The Making of the "Third Way": Wilhelm Röpke, Luigi Einaudi, and the Identity of Neoliberalism

Alberto Giordano

1 Introduction: Röpke Strikes Back

The vast and diverse literature on neoliberalism proves the continuing scholarly fascination for this phenomenon. The onset of the worst economic crisis since 1929, along with the long series of political and financial blows suffered by the European Union, has led liberals and non-liberals alike to expand their knowledge not only about those economists, political scientists, philosophers, and public intellectuals who in the 1930s identified themselves as neoliberals (néo-libéraux), but also about subsequent developments and tangible expressions of neoliberal ideas—such as the ordoliberal school in Germany and its role in shaping the Social Market Economy.[1]

Even though they differed in some principles and solutions, neoliberals agreed on a number of theoretical and practical issues which were summarized by an early champion of the movement, Walter Lippmann. In his view, neoliberals agreed on the criticism of both "the cardinal fallacies of the nineteenth century liberalism" and "the premises of authoritarian collectivism" and, in so doing, recognized the existence of "a vast field of necessary reform" (Lippmann 1944 [1937], pp. 4, 184, 220) to restore a genuine market economy and build liberal institutions anew.

As Ben Jackson has pointed out, neoliberals of the time shared "a vision of the free society and a critique of the threat to freedom posed by the encroaching power

[1] In the vast literature on neoliberalism, a helpful collection includes Denord (2007), Mirowski and Plehwe (2009), Audier (2012), Burgin (2012), Kolev (2013), Schulz-Forberg and Olsen (2014). For ordoliberalism, see Peacock and Willgerodt (1989) and Commun (2016). For the Social Market Economy, see Nichols (1994) and Muresan (2014).

A. Giordano (✉)
Department of Political Sciences, University of Genoa, Genoa, Italy
e-mail: alberto.giordano@tiscali.it

P. Commun, S. Kolev (eds.), *Wilhelm Röpke (1899–1966)*, The European Heritage in Economics and the Social Sciences 20,
https://doi.org/10.1007/978-3-319-68357-7_4

of the state," but at the same time, they "sought to accommodate certain elements" of those actions that Alexander Rüstow labeled "liberal interventionism" (Rüstow 1982 [1932]) into "a full agenda of liberal reforms that would remake the prevailing economic disorder into the basis for a prosperous, harmonious, and free society" (Jackson 2010, pp. 132–134).[2] First and foremost, this mission was carried out in the late 1930s and the 1940s by Wilhelm Röpke, who throughout his experience in Geneva as a professor at the Graduate Institute of International Studies published some fundamental contributions where he outlined his proposal for a liberal "Third Way" whose goal was to overcome the "sterile alternative between laissez-faire and collectivism" (Röpke 1950 [1942a], p. 23). This approach soon became the common ground for many Western economists and political scientists.

Despite the renewed interest in Röpke's work,[3] the story of his intellectual partnerships still requires further analysis. It is not widely known that Röpke's efforts received the constant support and intellectual spurring-on by Luigi Einaudi (1874–1961), the most influential liberal economist in twentieth-century Italy. Both scholars shared a belief in the need to restore the true status of the free market economy which necessarily required what they called an "ethical-legal framework." Both attempted to keep alive the classical liberal flame in harsh times and hostile environments. Both were perfectly aware that the Great Crisis and the growth of totalitarian regimes posed a dramatic challenge to core liberal values and threatened the survival of Western civilization itself. Though at times they took different paths, their intellectual liaison and personal friendship were to last until Einaudi's death.

In an attempt to reassert neoliberalism's true identity, the paper examines this overlooked relationship, using both primary and secondary sources, focusing particularly on the 1940s when the intellectual exchange between the two scholars was at its most fruitful.

[2]The acceptance of this approach implies the recognition that "what was called 'neoliberalism' back in the 1930s does not correspond to the phenomenon that was labeled 'neoliberalism' in the 1970s, even though there may be some connections" (Audier 2012, p. 56). See also Kolev (2013, pp. 2–4).

[3]For wide-ranging inquiries in Röpke's economic and political liberalism, see Peukert (1992), Molina Cano (2001), Zmirak (2001), Hennecke (2005), Resico (2008), Gregg (2010), Solchany (2015). Following Foucault (2010 [1979]), Bonefeld (2012) and (2013) as well as Somma (2014) have assimilated Röpke to "mainstream" ordoliberals, convicting all of them for the naissance of authoritarian power-driven biopolitics. Among others, Goldschmidt and Rauchenschwandtner (2007) have attempted to rebut this narrative, while Mierzejewski (2006) has shed light on the nature of Röpke's connections to Ludwig Erhard and the Social Market Economy.

2 Two Economists, One Common Ground

In the 1930s, Röpke was a young, promising economist, while Einaudi was already a well-known intellectual and prominent liberal. The former decided to write a letter to his older colleague (dated July 30, 1934) asking him for copies of two of his papers, "Trincee economiche e corporativismo" (Einaudi 1933) and "La corporazione aperta" (Einaudi 1934), both published in La Riforma Sociale, the eclectic journal managed by Einaudi himself. He also informed Einaudi that "due to the political situation in Germany, I had to leave my tenure at the University of Marburg, and accept the invitation of the Turkish government to build anew and manage the department of Political Economy at the University of Istanbul."[4]

Subsequently Einaudi grew more and more interested in the works of his younger correspondent: in a review written in 1937, he warmly welcomed the publication of *Crises and Cycles* (Röpke 1936), describing it as "a really useful book for everyone interested in a good survey on the alternative, recent theories developed to find the causes of economic crises and cycles" (Einaudi 1937a, p. 286).[5] More specifically, Einaudi was enthusiastic about the definition of a "conformable intervention" laid down by Röpke in the last section of the book, where he described it as a "Third Way" between planning and laissez-faire:

> Planning in this sense must be distinguished from such kinds of intervention as are in accordance with the inner structure of our economic system (*conformable intervention*), which leave intact the market mechanism itself and attain their objective not by contravening the rules of this mechanism but by making use of them. [. . .] It is clear then that for trade-cycle policy the choice is not between *laissez-faire* and Planning but between *laissez-faire*, a conformable trade-cycle policy and Planning. (Röpke 1936, p. 195, emphasis in the original)

Even though Einaudi stressed that "the term 'conformable' does not have any ideological meaning, neither liberal, nor socialist, protectionist, communist or corporative" (Einaudi 1937a, p. 286),[6] it is clear that for Röpke—and for Einaudi—the conformable policy supplied a solid economic basis for a new and reformed liberalism, ready to dismiss both laissez-faire, definitely "impracticable since it is obvious that something has to be done to overcome this depression and to prevent the recurrence of another" (Röpke 1936, p. 195), and socialist planning that would lead to the frightening replacing of "the entire mechanism of the market economy by collectivist Office Economy", being "a sure way to compromise any success of an active policy in combating the depression" (Röpke 1936, p. 196).

[4] W. Röpke to L. Einaudi, July 30, 1934, in Einaudi-Röpke Letters (1934–1961), AFLE (Archive of the Fondazione Luigi Einaudi), Section 2, File "Röpke, Wilhelm." A brief account of Röpke's Turkish years is given by Solchany (2015, pp. 65–78). See also the chapter by Antonio Masala and Özge Kama in this volume.

[5] For Röpke's approach, see Resico (2009), Gregg (2010, pp. 94–116), and Commun (2014).

[6] If not otherwise stated, all translations of Einaudi's papers and letters into English are mine.

This approach was further developed in Röpke's next book, *Die Lehre von der Wirtschaft* (Röpke 1963 [1937]), where he stated that "the uncorrupted market economy is the functioning planned economy of those whose business it is; the collectivist economy is the non-functioning planned economy of those whose business it is not" and that "the job cannot be done by merely adopting a negative approach and abstaining from action, i.e., by a return to simple 'laissez-faire' methods." He added that "of much more significance in the shaping of a constructive policy are the abundant proofs that the structure of the market economy is not nearly as simple as its friends, as well as its enemies, have maintained" (Röpke 1963 [1937], pp. 240, 251). As Ralph Ancil has duly noted, even at this early stage of his career, Röpke "is actually as firmly and consistently opposed to this ideology [laissez-faire] as he is to socialism and yet he remained an ardent defender of liberty and the market economy" (Ancil 1999, p. 202).

