However, as stressed by Kolev (2016, p. 16), “while Mises simply put them [ordoliberalists] into the ‘German interventionists’ box, Hayek of the 1930s and 1940s systematically searched proximity to Eucken, Röpke and their associates and started building his political economy and social philosophy on grounds very close to the realms explored by the ordoliberalists.”

¹⁸ See Ebenstein (2001) and Jones (2012).

¹⁹ See Magliulo (2016).

unchanged. They were investigating a possible model for a regulated market economy: a “third way” between capitalism and socialism.

Einaudi’s and Bresciani’s idea of a third way is close to the concepts of Röpke’s neoliberalism. They all believe that “old liberalism” is no longer capable of protecting the market economy. Without an active economic policy, the free market degenerates into a monopolistic and oligopolistic regime. Competition should be protected with policies based on “conformable” measures and, above all, with pervasive antitrust legislation that can obstruct cartels and monopolies and, if need be, clamp down on them. Moreover, the government ought to take care, with public aid, of the “needy and deserving.” Therefore, the role of government goes beyond the limits set by the market, with a view to protecting and integrating it.²⁰

Luigi Einaudi, a member of the Constitutional Assembly, thought that the state may actually encourage the formation of cartels and monopolies with measures such as duties, patents and meddling in investment, which reduces competition amongst rival firms. He proposed a law amendment stating that the government must not favor the formation of cartels and monopolies and, if anything, it must submit them to public control. The amendment was rejected, because the majority of voters considered that the formation of cartels and monopolies should have been regulated on the basis of a difference between “positive” and “negative” agreements among firms, without preventing the government from playing an active role in the economy.

The Italian Constitution provides for a special type of “social market economy”, where the objective of granting the basic social rights to the greatest number of people is pursued through a set of public actions conformable to the market. On the one hand, the Constitution (article 41) provides for “programmes and controls” so that “public and private-sector economic activity may be oriented and co-ordinated for social purposes.” On the other hand (articles 42–46), it outlines a process of democratization for all firms: public companies, cooperatives and private firms (Magliulo, 2010).

The “third way” of the Constitution is closer to the ideas of mainstream Italian economists, who wanted to go beyond Röpke’s neo-liberalism. Fanno and Vito, as well as Pasquale Saraceno and Ezio Vanoni (amongst others), believed that it was neither possible nor desirable to restore the ideal type of the perfect market. It was not possible because of the structural changes that had taken place in the economy and it was not desirable because the market could no longer be the supreme and impersonal mechanism which decides what, where and how to produce. The market should be guided towards great political objectives—like a high level of employment or an equal pace of growth in Northern and Southern Italy—through the use of appropriate policy tools, such as investment projects originating from banks and companies under public control (i. e. the IRI).

After the end of the war, Italy went through a difficult process of reconstruction. The number of unemployed increased to exceed the 2 million mark and an intense debate arose on the possibility of adopting Keynesian policies.

Einaudi, influenced by the special case of Germany analysed by Bresciani Turrone, came to the conclusion that in Italy, there were no unused resources and therefore no Keynesian policy could possibly be applied. A rise in employment

²⁰ See Bresciani Turrone (1942, 1945) and Einaudi (1942, 1949).

would simply come about as a consequence of the economic recovery and that the only way to stimulate recovery was to apply the classical remedy of more saving and more freedom. However, the Italian government decided to implement an active policy to fight unemployment. In 1948, Amintore Fanfani—an economist who was then Minister of Labor—developed and implemented a plan of public investment financed with “compulsory saving”, levying an ad hoc tax on workers and employers, rather than using expansionary monetary action.

This was just an episode in the history of economic policy carried out by Italian governments in the post war period: an active supply oriented policy, in line with neoclassical theory and its vision of economic growth (flexible prices, stable exchange rates and balance between saving and investment) (Magliulo, 1999b).

