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# Is there really no alternative?

A reflection on Neoliberalism in the transatlantic  
context

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## **Abstract**

In the last decade the word Neoliberalism has become part of everyday language. Within the spread of the crisis, this phenomenon has been increasingly discussed both academically and in the media. Often used in a negative way, it is commonly associated with policies that aim to cut off the welfare state or at the deregulation of the international financial market. The United States is normally identified as the place of origin and the ideal cradle of Neoliberalism. Thanks to think tanks and universities, Neoliberalism also seems to have more and more spread over, until it got a foothold even in Europe. According to the harshest criticism, the Old Continent and the United States are part of a common front for the promotion of Neoliberalism in the world.

In this sense, is it really possible to compare Europe and United States? The aim of this work is on the one hand to understand whether this comparison is tenable or not. In other words, how accusations towards Europe of being a "neoliberal" promoter are legitimate. The other goal is to identify how and why Europe could offer a plausible alternative to the American model. There are tangible historical and ideological evidences in support of this thesis.

For a fully comprehension in this regard, the first chapter will present a brief survey into the origin of what is commonly understood as Neoliberalism, in particular as far as the transatlantic context is concern. The economists recognized as the founding fathers will be taken into account, as well as the traditions they belong to. The second chapter consists of an analysis on the European Union, either from political or economic perspectives. This approach will therefore pave the way for a clear comparison with Anglo-American Liberalism. Strong support will be given to 'social market economy', by focusing on the work of eminent scholars, like Mario Monti, who has tried to give a contribute to the European alternative. Both from his biography and writings emerges a tendency in favor of topics such as the 'social market economy' that are at the basis of the uniqueness of the European Union.

*“And there were future reflections  
On the face and the hands  
On a green colored island  
On a primitive man  
It was the future reflected  
It felt familiar but new  
A street was missing a building  
The kids had something to do”*

*(Alex VanWyngarden, Future Reflections, 2007)*

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## Introduction

This work stems from a reflection on the transatlantic relation between the European Union and the United States. The reasoning entails both political and socioeconomic aspects of the two countries. About sixty years ago, for the first time in history, the Old Continent decided to come together in peace as never before. Today, whether European Union wants "to be or not to be" – according to the question raised by Sergio Pistone – it is not easy to say. Due to the old traditions that on the one hand tear Europe apart, but on the other bring the countries together, European Union has developed ideas and models that make it unique in the world. Although the ambition of the most influential founding fathers was the creation of a federal union along the lines of the United States, the same European matrix contains specific features that distinguish Europe from the American framework. Far from a negative approach, both Europe and the United States present own traits inevitably different.

In particular, the relationship between United States and Europe is here inserted in a wider context. The current economic crisis opened the door to *engagé* literature that aims to identify the historical, cultural and economic causes of recent recession years. Cuts to the welfare state, liberalizations and privatizations are the new threats that apparently globalization has paved the way for. These factors all seem to follow a precise path, known as Neoliberalism.

Within a given definition of Neoliberalism, is it really possible to compare United States and Europe with any distinction? Are there essential aspects that require a separation? Is Neoliberalism in Europe as rooted as in the United States? What are the differences? How Europe could be exactly define? These questions needed to be answered, in order to shine little light on the issue. Referring to Neoliberalism. the final aim of this research is to understand in which terms it is plausible to place on the same level European Union and United States.

Neoliberalism is normally approached as a doctrine, which means as a set of

principles related to a school of thought. Two are the scholars considered the founding fathers of Neoliberalism, namely the Austrian philosopher Friedrich von Hayek and the American economist Milton Friedman. However, it is difficult to trace a common line that goes back to the origin of Neoliberalism. This is why, in the first chapter, I will follow the trail of Neoliberalism, focusing on the transatlantic context. Primary sources like Hayek and Friedman will be therefore considered, as well as secondary sources such as David Harvey, Stedman Jones, Wolfgang Streeck or Mark Blyth. Another aspect of Neoliberalism that makes difficult to have an unbiased overview is the simplistic method of most of the critics, particularly as regards the comparison between United States and European Union. The axis EU-US is often accused of being the cradle of Neoliberalism, as apparently both the countries are encouraging privatization, liberalization and cuts of social spending.