It does not come as a surprise that Röpke mailed the book to Einaudi, who in the meantime was carrying on the famous debate with Benedetto Croce on the nature of economic freedom—the latter conceived the market economy as an instrumental addition, not always welcome or necessary, to moral and political liberalism, while Einaudi championed the unity of liberal thought (Croce and Einaudi 1988; Giordano 2006, pp. 147–166). Einaudi seemed to appreciate the gift, and some months later he sent Röpke a new monograph on public finance, "Miti e paradossi della giustizia tributaria" (Einaudi 1938), the receipt of which Röpke acknowledged with a letter.[7]

Both were invited by Louis Rougier to the Colloque Walter Lippmann in 1938, the celebrated birthplace of neoliberalism, and while Röpke was a participant, Einaudi did not attend (Audier 2008). No one, though, could deny the neoliberal flavor of Einaudi's inquiry on the nature and extent of liberal practices, which he saw as an antidote to the deadly choice between "communism and monopolistic capitalism," both systems being doomed to "flatten any action, decision and even the mind itself of man by destroying the joy of life, i.e. the joy of creating something, the joy of performing a duty, the disposition towards liberty, the desire of living a life in a society made up of individuals equally free to pursue each one's mission" (Einaudi 2011 [1937b], p. 110). In the meantime, opposing Croce's skepticism, he stressed that liberalism encompassed both economic and political freedom, given their common anthropological foundation:

> As a matter of fact, individuals, be it ruled or rulers, create with their own conduct freedom in every domain of life: politics, economy, religion, press, propaganda. If men are led by ideals of moral liberty, how can they build up economic structures that bind and enslave them, banning the chance to choose their own occupation, to satisfy their desires, to work on their own instead of relying on the benevolence of some representative of a hierarchical bureaucracy? (Einaudi 1973a [1941a], p. 303)

[7] "I have the great pleasure to acknowledge the receipt of a copy of your new book 'Miti e paradossi della giustizia tributaria', and to thank you wholeheartily for your great kindness. It promises most stimulating reading and most valuable instruction on several of the dark spots of Public Finance. [. . .] I trust that my little book on Elementary Economics will have reached you in safety, and I ask you to look on it as on a pedagogical experiment," W. Röpke to L. Einaudi, February 23, 1938, in Einaudi-Röpke Letters (1934–1961).

In 1942 Einaudi was delighted by the publication of Röpke's *Die Gesellschaftskrisis der Gegenwart*, a book that captured his attention. As mentioned above, the 1940s saw both the emergence of Röpke as a leading economist and social critic as well as his intense intercourse with Einaudi, an association that led them, as we shall see in the next paragraph, to follow "the way of reason in a time when navigation of the ship of state requires avoiding both the Scylla of collectivism, the hard rock of totalitarianism and the Charybdis of atomistic individualism that sucks us into the whirlpool of relativism and nihilism" (Campbell 1992, p. 49).

3 The Making of the "Third Way"

Immediately after its release, Röpke sent Einaudi a copy of *Die Gesellschaftskrisis der Gegenwart*. Einaudi promptly replied, thanking him and assuring him that even though he did not have much spare time for reading, he had read the introduction and "felt so interested that I do not doubt that I will go to the end as rapidly as the necessity of re-reading your German text [...] and my university lectures will permit me."[8] He promised to "write a review of the book in my Rivista di storia economica," which he did, and then went on to explain one of the reasons for his profound interest:

> I regret that—owing to postal regulations—I cannot send you a few abstracts of my essays which are related to problems that you discuss in your book. [...] I dwelt at length on the mistake of identifying liberalism with absence of the State. The new liberalism is a variety of State interventionism. I called it "juridical" interventionism as opposed to "administrative" interventionism [...] but it has many faces and your book, as I see it from the "Einleitung", throws a great light on it.[9]

Although Einaudi was referring to the kind of interventionism also endorsed by the ordoliberals, Rüstow included, one may wonder whether he had really grasped the true significance of Röpke's message. However, in order to understand the meaning of his portrayal of new liberalism in the sense of neoliberalism (not to be confused with Keynes and Beveridge's "new liberalism" that Einaudi and Röpke fiercely resisted), we should also consider a passage taken from a paper written in 1941:

> We may find, among contemporary economists, some of them living scattered in many countries around the world who, if a label, not unwelcomed at all, had to be attached to them, they would choose the one of "neo-liberals". They would deem rather annoying the designation of "classical liberals", in the sense of "anything goes", and welcome that of "neo-liberals" as the most likely to describe them as individuals wishing, in the economic milieu, to witness the most complete implementation of the premises of free market

[8] L. Einaudi to W. Röpke, April 29, 1942, in Einaudi-Röpke Letters (1934–1961). The Italian translation of the letter, the original (from which I quote) being in English, appeared in Giordano (2006, pp. 317–318).

[9] L. Einaudi to W. Röpke, April 29, 1942, in Einaudi-Röpke Letters (1934–1961).

> economy, surrounded by all the countless legal constraints that these premises entail. They would like to see these premises implemented not as a self-standing goal, nor as the end of human action, but as a "means" or "instrument" for an ever higher elevation of life, human creativity and therefore of freedom, without which any elevation or occupation is almost inconceivable. (Einaudi 1973a [1941b], p. 267)

Röpke would have endorsed this portrayal without any reservations. From the first pages of *Die Gesellschaftskrisis der Gegenwart*, he repeatedly told his readers that only a revised version of liberalism, his "Third Way," could cure "the convulsions of our civilization" (Röpke 1950 [1942a], p. 1), recently confirmed by the violent, though not unexpected, outbreak of WWII and the economic disintegration of the West.

However, "to Röpke's eyes, the crisis was not merely economic" (Solchany 2014, p. 100). Despite the economic causes he had identified, there was a fundamental element still to be added: the decline of liberal culture, inextricably linked to the decadence of those institutions that were meant to embody the values of traditional liberalism.[10] Einaudi had deplored this failure throughout his debates with Croce, criticizing also the defenders of fascist corporatism and even Keynes,[11] stating that liberals should try to reverse the trend toward non-liberal policies, reminding civil society "that freedom cannot live in an economic society in which there does not exist a varied and rich efflorescence of human lives animated by their own vitality, independent from each other, not serfs of a single will" (Einaudi 2006 [1931], p. 78).

Many other issues in the book confirmed a shared approach to these questions. For Röpke and for Einaudi, liberalism was the heir to a long intellectual tradition running from Aristotle to the philosophers of the eighteenth century, when "humanity, freedom, order, rational control of the instincts, balance, peace, progress" confirmed the freshness of the liberal revolution (Röpke 1950 [1942a], p. 54). And yet, from the same eighteenth century onward, great liberals—Adam Smith included, at least with his idea of the "invisible hand"—started to think of markets as self-regulating entities, so that policymakers had only "to remove obstacles from its path" (Röpke 1950 [1942a], p. 51).[12] Throughout the nineteenth century, a great number of liberal economists and social scientists championed "the automatic regulation of a competitive market" and rejected the significance of extra-economic premises:

> The glory of liberalism would indeed be unblemished if it had not also fallen victim to rationalism and thereby increasingly lost sight of the necessary sociological limits and conditions circumscribing a free market. It was seriously believed that a market economy

[10] Solchany (2014, p. 98) notes that "all the publications of Röpke from the late twenties to his death, and to a lesser extent the writings of many other neoliberal intellectuals, may be interpreted as a thought on the crisis of modern world and the ways to remedy it."

[11] For the long and complex debate between Einaudi and Keynes, see Forte (2016).

[12] As correctly stated in Bonefeld (2013), this view of Smith is rather misleading, more than ever in the light of recent studies on Smith, from Winch (1978) to Rothschild (2001). However, I consider unacceptable Bonefeld's attempt to depict Smith as the forerunner of the (hypothetical) kind of "authoritarian liberalism" that ordoliberals and Röpke would eventually endorse.

> based on competition represented a world of its own, an *ordre naturel* which had only to be freed from all interference in order to stand on its own feet. [. . .] Thus the market economy was endowed with sociological autonomy and the non-economic prerequisites and conditions that must be fulfilled if it is to function properly, were ignored. (Röpke 1950 [1942a], pp. 51–52, emphasis in the original)

On the contrary, Röpke maintained that "competition reduces the moral stamina and therefore requires moral reserves outside the market economy"; or, more precisely, "a market economy needs a firm moral, political and institutional framework" (Röpke 1950 [1942a], p. 52). He consequently argued that "what was in reality a highly fragile, artificial product of civilization was held to be a natural growth" in making a case against the offenses of "historical liberalism":

> Historical liberalism (particularly the nineteenth century brand) never understood that competition is a dispensation, by no means harmless from a moral and sociological point of view; it has to be kept within bounds and watched if it is not to poison the body politic. [. . .] It was for the same reason that economic liberalism, true to its rationalist origin, exhibited a supreme disregard for the organic and anthropological conditions which must limit the development of capitalist industrialism unless a wholly unnatural form of existence is to be forced upon men. This spirit of historical liberalism, so alien to everything vital, is responsible for our monstrous industrial areas and giant cities, and even for that perversion in economic development which condemns millions to a life of frustration and has, above all, turned the proletariat into a problem which goes far beyond material considerations. (Röpke 1950 [1942a], p. 52)

In doing so, he relied on the work of valuable liberal intellectuals who had been questioning the status of market economy. Röpke undeniably shared much of Louis Rougier's "libéralisme constructeur" (Denord 2001), a kind of liberalism which "does not allow the misuse of liberty to erase liberty itself" and "radically differs from Manchester-school liberalism, which cannot but be conservative or anarchical, and from socialist planning, that cannot but be arbitrary and tyrannical" (Rougier 1939, p. 88). He also drew from Walter Lippmann who deemed "nineteenth-century laissez-faire individualism [. . .] incapable of reconciling the modern economy with our cultural heritage" and condemned "later-day liberals like Herbert Spencer" for being "the apologists for miseries and injustices that were intolerable to the conscience" (Lippmann 1944 [1937], p IX, 182).[13]

But there can be no doubt that many of Röpke's deepest beliefs were inspired by his close friend Alexander Rüstow, whose liberal interventionism he endorsed and who finally denounced "the 'sociological blindness' [. . .] of liberal economics," "its blindness to the extreme importance of sociological needs and requirements which lay outside its sphere, as well as to its own sociological conditions," stating that "competition as such, appealing as it does solely to selfishness as a motivating force, can neither improve the morals of individuals nor assist social integration; it is for this reason all the more dependent upon other ethical and sociological forces of coherence" (Rüstow 1942, pp. 270–272).