The reception of Hayek’s ideas in Italy in the post war period must be appraised in this perspective.²¹ One would be misled in thinking—as some may have done—that Italian economists did not understand the deep meaning of Hayek’s work or that they paid little attention to it. In April 1947, only one Italian, the philosopher Carlo Antoni, attended the inaugural conference of the Mont Pèlerin Society and only two Italian economists—Einaudi and Bresciani Turrone—were in the list of members read out by Hayek. Moreover, important Hayekian books either were not translated into Italian or were translated later compared to other languages, like for instance French. Nevertheless, Italian economists in the second part of the 1940s certainly maintained interest in Hayek’s work.

It is true that French editions of *Collectivist Economic Planning* (1935) and of *The Road to Serfdom* (1944), appeared in 1939 and 1945, while they were translated into Italian only in 1946 and 1948, but this does not necessarily betray a lack of interest or indifference on the part of Italian economists.

The French editions obtained favorable reviews by leading Italian economists in the most important Italian journal: *Il Giornale degli Economisti*. In 1940, Cabiati showed admiration for Hayek’s idea that it is dangerous to legitimize a policy of government intervention. Cabiati (1940, p. 375) wrote: “The author [Hayek] correctly indicates that, once government intervention in economic activity is accepted, the time to stop it is very difficult to determine, if that is at all possible.” In 1947, Ferdinando Di Fenizio expressed the same type of appreciation for *La route de la servitude* and noted how Hayek, unlike Röpke, was more interested in emphasising government’s *non agenda* than its *agenda*. Di Fenizio (1947, p. 41, my translation) was possibly closer to Röpke’s ideas but, in a rebuttal of criticisms on the part of Raymond Aron (and many others), he wrote: “Hayek’s *The Road to Serfdom* is against any type of planning, but it is unfair to consider it a pamphlet. It sets out the conclusions, thought-out and objective, of deep research in the field of economics.”

The Italian translation of *The Road to Serfdom* caused a kind of stir, as told in detail by Lorenzo Infantino (2011). On 26 November 1944, Hayek wrote to the Italian ambassador in London—Nicolò Corandini—asking him to send Benedetto Croce a copy of the book and an accompanying letter. In the letter, mentioning Röpke (who was corresponding with Croce), Hayek suggested an Italian edition of the book. Croce answered on 9 February 1945, expressing his

²¹ Relevant considerations on the reception of Austrian economics in Italy after World War II may be found in the following works: Matteucci (1997), Ricossa (in Leoni, 1997), Noto (2009), Infantino (2011).

willingness to sponsor the translation. In fact, he had already written to his publisher (Laterza) and had just found a young lady who could translate the book under his supervision. However, during the same period, a different Italian publisher—Giulio Einaudi, Luigi Einaudi's son—had submitted to Hayek a deal for translation royalties. A contract was signed by Mario Einaudi, Giulio's brother. Time went by without anything happening and Hayek wrote to Luigi Einaudi asking for an explanation, since someone had told him that, due to political reasons, the publisher had decided against an Italian edition of the book. He received a reassuring reply and, from the correspondence between them, it appears that the delay was due to the “very bad translation” made by the person who had been recommended by Benedetto Croce. Finally the book came out, in March 1948, with a different publisher—Rizzoli Editore—under the title *Verso la schiavitù* (Towards Serfdom) and the translation “was authorized by Remo Costanzi.” One year later, in March 1949, an Italian translation of the IVth edition of *Die Lehre von der Wirtschaft* by Röpke was published in the same series, with the title *Spiegazione economica del mondo moderno*. The book, first printed in Vienna in 1937, was translated into English in 1963 under the title *Economics of the Free Society*.