The second chapter will go into details, by taking into account either Neoliberalism in the transatlantic context or the differences between European and American framework. The discussion will necessarily present different perspectives, namely historical, political, economic and social. Because of its complexity, the European cultural background required a full spectrum analysis. The Single European Market for instance is indeed founded on free market, but it has peculiar conceptual bases. These differences are attributable to the social context the European Union took shape from, which played a crucial role in the European integration process.

As far as the EU economic functioning is concerned, the reference book will be *The Economics of European Integration* by Baldwin and Wyplosz. The political and the ideological aspects will draw both on primary sources like Altiero Spinelli and Ernesto Rossi and on secondary sources like John Gilligham or Sergio Pistone. *Il Manifesto di Ventotene* by Spinelli or *Gli Stati Uniti d'Europa* by Rossi are essential cornerstones to understand the rich soil European Union was founded on. Important references to the economists of Freiburg School will be made, in particular with respect to the social market economy they contributed to develop.

This is one of the European distinguishing trait that will be fully investigated. For a comprehensive understanding in this regard will be first presented a research by Bertelsmann Stiftung, which aims to demonstrate to what extent social market economy has been success or not. Secondary, it will be briefly introduced the work of Mario Monti. As former EU Commissioner, Monti spent many years working on the European integration process, including the social market economy.

United States often alleges that European Union is in favour of protectionism and economic interventionism. Since the famous statement of Henry Kissinger<sup>1</sup>, who stressed the EU's weaknesses by wondering which was the telephone number to call Europe, United States has rarely desisted to underline economic and political troubles of European countries. The allegations of the Republican candidate Mitt Romney are undoubtedly explanatory. At a conference in Virginia in October 2012, shortly before the presidential elections of 6<sup>th</sup> November<sup>2</sup>, Romney warned American citizens against the expensive public spending promoted by Obama, fearing the same scenario of Greece and Italy.

There are important considerations to be made as far as the EU-US relation is concerned. It is often said that European Union is not a main actor in the geopolitical spectrum of international relations anymore. Apparently, due to a tenuous Common Foreign and Security Policy, United States and emerging powers such as China are less and less subject to the influence of the Old Continent, by now put aside with a secondary role. In a world where the economic capacity of trade areas represents a key factor, some statements could result inaccurate. In the introduction to the chapter on EU trade policy, for instance, Baldwin and Wyplosz say that

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the European Union is the world's biggest trader. Counting EU exporters within the

1 For a full interview with Kissinger on this topic see: <http://www.spiegel.de/international/world/spiegel-interview-with-henry-kissinger-europeans-hide-behind-the-unpopularity-of-president-bush-a-535964.html>.

2 For a full article see: [http://www.huffingtonpost.com/2012/10/23/romney-obama-greece\\_n\\_2004139.html](http://www.huffingtonpost.com/2012/10/23/romney-obama-greece_n_2004139.html).

EU and with third nations, the EU accounts for about 40 per cent of world trade and its share of trade in services is even greater. Three of the EU25 are individually in the top ten trading nations in the world (Germany, Britain, France). The EU is also a leader in the world trade system, both as a key player in the World Trade Organization (WTO) and as a massive signer of bilateral trade agreements (Baldwin e Wyplosz 2009, 449).

On the basis of the GDP of the two countries, which together with China cover about two-thirds of global GDP, European Union is the second largest economy after United States. Moreover, this estimate does not consider the social protection systems that directly affects citizens' life standard. As a matter of fact, this is the major difference in the political and economic choices made by United States and European Union. Because of historical and cultural background, the two countries clearly have diverse approaches to welfare state. This is basically what have triggered the development of two economic models that, despite the differences, are both market-based economies.