[13]For Lippmann's economic liberalism, see Goodwin (2014, pp. 223–260).

Here we have the most important intellectual sources of Röpke's "economic humanism". As correctly noted by Audier (2012, p. 64), the "Third Way" program was based upon a "double refusal, on one side, of the liberal myth of the automatic regulation of markets; on the other, of any project of centralized economic planning"[14] to create a fresh approach to policymaking:

> We are thinking of an economic policy which is in one sense conservative and radical in another, equally definite sense: conservative in insisting on the preservation of continuity in cultural and economic development, making the defense of the basic values and principles of a free personality its highest, immutable aim—radical in its diagnosis of the disintegration of our "liberal" social and economic system, radical in its criticism of the errors of liberal philosophy and practice, radical in its lack of respect for moribund institutions, privileges, ideologies and dogmas, and finally, radical in its unorthodox choice of the means which today seem appropriate for the attainment of the permanent goal of every culture based on the freedom of the individual. The advocates of this program are as aware of the fundamental errors of nineteenth century liberalism as they are opposed to collectivism, however dressed up, and the political-cultural totalitarianism that inevitably goes with it—not only as an impracticable solution but also as one harmful to society. (Röpke 1950 [1942a], pp. 21–22)

This is nothing new at first sight: even Henry Simons in his *Positive Program for Laissez Faire* (Simons 1948 [1934], p. 41) advocated "an essential freedom of enterprise" together with "a sound, positive program of economic legislation."[15] In shaping his economic policy, however, Röpke identified "two groups of state intervention [. . .] for which we have suggested the terms 'compatible' and 'incompatible' interventions: i.e. those that are in harmony with an economic structure based on the market and those which are not," the former being "interventions which do not interfere with the price mechanism and the automatism of the market derived from it," the latter "interventions which paralyze the price mechanism and therefore force us to replace it by a planned (collectivist) order" (Röpke 1950 [1942a], p. 160). Compatible (synonymous: comformable) interventions stood out as the key tool for implementing the principles of the "Third Way":

> Economic liberty and competition are self-evident postulates where the arch-evils of collectivism and monopolism are involved, but they are only part of a many-sided and comprehensive general program. This program lays down the firm frame which will give the necessary support to the freedom of the market. Decentralization, promotion of smaller production and settlement units and of the sociologically healthy forms of life and work (after the model of the peasant and the artisan), legislation preventing the formation of

[14]Somewhat surprisingly, the rejection of collectivism and planning was grounded on ethical rather than economic reasons: "Let us glance back once more at the road of collectivism [. . .] its details are sufficiently known: abolition of freedom and of the sphere of private personality, extreme mechanization, rigid hierarchies and proletarisation, the kneading of society into a dough-like lump, unrelieved dependency of each on the dominant group with its arbitrary and changing plans and programs where man in his uniqueness and dignity means nothing, power and the bureaucratic machine everything. Human dignity, freedom and justice have completely vanished there and, to round off the picture, even material productivity leaves much to be desired" (Röpke 1950 [1942], p. 176).

[15]For Simons' economic liberalism, see De Long (1990) and Köhler and Kolev (2011).

> monopolies and financial concentration (company law, patent law, bankruptcy law, anti-trust laws etc.), strictest supervision of the market to safeguard fair play, development of new, non-proletarian forms of industry, reduction of all dimensions and conditions to the human mean ("à la taille de l'homme", as the Swiss poet Ramuz has put it so well); elimination of over complicated methods of organization, specialization and division of labor, promotion of a wide distribution of property wherever possible and by all possible means, sensible limitation of state intervention according to the rules of, and in keeping with, the market economy (compatible state interventions instead of incompatible interference à la planned economy), while care is exercised to reserve a sphere for the actual planned economy. (Röpke 1950 [1942a], pp. 178–179)

It has been claimed that Röpke sought to "sketch a program acting as a new pattern for economic policy" and denied the utopianism of the "necessity to break away from the alternative between laissez-faire and socialism" (Molina Cano 2001, p. 51). Some scholars emphasize the conservative flavor of his extensive but moderate series of reforms (Somma 2014, pp. 53–55), while others like Mierzejewski (2006, p. 277) rightly admit that "he was convinced that the market was not applicable to all spheres of life and that even where it was appropriate, it should be limited." What is missing, however, is the correct appreciation of his sociological and anthropological insights. According to Röpke, the economic policy of the "Third Way" is useless if not based on a persuasive analysis of individual conduct: the limits to market economy should be found in legislation as well as in human nature.

One of the few to grasp the topic was Einaudi who devoted to his friend's book a long and detailed review "Economy of competition and historical capitalism" (published in Italian and translated into English 12 years later as Einaudi 1954 [1942b]). Röpke, "having observed that liberalism and historical capitalism belong to the nineteenth century, for what is peculiar to it, is that of dissolving every sane and enduring social structure, comes to the conclusion that the economy of competition, his true ideal, must be carefully watched and limited and constrained on all sides if we want to save it from the torment of full competition, from continuous rivalry, from an unending struggle" (Einaudi 1954 [1942b], p. 27).

Generally speaking, Einaudi loved the book's property of being "written by an economist and thus has the value of being written by a man who has a profound knowledge of the problems which he is discussing," so that "when he criticizes the institutions of present day capitalistic society, monopolies, cartels, syndicates, patents, limited companies, machinism, proletarisation, drive for safe employment, the flight from the land, the concentration of men in great industrial cities, advertising, the levelling of the tastes of consumption and of habits, the inequalities of capital and income, then his is not the indignant declamation of a preacher of morals or the pseudo-scientific analysis of the Marxist who coldly announces the allegedly inevitable advent of collectivism. His is the convincing demonstration of the economist." Even so, "his vision is not of an economic, but of a human order. What should be perceived is not the economic, but above all, the moral aspect" (Einaudi 1954 [1942b], pp. 2, 4). This feature was equally noticed and appreciated by Hayek who acknowledged how "Röpke realized at an early stage, perhaps earlier than most of his contemporaries, that an economist who is nothing but an economist cannot be a good economist" (Hayek 1992, p. 195).

Einaudi's approval was also stirred by the recognition that "many of the various concepts I myself have had occasion to explain elsewhere appear, too, in this book, where they are derived from a systematic conception of present-day social maladies." More specifically, quite often he had revealed a "strong aversion against the levelling tendency, against equalization, against conformism, against feelings and ideas which seem to precipitate modern societies into the fatal abyss of communist forms of life, in which man is reduced to a wheel in a mechanism moved by something outside and above him" (Einaudi 1954 [1942b], pp. 5–6) and tried to ascertain the causes of these phenomena.

Like Röpke, Einaudi went back to the nineteenth century which was mistakenly identified with "the age of political liberalism and of free trade." On the contrary, it was the time of "'mass society'—meaning that the general levelling is a state of mind in addition to a material situation," ultimately triggering the "reduction of men to an unformed and confused mass of atoms [. . .] incapable of creating and giving an independent and autonomous life to the institutions of community life" (Einaudi 1954 [1942b], 7, 11). Historical liberalism, together with its most substantial incarnation, historical capitalism, concurred in creating the cultural and social environment that made leveling possible and ultimately victorious, mostly because of its failure to recall that markets were not automatically tuned and needed strict maintenance in order to be kept in function:

> Men of the past century assumed that it would be enough to let the opposed interests to interact so that the common good might rise from their contrast. No, this is not enough. If you give free play to the laissez-faire, laissez-passer attitude there will prevail the agreements and the machinations of the few against the many, of the rich against the poor, of the strong against the weak, of the clever men against innocent people. But this, a constructive criticism of historical liberalism, only imposes on us a return to the pure origins of the system of competition. This implies just as much, or perhaps, more intervention than any other economic system, an intervention destined to preserve the action of competition intact, which is the only true force enabling the observance of the common interest to flourish from this contrast of interests. (Einaudi 1954 [1942b], p. 19)

In this way, the first principle of Einaudi and Röpke's neoliberal "Third Way" is stated: competition had to be restored and, in the meantime, surrounded by a framework to set its perimeter. If "the plant of competition does not rise and grow by itself" since "it is not a century old tree, which a furious tempest cannot overthrow, but a little, delicate plant which must be lovingly defended against the maladies of egoism and of particular interests," then liberals cannot deny or forget "the decisive importance of an ethical-legal-institutional 'atmosphere' fitted to the principles of the same economy" (Einaudi 1954 [1942b], pp. 19, 20).