The other important book edited by Hayek, *Collectivist Economic Planning*, was published in Italian by Giulio Einaudi Editore in March 1946, under the title *Pianificazione economica collettivista* and it carried an illuminating foreword by Bresciani Turrone. The book, in its reading by Bresciani Turrone (1946), is a perfect illustration of the reasons why a collectivist society, which abolishes private ownership, is inherently unable to satisfy basic human needs. It also explains, very effectively, how the same unsatisfactory result is achieved in a capitalist society where property rights are preserved but where there is no free market. However, according to Bresciani, the book does not tackle the key issue of how to protect competition and stave off transformation of a free market into a monopolistic regime.

From 1949–1950, two conflicting reviews of the book came out. In 1949, Antonio Pesenti, an economist who was a member of the Communist Party, ironically titled his own book *La via della servitù ovvero da Hoffman a Pella* (The Road to Serfdom, i. e. from Hoffman to Pella).²² He considered Hayek's work a book of little scientific value but of considerable renown. In 1950, Bruno Leoni, a member of the Mont Pèlerin Society since 1951 (and a close friend of Hayek's), published two long and sympathetic reviews of *Individualism and Economic Order* by Hayek and of *Human Action* by Mises.²³

In the post-war period, the overall appreciation of the Austrian school in Italy was not adequately represented by Pesenti or by Leoni. One of the leading figures of the country's economic culture of that period was Francesco Vito, a teacher at Milan Catholic University, who had been corresponding with Röpke since the 1930s; in October 1936, he was invited to present his theory of business cycles at a seminar organized by Mises at the Graduate Institute of International Studies in Geneva.

²² Paul Hoffman was the Administrator of the European Recovery Program and Giuseppe Pella the Italian Minister of Treasure.

²³ The reviews have been republished in Leoni (1997).

In October 1947, the catholic journal “Vita e Pensiero” ran an article by Röpke where he claimed that neo-liberalism was in line with the traditional catholic social doctrine. A *Note* of the Editorial Board preceded the article. The *Note* made reference to a small group of scholars—“non-catholic scholars”—who gathered in Mont Pèlerin to discuss the future of a free society. On that occasion, a “great economist”—Röpke—wrote an article on the relationship between liberalism and Christianity. The Editorial Board decided to publish it even if, as they stated, what Röpke says in defense of liberalism is not acceptable. Apparently this decision was made only to promote a debate, deemed necessary and the Board asked an “illustrious contributor” to write an article. The “illustrious contributor” was Francesco Vito, who contended that, between neo-liberalism and catholic social doctrine, there is a crucial difference. The former aims at protecting free competition, so that the market may remain the supreme regulator of economic life. The latter, on the other hand, wants to steer the market towards the public interest. The supreme regulator, according to the Catholic Church, is not the market but the common good, as established by a political community.²⁴

In January 1949, Vito reviewed *The Road to Serfdom*, in the context of a review-article devoted to a series of books on the European Federation. He placed the main stress on the last chapter of the book, which was entitled “The prospects of international order”, noting how, according to Hayek, a Federation (European or International) is simply a different means to limit the power of nation-states within the boundaries of the countries’ economies. It is, as we have seen, the new chain that must prevent the Ulysses of politics from taking the “third way”, that of planning. Vito disagrees with Hayek. According to him, a Federation is, in fact, a stronger rope which can unite peoples and nation-states. In subsequent articles and books, Vito asserted that a European Federation should be managed as a supranational government, inspired by the (catholic) principles of subsidiarity, solidarity and common good.²⁵

Around 1950, darkness fell on Hayek’s work in Italy as well as in the rest of the world. A faint light was kept lit only at the Mont Pèlerin Society, where other Italian scholars found shelter in those years. In particular, Bruno Leoni took part as one of the protagonists in the debate between Hayek and Röpke and played an active role in the so-called “Erhard compromise”: in 1960, he was appointed Secretary of the Society; in 1961, he organized the 12th General Meeting in Turin (with Sergio Ricossa’s help) and in 1967, he became the President of the Society.²⁶

The spotlight suddenly turned again on Hayek in 1974, when he was awarded the Nobel prize in Economics. He quickly made his way back to the center of the economic debate and became the secret inspirer of the liberal revolutions led by Margaret Thatcher and Ronald Reagan.