Secondly, the market economy must be limited and its limits should be found in human nature. Einaudi repeatedly praised Röpke for stressing the point in his book, adding that the principle of economic freedom itself, and the market economy as its current embodiment, could be saved "only by restricting the working of the competition of market and by creating territories in which it is not called on to work; for its action, if it is extended beyond a certain point, becomes dangerous to the social structure" (Einaudi 1954 [1942b], p. 20). The nature of this damage is made clear:

> People are not satisfied to persevere all their life in the incessant struggle of rivalry; men do not want to have to appeal to the consumer's vote in order to live. Many men, at least, have other ideals of life. [. . .] Not all men have the mind of the soldier or of the captain, disposed to obey and to struggle every day as long as life lasts. Great many, perhaps all, in certain moments of their life, feel the desire for repose, defense, refuge; they want to have an oasis where they can rest, they want for a moment to feel themselves defended by a trench from the permanent assault of competition, of rivalry, of struggle. [. . .] In view of human nature the economy of competition lives and lasts only if it is not universal, only if men can find some refuge for a considerable part of their activity, a trench against the permanent necessity for struggle and rivalry which competition imposes. The paradox of competition is that it does not survive its own exclusive domination. Woe to the day when it dominates, undisputed, in all moments and in all aspects of life! A rope breaks if it is stretched too far. A victim of the fever of struggle invokes an anchor of salvation, any anchor—even the collectivist one. He is content to lose any kind of liberty, to become the slave of the most terrible patron history has ever seen: the collective tyrant who has no name, who is all and nobody, and who crushes men to mere instruments of the myth called collective will. But they have been mere instruments before. Who are, in fact, the men who are reduced to executing the will of the blind force which they call competition, market or adequate prices? (Einaudi 1954 [1942b], p. 22)

Obviously, no compromises were expected with socialism and non-liberal interventionism, but each liberal should bear in mind that "the legislator must intervene" at once to restore the precious mechanism of competition *and* to make sure that individuals are not equalized, for example, by trying to reduce "inequality at the starting point" (Einaudi 1954 [1942b], p. 19).

As to practical remedies, Einaudi agreed with Röpke on the absolute necessity of both compatible interventions in order to ensure the best performance of market economy and minimize externalities and of the restoration, as far as possible, of sustainable social and economic habits. It has been noted, for more than one reason that "Einaudi and Röpke are both sympathetic to what might be called in Europe the 'peasant' way of life, which has nothing to do with medieval serfdom" (Campbell 1992, p. 46). The two were equally aware that society needed to "return to economically balanced forms of life and production which are natural and satisfying for men" and among the best was the spread of private property in order to shape an agricultural system "carried on by a free peasantry" (Röpke 1950 [1942a], p. 201). As Einaudi pointed out, "to possess and to cultivate the land is a way of life supposing an invincible aversion to economic calculation, which usually finds its expression in pounds, shillings and pence. This way of life makes the peasant and farmer different from other economic men and explains the impossibility of introducing from outside institutions and habits which conflict with the mind of a born peasant or farmer in a certain given place and time" (Einaudi 1954 [1942b], pp. 5–6). This inclination retained, in Röpke's words, an "inestimable sociological importance" that made "the maintenance and confirmation of the peasantry and of peasant agriculture, with the whole of its subtle economic, social and spiritual structure" crucial to avoid "the rape of irreplaceable natural reserves [whose] consequences are already making themselves felt in many instances and in an alarming manner" (Röpke 1950 [1942a], pp. 144, 202).

The reconstruction of an ideal milieu for human life should restore the inner constitution of the body politic as well, since "a healthy society, firmly resting on its own foundation, possesses a genuine 'structure' with many intermediate stages; it exhibits a necessarily 'hierarchical' composition (i.e. determined by the social importance of certain functions, services and leadership qualities), where each individual has the good fortune of knowing his position" (Röpke 1950 [1942a], p. 10). He primarily had in mind the traditional virtues of the middle class, a social aggregate made up of "the best types of peasants, artisans, small traders, small- and medium-sized businessmen in commerce and industry, members of the free professions and trusty officials and servants of the community," men and women who live "a life that gives them inward and, as much as possible, outward independence" (Röpke 1950 [1942a], p. 178). This independence would provide them with both material prosperity and great intellectual freedom, making them ready to rule society in time of need.

It is no surprise that Einaudi and Röpke reconsidered the works of the French sociologist Frédéric Le Play, who had identified those "'natural authorities', models of private life, who 'by the example of their family, their work, their scrupulous observation of the ten commandments, and of the habits of social peace, win the affection and the respect of all those around them and who thus allow good will and peace to prevail in the neighborhood'" with the "elected class" (Einaudi 1954 [1942b], 6, 7). And both Einaudi and Röpke "emphasized the duties and obligations of the élite, as well as rights" (Campbell 1992, p. 46).

Nor is it unexpected that both scholars praised subsidiarity and federalism: as he had firsthand experience of the Swiss example,[16] Röpke championed "the greatest possible decentralization of government" together with "a limitation of government interference to those tasks where a maximum of unity can be expected," features also effective as an antidote to the dangers posed by "unlimited democracy," i.e., a democratic regime "not sufficiently balanced and diluted by 'nonpolitical spheres' [. . .] liberalism, federalism, self-administration and aristocratism" (Röpke 1950 [1942a], pp. 85, 89). In the end, within these precise limits lies "the true substance of the economy of competition and of political liberalism" (Einaudi 1954 [1942b], p. 22).

4 Neoliberalism as a Public Philosophy

Röpke, thrilled to see that Einaudi had not only praised his book but also shared his beliefs, professed in a very warm and heartfelt letter:

> How can I thank you for the wonderful essay of yours about my book? You should know that it is the best thing I've ever read on it, and the best I will ever read. It is crystal clear that we entirely agree not merely on the *raisonnement*, but mostly, and that is the best thing so far, on the *esprit*. I am truly impressed by your generosity and by the idea that even myself, the man

[16]For the impact of Swiss politics on his thought, see Zmirak (2001, pp. 25–66), as well as the chapter by Andrea Franc in this volume.

> born near the moorland of Lüneburg and the North Sea, in a place in the middle of nowhere, where "the rabbit and the fox say goodnight to each other" ["wo Hase und Fuchs sich Gute Nacht sagen"], may feel a special affinity with the life and soul of the Mediterranean world.[17]

He proved to be right. The special affinity did not stop there, as Einaudi returned to the issues which Röpke stimulated him to reconsider. First and foremost, Einaudi questioned even more acutely than before the legitimacy of certain institutions in the light of the concept of moral freedom, as he became increasingly convinced that "individuals choose one economic system over another because of the pursuit of their own moral advancement." This approach implied that most by-products of contemporary industrialism, such as the decadence of the countryside and the flight to urban communities with "giant skyscrapers, factories surrounded by poisoned smoke side by side with large apartment blocks" and other disturbing marks of a perverted modernity, were nothing more than a creation of men affected by "egoism, indifference and ignorance" and could be reversed by "conscious and enlightened men" with a strong desire to get rid of "privileges, monopolies, protectionism, giant skyscrapers and monstrous cities" (Einaudi 1942a, pp. 127, 130).

Röpke's influence was noticed by a close friend of Einaudi, the Kantian philosopher Gioele Solari, who addressed him a letter where he rejoiced for "seeing you play, at last, with ideals and surrender to their fascination. Röpke has done you a good service."[18] Einaudi himself, writing to his pupil Ernesto Rossi in early November 1943, confessed his sympathy for the fellow economist:

> I feel for him a great regard because: 1) he has acquired a sound expertise in economics; 2) he does not pretend to find merely economic solutions to economic problems as in the fashion of Keynes, the Cambridge School and the Anglo-American neo-communists belonging to the same school, who really believe, many of them being aged 16–28 and the older ones being merely bookish, that in a communist regime individuals would see their liberty of consumption, travel and work assured; 3) I agree most of the times, almost always indeed, with his solutions.[19]

By that time, however, Einaudi had to face a personal and political ordeal, being forced to leave Italy and flee to Switzerland with his wife to escape prosecution by the fascist authorities (Busino 1971, pp. 363–371; Faucci 1986, pp. 310–317). Old and sick, Einaudi was affected both physically and intellectually by the getaway, "through the Alps, on foot and by mule by the Col de la Fenêtre," as he told Röpke in a long letter written a couple of weeks after his arrival in late September.[20] At first confined to the Orphélinat camp, then hosted by his daughter-in-law in Basel, Einaudi was eventually given the opportunity to teach a course in social and economic policy at the Italian refugee university campuses in Geneva and

[17]W. Röpke to L. Einaudi, August 3, 1942, in Einaudi-Röpke Letters (1934–1961).

[18]G. Solari to L. Einaudi, June 27, 1943, in Einaudi-Solari Letters (1899–1952), AFLE, section 2, File "Solari, Gioele".

[19]L. Einaudi to E. Rossi, November 8, 1943, in Einaudi and Rossi (1988, p. 133).

[20]L. Einaudi to W. Röpke, October 9, 1943, in Einaudi-Röpke Letters (1934–1961).

Lausanne. There he also had the opportunity to visit Röpke, who had told him about the upcoming release of his *Civitas Humana*, which was intended to be "a kind of follow-up and addition to *Die Gesellschaftskrisis der Gegenwart*".[21]

The two friends met several times, as duly noted by Einaudi in his private diary (Einaudi 1997, pp. 71, 131, 188): aside from the most pressing political and military events of the day, the future of liberalism and the fate of European civilization were the main issues they focused on, aspects which Röpke developed at length in *Civitas Humana*. The book was meant to expand his ideas on the nature of the market economy and political liberty, showing how humanity could "exert itself to the full to put an end to a period of spiritual and moral confusion, oppression, exploitation and tyranny, mass civilization with its narcotics, of industrial monopoly and feudalism, of national decay through group anarchy, of the cult of the colossal, of pseudo-religious mass dogmas and ideologies, of nationalism, imperialism, biologism, capitalism, collectivism" (Röpke 1948 [1944], p XIV).

He reminded his readers that he championed "a free market economy as the basic framework of the economic order" which should not be confused "with the historical compound within the framework of which it has hitherto developed" and conceived the market as "an artistic construction and an artifice of civilization" (Röpke 1948 [1944], pp. 11, 13, 28). As a consequence, the market economy needed a sound foundation that could not be provided by pure economics:

> Market economy requires a firm framework which to be brief we will call the anthropo-sociological framework; if this frame were to break, then market economy would cease to be possible. In other words, market economy is not everything (Röpke 1948 [1944], p. 32).

Since "a satisfactory market economy capable of maintaining itself does not arise from our energetically doing nothing," he acknowledged the need to sketch "specific principles to denote that interventionism which has been described (A. Rüstow) as *liberal interventionism*," according to which one could "devise maxims of rational economic policy" (Röpke 1948 [1944], p. 28, emphasis in the original). As clarified by Kolev (2013, pp. 110–112) and Audier (2012, pp. 436–444), at this stage he had broader aspirations for his ideal state than most of his fellow ordoliberals, not to speak of Austrian classical liberals such as Mises and, at least to a certain extent, Hayek.[22] His approach may be summarized as in *Civitas Humana*:

I. The setting up of a system of genuine competition (an anti-monopoly policy)
II. Positive economic policy (anti-laissez-faire)
  1. Framework policy
  2. Market policy (liberal interventionism)
    (a) Adjusting contra preserving intervention
    (b) Conformable contra non-conformable intervention
III. Economic and social policy (balance, decentralisation, "economic humanism")
IV. Social policy

(Röpke 1948 [1944], p. 40)

[21] W. Röpke to L. Einaudi, October 12, 1943, in Einaudi-Röpke Letters (1934–1961).

[22] Röpke's connection to the Austrian School certainly deserves further research, see Ancil (1994), Wohlgemuth (2006), and Audier (2012, pp. 399–508).

However, in his view, even this kind of economic policy was not enough to guarantee the survival of a liberal society. Echoing a famous passage written by Einaudi almost 15 years earlier,[23] he maintained that though the market economy was "the necessary economic prerequisite of a society which is liberal and democratic in the political and cultural spheres of liberal and democratic society," there was another crucial prerequisite in the existence of certain social bodies like "the so called middle class which disposes of just that amount of property which assures a certain independence without degenerating into plutocracy and which is able upon this firm foundation to preserve spiritual and moral continuity" (Röpke 1948 [1944], pp. 13, 118). Together with "the principle of political decentralization," these were the pillars which shaped a free society and offered a number of good reasons to reject socialism and collectivism, since "collectivism implies insufferable state tyranny just because it lacks necessary omniscience and is utterly irreconcilable with a democratic and liberal structure of society" (Röpke 1948 [1944], pp. 20, 90).

Einaudi, who probably received the book in Basel[24] and discussed it with Röpke in Geneva, could not agree more on the subject, and in his "Lectures on Social Policy" delivered in Geneva and Lausanne throughout 1944, he devoted some memorable pages to ascertaining the limits of liberal interventionism so as to avoid crossing the "critical point" beyond which society would witness "the transition from living men to automata":

> Once again, by extending the programme beyond its own sphere—which is the public sphere—to that which by contrast properly belongs to the individual, the family, the social group, the neighborhood, the community, the voluntary association, the charitable educational institution, all of which are coordinated and interdependent yet each endowed with an independent life and with a will of its own, we have overstepped the critical point. We are faced not with a society of living men but with an aggregate of automata directed from the centre by a higher authority. (Einaudi 2014 [1944b], p. 44)

[23]Einaudi (2006 [1931], pp. 78–79): "Freedom of the spirit, freedom of thought, cannot exist where there is and must be but a single will, a single creed, a single ideology. [...] Freedom of thought is therefore necessarily associated with a certain dose of economic liberalism [...] The spirit, if it is free, creates a varied economy in which there is coexistence of private property and the property of groups, bodies, state administration; coexistence of classes of industrialists, tradesmen, farmers, professionals, artists, different from each other, all of them drawing the material means of life from their own sources, capable of living in poverty, if necessary, but without having to beg for alms from a single power, be it the state, a tyrant, a dominant class, or a priesthood intolerant of any but the orthodox faith. In the free or liberal society, the individual, the family, the class, the group, the business concern, the charitable foundation, the school, the artisans' or workers' league must receive the consecration of legality from a supreme organ, called the state; but they must feel and believe they are living, and effectively live, their own lives coordinated with the lives of others but not submerged in the life of the collectivity and not dependent on the tolerance of the organ representing the collectivity."

[24]W. Röpke to L. Einaudi, February 11, 1944, in Einaudi-Röpke Letters (1934–1961): "I am so happy to hear that you will come here to Geneva in March or April, so that we could talk a little longer than we did in my short visit to you in Basel. In the meantime, the publisher will send you a copy of *Civitas Humana* which could serve as a basis for discussion."

The market economy appeared to be the only remedy to cure the social illnesses of the time, collectivism included. Nevertheless, he was clear on the point that "the market cannot be left to itself," chiefly because of the likelihood that it "could be distorted by monopolies"—the remedy, then, had to be inspired by the approach which Röpke called "economic humanism":

> The little trenches that each producer digs around himself to protect himself against competitors are harmless; we can tolerate, indeed we are not displeased, that a kind shopkeeper, with good words, courteous smiles and cordial thanks, may exercise a kind of monopoly of customers, to the detriment of a grumpy and rude one. But we can prevent the real monopolists from raising prices, diminishing production and making fat profits. And we can and must make the market use its ability to regulate the production and distribution of wealth within certain limits, limits we consider fair and in conformity with our ideals of a society in which all men have a chance to develop their potential in the best way and in which excessive inequality of wealth and income do not exist—without arriving at absolute equality, compatible only with the life of the ant colony and the beehive, which for humans are called tyrannies, dictatorships, totalitarian regimes. We must therefore give ourselves good laws and institutions, create a good educational system that is accessible and suited to the various human capacities, and instill sound customs. We must therefore seek to be conscious human beings desirous of enlightenment and education, and we must, in a noble competition, set our sights high. The market, which is already an astonishing mechanism, giving its best results within the limits of existing institutions, customs and laws, can yield even more astonishing results if we succeed in perfecting and reforming the institutions, customs and laws within which it operates, in order to attain higher ideals. (Einaudi 2006 [1944b], p. 65)

But could national authorities deal with issues so huge as to frighten the boldest mind? Probably not. Both Einaudi and Röpke agreed on the absolute need for an international approach to economic problems, even though they differed as to their perspectives on the future global economy: while Röpke focused on the reconstruction of an international economic and monetary order (Gregg 2010, pp. 142–164), Einaudi emerged as one of the most eminent advocates of a European federation (Morelli 1990; Cressati 1992).

The two were equally aware that "alongside the tenacity with which people, small and large, yearn to conserve and perfect their own spiritual, cultural and political autonomy, we have the opposite tendency of the economy towards unity, not merely of large areas, but of the entire world" (Einaudi 2006 [1943], p. 245). A similar tension was identified by Röpke in his 1945 book *Internationale Ordnung* as the main spiritual factor that led to the outbreak of two world wars. His belief in a liberal international order matured in the dark trenches of WWI and "the pictures of those days [. . .] made him a fervent hater of war, of brutal and stupid national pride, of the greed for domination and of every collective outrage against ethics" (Röpke 1959a [1945], p. 3).