In Italy, lights were turned back on Hayek about ten years later and a pivotal role was again played by the translations of his works. In 1986, the Italian edition of *Law, Legislation and Liberty* was published, edited by Angelo Petroni and Stefano Monti Bragadin. In 1988, a collection of Hayek’s economic writings was edited

²⁴ On this episode, see Magliulo (2008).

²⁵ The review of *The Road* is in Vito (1949a). Others important writings are Vito (1944/1968, 1949b).

²⁶ See Hartwell (1995, ch. 6).

by Franco Donzelli. In the same year, Antonio Martino became the President of the Mont Pèlerin Society. In 1990, an Italian edition of *Socialism* by Mises appeared, with an *Introduction* written by Dario Antiseri (1990), followed in 1995 by a new Italian edition of *The Road to Serfdom*, with an *Introduction* by Antonio Martino (1995). In the following year, the “Biblioteca Austriaca” (The Austrian Library) was created, to print writings of great Austrian economists. The first volume was Mises’ *Autobiography*, edited by Lorenzo Infantino (1996).²⁷ From 1986 to the present time, hundreds of articles and books have been devoted to the Austrian School of Economics in Italy.

In brief, in the first years of the reconstruction, after the end of World War II, Italian economists continued to be attentive to Hayek’s work. They discussed his ideas but they basically did not accept them. Hayek contended that a third way of state intervention boils down to a “road to serfdom”, just like socialism. On the contrary, the vast majority of Italian economists were looking for a “third way” to protect and innovate capitalism. Even Einaudi and Bresciani Turrone were sympathetic to Röpke’s third way, while Fanno, Vito, Saraceno, Vanoni and others wanted to go beyond Röpke’s neo-liberalism, to steer the economy towards social aims (and rights).

5. Conclusion

The reception of Austrian economics in Italy occurred, as we have seen, in three successive waves.

The first one dates from 1871 to 1918. Italian economists were intent on assessing the Marginal Revolution on the one hand and, on the other, on drawing a strategy of economic development for the newborn nation-state. They considered Marginalism as an enrichment of Classicism rather than as a scientific revolution. Following Maffeo Pantaleoni, who made a neoclassical synthesis of classics and marginalists, the leading Italian economists developed a joint theory of equilibrium and growth, based on the relationship between exchange and growth. Growth depends on exchange, internal and external, temporal and intertemporal. Moreover, exchange is explained by the neoclassical theory of value that combines marginal cost and marginal utility. Italian economists determined the main conditions for a balanced growth, which were the following intermediate targets: flexible prices, stable exchange rates and a balance between saving and investment. The same neoclassical theory and vision prompted two differing lines of economic policy: one was market-oriented, the other interventionist. Consequently, Italian economists rejected the Austrians’ claim to replace classical objectivism with a radical subjectivism and appreciated only their contribution to the theory of market value. Thus, something like a cultural divide may be noticed between Austrian and Italian economics from the very beginning.

The second wave occurred during the interwar period. Economists, in Italy and elsewhere, were intent on explaining the switch from equilibrium to cycles. In Italy, they were also busy trying to build a model for a regulated or corporative economy. Between Hayek and Keynes, they preferred Röpke and tried to work

²⁷ See Petroni and Monti Bragadin (1986), Donzelli (1988), Antiseri (1990), Martino (1995), Infantino (1996). On Martino’s Presidency of the Mont Pèlerin Society, see Hartwell (1995, pp. 186–187).

out a new neoclassical synthesis. A cycle is caused—as indicated by Hayek—by too much investment relative to available savings, but a normal recession may degenerate—as showed by Keynes—into an over-saving trap. Both Hayek and Keynes are right, but only in part. They offer theories which are parts or fragments of a general theory that is still in progress and which should motivate the foundation of a new or neo-liberalism. Capitalism, if it is to be saved, needs a series of acts of public intervention “conformable” to the market order. According to Einaudi and Bresciani Turrone, they should be conformable in Röpke’s sense, i. e. outside the market. According to Fanno and the corporatists, they should be conformable in the sense of being consistent with neoclassical theory, i. e. aimed at achieving the usual goals with new tools, including forms of public actions within the market (on prices and quantities). Therefore, even during the second wave, a cultural difference remained between Austrian and Italian economists.