It has been pointed out quite correctly that "like many other young men of his generation, Röpke's experience of military service in WWI cannot be underestimated when attempting to comprehend the post-war direction of his thought" (Gregg 2010, p. 4). And even though he was so severe in his condemnation of historical capitalism, he did not stop praising the fact that at least until 1914 "the world-economy was basically a system of interdependence and intercommunication," a multilateral system

and "thanks to a really international monetary system (Gold standard) practically a global payments community," and that "the world-economy was a system of basic freedom not only in the international movement of goods, but also in the international movement of capital and human beings" (Röpke 1959a [1945], pp. 156–158).

A number of factors caused the decadence of the global economy in the first half of the twentieth century, among them the increase in state interventionism, the conflicts between nations for the acquisition and display of commodities, the demographic expansion experienced by most countries, and mounting nationalism. The rise of totalitarian states could be seen as the final step of a process whose cultural bases lie in the tendency of politicians and businessmen "to deny at times the supremely catastrophic character of war" (Röpke 1959a [1945], p. 26).

In the end Röpke, like Einaudi, was ready to admit that it all began because of the "governments of the states endowed with absolute sovereignty" (Einaudi 2006 [1943], p. 246). Correspondingly, the reestablishment of a global market economy featured as one of the main points in the "Third Way" program, in the sense of an international projection of the internal reform agenda. He stressed as vital "the existence of a firm political and moral framework of the international order" as a preliminary condition for any attempt to "return to a liberal and multilateral form of world trade, with tolerable tariffs, most-favored-nation clauses, the policy of the open door, the gold standard, and the elimination of closed compulsory blocks (with their machinery of exchange controls and clearing agreements)" (Röpke 1950 [1942a], pp. 238, 242).

But even though "a true world union, whose structure must be genuinely federal, i.e. composed of regional and continental sub groups" (Röpke 1950 [1942a], p. 242), initially seemed the best institutional tool to restore a satisfactory international market economy, Röpke soon became skeptical about the likelihood of the project. In later years, though welcoming the fact that "a greater measure of order, freedom and prosperity has come into the international economy of the free West," in his view the existence of communist states led by the Soviet Union posed the most severe threats to both global and regional stabilities. He also early on denounced "the muddles and the false roads of 'European economic integration,'" reviving a somewhat nostalgic portrayal of the old model (pre-WWI) of European integration, "an integration which required no plans, no planners, no bureaucracy, no conferences, no customs unions and no High Authorities" (Röpke 1959a [1945], pp. 225, 226).

Einaudi was no less aware of the formidable obstacles on the way to economic integration at both the continental and global levels. However, back in the 1940s, he realized that "in the conflict between technology, which is unifying the world economically, and the artifices with which governments are attempting to break up that unity, [the] victory will go to technology and not to artifice." If men wished "to safeguard the spiritual values of small national states," they should "resolutely recognize that small economic markets shut inside the political borders of individual states are an anachronism and must be abolished" (Einaudi 2006 [1943], pp. 246, 248)—the logical consequence of this state of affairs was the attempt to build a strong European federation, a goal he worked for throughout his life, with far greater intensity than his friend would ever show.

As Einaudi deeply disliked the idea of a simple league of nations (Einaudi 1920, pp. 143–168), he saw in "the transfer of powers of war and peace and the regulation of commerce, the railways, waterways, postal services etc. to the federation" (Einaudi 2006 [1943], p. 259) the only way forward for Europe. These powers had certainly to be limited and checked by a charter:

> From an economic point of view, European federation means the assignment to the federal authority of some economic tasks defined on an exclusive basis in the charter constituting the federation, defined, that is, in such a way that the federal authority has the power to attend only to the tasks included in the list, all other tasks not on the list remaining within the competence of the individual federated states. [...] Some of these tasks are of a technical nature and have already been internationalized, or where they have not, the absence of internationalization indicates, with the force of the intuitively obvious, how anachronistic is the persistence of individual sovereign states in the contemporary world. (Einaudi 2006 [1944b], pp. 250–251)

In the meantime, the charter should sanction "the assignment to the federation of the right to levy taxes," which, though controversial at the time, was deemed essential since "revenues from customs and excise taxes [...] no longer suffice today and there are no grounds for affirming that they must suffice in a future European federation" (Einaudi 2006 [1944b], pp. 254, 255). As for the political realm, Einaudi sketched a plan that followed the axioms of liberal constitutionalism: a two-house parliament and an executive body made up of "federal administrators [which] should resemble the members of the Swiss federal council," together with an independent and influential judiciary. Overall, European politics was meant to comprehend an "appropriate division of labour between the political leadership of the federation and the states" (Einaudi 2006 [1943], p. 259).

Despite the ups and downs of the European integration process, Einaudi remained a strong supporter of a more complex union, believing as always that "it is a trivial mistake to speak of the opportunity to begin with economics, which is misleadingly considered a much easier task than building a political union. Quite on the contrary, we have to begin with politics if we wish to enjoy the fruits of economic integration" (Einaudi 1956, p. 68). However, such a different view of these issues did not weaken the bonds of friendship and intellectual respect he felt for Röpke.

5 Conclusion: Röpke, Einaudi, and the Identity of Neoliberalism

In the aftermath of WWII, Einaudi helped to establish and nurture Röpke's popularity in Italy. He promoted the Italian translation of *Die Gesellschaftskrisis der Gegenwart* and followed its progress, helping Röpke in his collaboration with the

publisher, his (communist) son Giulio.[25] Moreover, Einaudi encouraged Röpke's participation in events such as a public conference in Rome on the collectivist menace in Europe on September 21, 1947.[26]

Einaudi was equally active in promoting Röpke's books and ideas among Italian liberals. His long review on *Die Gesellschaftskrisis der Gegenwart* was read, admired, and quoted by a great number of intellectuals, scholars, and journalists, making Einaudi and Röpke the two most distinguished heirs to the classical liberal tradition—notwithstanding their commitment to a profound and detailed reform of the status quo. The political theorist Panfilo Gentile, a libertarian socialist who reached the classical liberal shores in the 1930s owing to Einaudi (Giordano 2010), was one of the staunchest promoters of "the 'Third Way', the project of an economic democracy where, as far as possible, property and labour would be combined and civil society recreated on the basis of a large class composed by a great number of independent proprietors-employees" (Gentile 1945, pp. 8–9). Interestingly enough, in the 1950s, he still praised the "Third Way" as the best economic program available for Western liberals, tracing its origins to the reflections of a group of famous neoliberals:

> The point is that we need to safeguard and restore so far as possible that the "good society" described by Walter Lippmann in 1937 and refreshed in its essential features by Luigi Einaudi in his well-known *Lectures on Social Policy*. We have to fulfill the "Third Way" so successfully suggested by Wilhelm Röpke, coming along with such a new perspective to bring a complete implementation of economic and political programs. What is more, the "Third Way" will allow liberals to speak in terms of high moral values. (Gentile 1953, p. 1)

Gentile was not alone in his praise. Even the philosopher Carlo Antoni, despite his master Benedetto Croce's having labeled Röpke incoherent regardless of welcoming the "Third Way" approach (Croce 1945, pp. 195–198), realized owing to the German economist and to Einaudi's teachings that he could not accept Croce's belief that "liberalism in its moral and political features was not necessarily connected with the defense of market economy" (Antoni 1959, p. 160).[27] In addition, Röpke became very popular among left-wing liberals such as Mario Pannunzio, Leone Cattani, and Nicolò Carandini on one side and libertarians such as Bruno Leoni on the other.[28]

Both Antoni and Leoni joined Einaudi and Röpke in the Mont Pèlerin Society, even though Einaudi was not an active member in the way Röpke was until his

[25]Röpke requested his friend's assistance quite often: see, for example, W. Röpke to L. Einaudi, March 11, 1946, in Einaudi-Röpke Letters (1934–1961): "Could you please help me dealing with your son Giulio?"

[26]See the invitation card in Einaudi-Rinascita Liberale Letters (1946–1947), AFLE, section 2, File "Rinascita Liberale."

[27]For the active partnership of Antoni and Röpke inside and outside the Mont Pèlerin Society, see Audier (2012, pp. 258–262, 336–337).

[28]For the economic heritage of left-wing liberals and their Röpkean character, see Bonetti (2014, pp. 114–121). For Leoni's libertarian philosophy, see Masala (2003).

decision to leave following his famous falling-out with Hayek (Audier 2012, pp. 351–358).[29] Einaudi's less active participation in the society was also due to his increasing involvement in Italian public life, first as governor of the Bank of Italy and budget minister and finally as the first president of the Italian Republic elected by parliament (1948–1955). Undoubtedly, in the 1950s, their paths diverged, with Röpke plunged into his anti-communist and anti-welfare state mood, making him, as Jean Solchany recently called him, a true "intellectual of the cold war" (Solchany 2015, p. 31),[30] while Einaudi also sought to preserve a free market economy and oppose interventionism and communism, but sometimes following a rather different track, leading toward unorthodox outcomes—such as his "conservationist" approach to some environmental issues (Einaudi 1956, pp. 641–643; Einaudi 1987 [1961], pp. 106–108).

This leads to the final questions: what can the Röpke-Einaudi association, focusing primarily on the 1940s, tell about the nature of their liberal philosophy? And what about the nature of neoliberalism? The two have been described as "philosophers of the bourgeois order who have tried to keep their heart and their head together" (Campbell 1992, p. 49), a definition that holds a parcel of truth, but nevertheless is too narrow to be accepted. If it is true that in both Einaudi and Röpke we may detect some traces of the Anglo-American conservative tradition, from Burke to Chesterton (Kirk 1985 [1953]), and that Röpke gave more importance than fellow neoliberals did to "the inquiry of non-economic parameters for the functioning of modern societies," it still seems hard to label him "one of the most conservative supporters of the neo-liberal project" (Solchany 2015, p. 27).

We might concede this point if confined to the road taken by Röpke in the 1950s and 1960s,[31] even though it seems less convincing when applied to the liberal "Third Way" he worked on throughout the 1940s along with Einaudi. Their liberalism was "in one sense conservative, and radical in another, equally definite sense" (Röpke 1950 [1942a], p. 21), since it "involve[d] sophisticated analysis of human nature and the institutional settings that promote—or diminish—human flourishing, alongside careful study of the empirical realities in which humans live" (Gregg 2010, p. 12). If human flourishing is set as the main goal of a free society, as they do, then "liberal theory, institutions, and society embody—and

[29]In a letter dated September 18, 1961, Röpke confessed to Einaudi his disgust at the "intrigues inside our Mont Pèlerin Society," adding that he decided to quit even though "the Assembly has rejected my resignation," so he had to "reflect on the opportunity of coming back" (W. Röpke to L. Einaudi, September 18, 1961, in Einaudi-Röpke Letters [1934–1961]). More broadly on the history of the MPS, see Hartwell (1995) and Plickert (2008).

[30]For a detailed analysis of Röpke's anti-collectivist stand, see Solchany (2015, pp. 297–369).

[31]See, for example, Röpke (1959b, pp. 234–235): "If man is to be restored to the possibility of simple, natural happiness, it can only be done by putting him once more in a humanly tolerable existence, where, placed in the true community that begins with the family and living in harmony with nature, he can support himself with labor made purposeful by the institution of private property. The almost desperate character of this effort does not testify against its necessity if we wish to save our civilization."

depend upon—individual virtue" (Galston 1988, p. 1278), but individual virtue may be developed only within an appropriate institutional environment. Hence they emphasized checks and balances both on the exterior (constitutional, social, economic) and on the interior (ethical) levels, something that brings them very close to the old tradition of mixed government.[32]

Here, too, can one find the reason why Röpke and Einaudi focused on the interactions between ethics and economics and assigned a wider range of tasks to the state "than someone like Mises or other liberals of the late nineteenth and the early twentieth centuries ever did" (Audier 2012, p. 437). Even though some libertarian-leaning scholars suggest that this would imply the sacrifice of "a number of key elements of classical liberalism" (Masala 2012, p. 80), it should be noted that a similar approach was endorsed, among others, by Lippmann, Robbins, Rougier, Rüstow, and possibly Hayek, at least in some sections of *The Road to Serfdom* (Hayek 2006 [1944], pp. 33–44).[33] As Röpke once wrote, "a strong state is by no means one that meddles in everything and tries to monopolize all functions"—on the contrary, it is "a state which knows exactly where to draw the line between what does and what does not concern it, which prevails in the sphere assigned to it with the whole force of its authority, but refrains from all interference outside this sphere"—in the end, the classical liberal state "without which a genuine and real market economy cannot exist" (Röpke 1950 [1942a], p. 192).

References

Ancil R (1994) Röpke and von Mises: the difference. Wilhelm Röpke Review 1(1):5–6
Ancil R (1999) The romanticism of Wilhelm Röpke. Modern Age 41(3):199–208
Antoni C (1959) La restaurazione del diritto di natura. Neri Pozza, Venice
Audier S (2008) Le colloque Lippmann. Aux origines du néo-libéralisme. Éditions Le Bord de l'eau, Lormont
Audier S (2012) Néo-libéralisme(s). Une archéologie intellectuelle. Grasset, Paris
Bonefeld W (2012) Freedom and the strong state: on German ordoliberalism. New Polit Econ 17 (5):633–656
Bonefeld W (2013) Adam Smith and ordoliberalism: on the political form of market liberty. Rev Int Stud 39(2):233–250
Bonetti P (2014) Breve storia del liberalismo di sinistra. Liberilibri, Macerata
Burgin A (2012) The great persuasion: reinventing free markets since the depression. Harvard University Press, Cambridge, MA
Busino G (1971) Luigi Einaudi e la Svizzera. Materiali per servire alla storia dei rapporti italo-svizzeri e alla biografia einaudiana. Annali della Fondazione Luigi Einaudi 5(1):351–422

[32]For a brilliant exposition of the intellectual roots of the theory of mixed government, see Vile (1998, pp. 58–82).

[33]See Burgin (2012, pp. 87–122) and Jackson (2012). Burgin pertinently observes that "like Walter Lippmann's *Inquiry into the Principles of the Good Society* before the war, *The Road to Serfdom* was premised on a belief that one could engage in a vigorous critique of planning without rejecting government intervention altogether" (Burgin 2012, p. 90).

Campbell W (1992) The legacy of Luigi Einaudi and Wilhelm Röpke. Modern Age 35(1):44–50
Commun P (2014) German ordoliberalism: order vs. disorder in Röpke's early works. Rivista I-Lex 9(21):27–39
Commun P (2016) Les Ordolibéraux. Histoire d'un libéralisme à l'allemande. Les Belles Lettres, Paris
Cressati C (1992) L'Europa necessaria. Il federalismo liberale di Luigi Einaudi. Giappichelli, Turin
Croce B (1945) Discorsi di varia filosofia. Laterza, Bari
Croce B, Einaudi L (1988) Liberalismo e liberismo. Ricciardi, Milan-Naples
Da Empoli D, Malandrino C, Zanone V (eds) (2014) Luigi Einaudi: selected political essays, vol 3. Palgrave Macmillan, Basingstoke
De Long JB (1990) In defense of Henry Simons' standing as classical liberal. Cato J 9(3):601–618
Denord F (2001) Aux origines du néo-libéralisme en France. Louis Rougier et le Colloque Walter Lippmann de 1938. Le Mouvement Social 195(2):9–34
Denord F (2007) Néo-libéralisme version française: Histoire d'une idéologie politique. Demopolis, Paris
Einaudi L (1920) Lettere politiche di Junius. Laterza, Bari
Einaudi L (1931) Dei diversi significati del concetto di liberismo economico e dei suoi rapporti con quello di liberalismo. La Riforma Sociale 38(3–4):186–194. English edition: Einaudi L (2006) Economic liberalism and political liberalism. In: Einaudi L, Faucci R, Marchionatti R (eds) Luigi Einaudi selected economic essays, vol 1. Palgrave Macmillan, London, pp 73–79
Einaudi L (1933) Trincee economiche e corporativismo. La Riforma Sociale 40(6):633–656
Einaudi L (1934) La corporazione aperta. La Riforma Sociale 41(2):129–150
Einaudi L (1937a) Delle origini economiche della Grande Guerra, della crisi e delle diverse specie di piani. Rivista di storia economica 2(3):277–289
Einaudi L (1937b) Tema per gli storici dell'economia: dell'anacoretismo economico. Rivista di storia economica 2(2):186–195. Now in: Einaudi L (2011), pp 101–115
Einaudi L (1938) Miti e paradossi della giustizia tributaria. Einaudi, Turin
Einaudi L (1941a) Intorno al contenuto dei concetti di liberismo, comunismo, interventismo e simili. Argomenti 1(9):18–34. Now in: Einaudi L, Romano R (eds) (1973) Scritti economici, storici e civili. Mondadori, Milan, pp 278–303
Einaudi L (1941b) Ancora su le premesse del ragionamento economico. Rivista di storia economica 6(1):43–50. Reprinted in: Einaudi L, Romano R (eds) (1973) Scritti economici, storici e civili. Mondadori, Milan, pp 261–272
Einaudi L (1942) Dell'uomo, fine o mezzo, e dei beni d'ozio. Rivista di storia economica 7(3–4):117–130
Einaudi L (1943) Per una federazione economica europea. Movimento Liberale Italiano, Rome. Partially reprinted in: Einaudi L, Faucci R, Marchionatti R (eds) Luigi Einaudi: selected economic essays, pp 245–249 and pp 258–260
Einaudi L (1944) I problemi economici della federazione europea. Nuove edizioni di Capolago, Lugano. Partially reprinted in: Einaudi L, Faucci R, Marchionatti R (eds) Luigi Einaudi: selected economic essays, vol 1. Palgrave Macmillan, Basingstoke, pp 250–257
Einaudi L (1949 [1944b]) Lezioni di politica sociale. Einaudi, Turin. Partially reprinted in: Einaudi L, Faucci R, Marchionatti R (eds) Luigi Einaudi: selected economic essays, vol 1. Palgrave Macmillan, London, pp 39–65 and Da Empoli D, Malandrino C, Zanone V (2014) Luigi Einaudi: selected political essays: vol 3. Palgrave Macmillan, Basingstoke, pp 44–51
Einaudi L (1954 [1942b]) Economy of competition and historical capitalism. Scienza Nuova. Int J Rev Stud Psycho-Sociol Humanistic Sci 1(1): 1–28
Einaudi L (1956) Lo scrittoio del Presidente 1948–1955. Einaudi, Turin
Einaudi L (1973) In: Rossi E (ed) Il Buongoverno. Saggi di economia e politica 1897–1954. Laterza, Bari
Einaudi L (1987 [1961]) Le prediche della domenica. Einaudi, Turin
Einaudi L (1997) In: Soddu P (ed) Diario dall'esilio (1943–44). Einaudi, Turin
Einaudi L (2011) In: Giordano A (ed) In lode del profitto e altri scritti. IBL Libri, Turin
Einaudi L, Faucci R, Marchionatti R (eds) (2006) Luigi Einaudi: selected economic writings. Palgrave Macmillan, Basingstoke