Finally, as we have just seen, the last wave of reception was characterized by intermittent lights on Hayek, who regarded the third way as a “road to serfdom”, while Italian economists were still investigating a possible model for a market oriented economy.

The period of time between 1871 and 1974, from Menger’s *Grundsätze* to Hayek’s Nobel Prize, is roughly a century, during which many things changed: economists, problems, theories, policies. The theoretical corpus of both Austrian and Italian economics changes, it takes on new somatic traits, but it is always somehow linked to its genetic heritage.

The core identity of Austrian economics is its pervasive subjectivism. The major Austrian economists believed that the market is the only place and mechanism where consumers can freely express their personal or subjective preferences. Prices are signals that consumers send to firms, which then try to capture them earlier and better than their competitors in order to satisfy, earlier and better than the latter, the needs of consumers. The market is a mechanism for discovering the unknown. Therefore, it really cannot be regulated. Nobody knows which is the best number of companies that should operate in a particular market: neither an antitrust authority nor a government. Only the market can spontaneously select the best number of its agents.

The core identity of Italian economics is its propensity to enrich, rather than abandon, the inherited neoclassical tradition. Italian economists believed that the market is the place where the subjective preferences of consumers converge and, with them, the objective obstacles that producers face in their attempt to satisfy consumers’ needs. Prices are what results from these two converging forces and the market must be regulated and managed with “conformable” acts of intervention.

Italian economists were attentive to the Austrian economists’ ideas, but they accepted only a part of them. They regarded Austrian subjectivism only as a contribution to the explanation of market value and the Hayekian description of booms and busts caused by over-investment as just a contribution for understanding business cycles. They were, however, convinced that both value and cycles can be explained using neoclassical theory. “Value” is much more than just utility, while a “neutral money” policy is not sufficient to ensure macroeconomic equilibrium.

The intellectual dialogue with the Austrian school brought out two significant features of the Italian economic tradition. The first one is a propensity to “enlarge” the neoclassical synthesis. Pantaleoni tried first to reconcile Ricardo

and Menger, then Marshall and Pareto; in a similar manner, Bresciani Turrone, Einaudi and Fanno tried to reconcile Hayek and Keynes. The second one is their preference for a type of government intervention “conformable” to neoclassical theory. In Italy, both economic liberalism and Keynesianism have often been minor lines of thought.

Lastly, in a comparison with Austrian economists, a dominant gene of the Italian heritage stands out: a relentless quest for a third way between capitalism and socialism. Italian economists learned and valued the Austrian lesson on the dangers to freedom deriving from socialism (the second way) and from planning (the third way). However, they were also able to glimpse the risks inherent in the first way (capitalism) which, rather than the “road to freedom”, could become a “road to serfdom.” In fact, as showed by Bresciani Turrone and Einaudi, without “conformable” forms of intervention, the free market could degenerate into an oligopolistic and monopolistic regime. Some Italian economists (Vito and others) went beyond that and stressed the danger of people becoming slaves of an idol, the danger of considering the market the supreme and impersonal mechanism entrusted with the power to determine what, how and where to produce: they wanted to use the market, not to be its slaves.

To conclude, we may say that studying the international transmission, assimilation and adaptation of economic ideas is a means for better understanding the spirit of countries’ economic cultures. In addition, as economic ideas go beyond national boundaries, this type of research can also become a powerful tool for investigating the economic culture of transnational communities, such as Europe.

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