Einaudi L, Rossi E (1986) In: Busino G, Martinotti Dorigo S (eds) Carteggio (1925–1961). Fondazione Luigi Einaudi, Turin
Faucci R (1986) Luigi Einaudi. Utet, Turin
Forte F (2016) Einaudi versus Keynes. Due grandi del Novecento e la crisi dei nostri giorni. IBL Libri, Turin
Foucault M (2010 [1979]) The birth of biopolitics: lectures at the Collège de France, 1978–1979. Picador, New York
Galston W (1988) Liberal virtues. Am Polit Sci Rev 82(4):1277–1290
Gentile P (1945) Il liberalismo di Marx. La Città Libera 1(14):7–12
Gentile P (1953) La terza via. Corriere della Sera, February 11, 1953
Giordano A (2006) Il pensiero politico di Luigi Einaudi. Name edizioni, Genoa
Giordano A (2010) Contro il regime. Panfilo Gentile e l'opposizione liberale alla partitocrazia (1945–1970). Rubbettino, Soveria Mannelli
Goldschmidt N, Rauchenschwandtner H (2007) The philosophy of Social Market Economy: Michel Foucault's analysis of ordoliberalism. Discussion Paper 07/04, Walter Eucken Institut, Freiburg
Goodwin CD (2014) Walter Lippmann: public economist. Harvard University Press, Cambridge, MA
Gregg S (2010) Wilhelm Röpke's political economy. Edward Elgar, Cheltenham
Hartwell R (1995) A history of the Mont Pèlerin Society. Liberty Fund, Indianapolis
Hayek FA (1992) The fortunes of liberalism. Essays on Austrian economics and the ideal of freedom. University of Chicago Press, Chicago
Hayek FA (2006 [1944]) The road to serfdom. Routledge, London
Hennecke HJ (2005) Wilhelm Röpke. Ein Leben in der Brandung. Schäffer-Poeschel, Stuttgart
Kirk R (1985 [1953]) The conservative mind: from Burke to Eliot. Henry Regnery, Chicago
Köhler EA, Kolev S (2011) The conjoint quest for a liberal positive program: "Old Chicago", Freiburg and Hayek. HWWI Research Paper 109, Hamburg Institute of International Economics, Hamburg
Kolev S (2013) Neoliberale Staatsverständnisse im Vergleich. Lucius & Lucius, Stuttgart
Lippmann W (1944 [1937]) The good society. Billing and Sons, Guildford
Jackson B (2010) At the origins of neo-liberalism: The free economy and the strong state, 1930–1947. Historical J 53(1):129–151
Jackson B (2012) Freedom, the common good, and the rule of law: Lippmann and Hayek on economic planning. J Hist Ideas 73(1):47–68
Masala A (2003) Il liberalismo di Bruno Leoni. Rubbettino, Soveria Mannelli
Masala A (2012) Crisi e rinascita del liberalismo classico. ETS, Pisa
Mierzejewski AC (2006) Water in the desert? The influence of Wilhelm Röpke on Ludwig Erhard and the Social Market Economy. Rev Austrian Econ 19(4):275–287
Mirowski P, Plehwe D (eds) (2009) The road from Mont Pèlerin. The making of the neoliberal thought collective. Harvard University Press, Cambridge, MA
Molina Cano J (2001) La tercera vía en Wilhelm Röpke. Instituto Empresa y Humanismo, Navarra
Morelli U (1990) Contro il mito dello stato sovrano. Luigi Einaudi e l'unità europea. Franco Angeli, Milan
Nichols AJ (1994) Freedom with responsibility: the Social Market Economy in Germany 1918–1963. Oxford University Press, Oxford
Peacock A, Willgerodt H (eds) (1989) German neo-liberals and the Social Market Economy. Macmillan, London
Peukert H (1992) Das sozialökonomische Werk Wilhelm Röpkes. Peter Lang, Frankfurt
Plickert P (2008) Wandlungen des Neoliberalismus: Eine Studie zu Entwicklung und Ausstrahlung der "Mont Pèlerin Society". Lucius & Lucius, Stuttgart
Resico M (2008) La estructura de una economía humana. Reflexiones en cuanto a la actualidad de W. Röpke. Universidad Católica Argentina, Buenos Aires
Resico M (2009) La téoria del ciclo económico de W. Röpke. Anales de la Asociation Argentina de Economia Politica, Buenos Aires

Röpke W (1936) Crises and cycles. William Hodge, London
Röpke W (1942 [1939]) International economic disintegration. William Hodge, London
Röpke W (1948 [1944]) Civitas Humana: a humane order of society. William Hodge, London
Röpke W (1950 [1942a]) The social crisis of our time. University of Chicago Press, Chicago
Röpke W (1959a [1945]) International order and economic integration. D. Reidel, Dordrecht
Röpke W (1959b) The necessity of economic freedom. Modern Age 3(3):227–236
Röpke W (1963 [1937]) Economics of the free society. Henry Regnery, Chicago
Rothschild E (2001) Economic sentiments: Adam Smith, Condorcet and the Enlightenment. Harvard University Press, Cambridge, MA
Rougier L (1939) Les mystiques économiques. Éditions de Médicis, Paris
Rüstow A (1932) Freie Wirtschaft – Starker Staat. In: Boese F (ed) Deutschland und die Weltkrise. Verhandlungen des Vereins für Socialpolitik in Dresden 1932. Duncker & Humblot, Munich, pp 62–67. Reprinted in: Wünsche H (ed) (1982) Standard texts on the Social Market Economy. Gustav Fischer, Stuttgart, pp 37–48
Rüstow A (1942) Appendix. In: Röpke W (1942b [1939]) International economic disintegration. William Hodge, London, pp 267–283
Schulz-Forberg H, Olsen N (eds) (2014) Re-inventing Western civilisation: transnational reconstructions of liberalism in Europe in the twentieth century. Cambridge Scholars Publishing, Newcastle upon Tyne
Simons H (1934) A positive program for laissez faire: some proposals for a liberal economic policy. University of Chicago Press, Chicago. Reprinted in: Simons H (1948) Economic policy for a free society. University of Chicago Press, Chicago, pp 40–77
Simons H (1948) Economic policy for a free society. University of Chicago Press, Chicago
Solchany J (2014) Wilhelm Röpke as a key actor of transnational neoliberalism after 1945. In: Schulz-Forberg H, Olsen N (eds) Re-inventing Western civilisation: transnational reconstructions of liberalism in Europe in the twentieth century. Cambridge Scholars Publishing, Newcastle upon Tyne, pp 95–116
Solchany J (2015) Wilhelm Röpke, l'autre Hayek. Aux origines du néolibéralisme. Publications de la Sorbonne, Paris
Somma A (2014) La Germania e l'economia sociale di mercato. 1. Da Weimar ad Helmut Schmidt. Centro di Ricerca e Documentazione Luigi Einaudi, Turin
Sorin Muresanu S (2014) Social Market Economy: the case of Germany. Springer, New York
Vile MJC (1998) Constitutionalism and the separation of powers. Liberty Fund, Indianapolis
Winch D (1978) Adam Smith's politics: an essay on historiographic revision. Cambridge University Press, Cambridge
Wohlgemuth M (2006) L'influence de l'économie autrichienne sur le libéralisme allemand. In: Nemo P, Petitot J (eds) Histoire du libéralisme en Europe. PUF, Paris, pp 985–1030
Wünsche H (ed) (1982) Standard texts on the Social Market Economy. Gustav Fischer, Stuttgart
Zmirak J (2001) Wilhelm Röpke: Swiss localist, global economist. ISI Books, Wilmington