The aim here is not to establish the winners or the losers, but rather to become aware of the structural discrepancy of the two systems. To avoid the generalization mentioned above, it is necessary in the first place analyze the allegations. Only a responsible acknowledgement of the differences could make the discussion productive. On the contrary, the superiority conceit would bring to nothing but a misleading point, especially in light of the harms the crisis has left behind. So much so that the credit crunch has manifestly marked weaknesses and shortcomings of both Europe and United States. The result of such debate should therefore not carry just negative answers, which means to point out only what did not work out. Instead, the question should focus on which sections of the two countries have better cushioned the damages. Only in this way it is possible to identify the best solutions aiming at the mutual progress.

Before entering the core of the issue, a overview of the scenario Europe and United States belong to is worth mentioning. Due to the complexity of



international relations, it would be incomplete not to frame a certain topic into a broader political and economic context. First of all, what we are experiencing today is something that seems to go against the theories of the early 2000s. At that time, many critics warned against a harmful globalization that would have cancelled all the borders and brought the world adrift. Now, if the definition of market is taken into account, namely the exchange in a specific time and place of raw materials, goods, services, capital or financial tools within a given frame of reference, the trend is rather different. After the war, in fact, the continents have been more and more divided into regional areas with preferential trade agreements, which have contributed to the creation of customs unions. Economic theories are clear in this regard. The elimination of bilateral tariffs between two countries profits in terms of price and quantity when they are later imposed from a free trade area towards external countries<sup>3</sup>. The European Union is a proof of it. The idea of the European Single Market was presented since the Treaties of Rome in 1957, which saw the establishment of the EEC (European Economic Community). Although the process is not yet fully concluded due to the constraints of non-tariff, the path for a fully integrated Single Market has been taken. Along the lines of the European Union, other regional free trade areas with similar features has been created. Only in the old continent, for example, there the EFTA (European Free Trade Association)<sup>4</sup>, the CEFTA (Central European Free Trade Agreement)<sup>5</sup> or the BAFTA (Baltic Free Trade Area), which was abolished in 2004, when Latvia, Estonia and Lithuania joined the European Union. Overseas the most relevant agreement is the NAFTA (North American Free Trade Agreement), which was basically an enlargement to Mexico of the agreement

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3 A detailed explanation is provided in Chapter 5 'The essential economics of preferential Liberalization' in *Economics of European Integration* by Baldwin and Wyplosz.

4 The EFTA was born in the early '60s as a European alternative of those states that were not part for different reasons of the EEC. It is still in force and current members are Liechtenstein, Switzerland, Norway and Iceland.

5 The CEFTA agreement was born in the early 90s among the countries of Central and Eastern Europe, waiting to enter the EU. Current members are Croatia, the Republic of Macedonia, Serbia, Kosovo, Bosnia and Herzegovina, Montenegro, Albania and Moldova. Former members are for instance Poland, Czech Republic, Slovakia or Hungary.

already in force between United States and Canada. The presence of free trade areas is also remarkable in South America, Africa or Middle East. In this scenario all the actors play a specific role with precise consequences, especially those countries with strong economies. United States and European Union should therefore strive to play as much as possible as a team, even though they may result sometimes opponents.

Referring to the theory of Charles Kupchan, Emanuele Parsi in his book *L'alleanza inevitabile: Europa e Stati Uniti oltre l'Iraq* defines the relationship between the two powers as inversely proportional to the integration process of the European Union. In particular, he argues that

la separazione tra Stati Uniti ed Europa è ormai inevitabile proprio a causa del processo di unificazione di quest'ultima, che produrrà conseguenze strutturali sul sistema politico internazionale non minori di quelle che furono generate dalla prima unificazione tedesca del 1870. A europei e americani non resta che scegliere tra la prospettiva di una separazione consensuale e quella di un aspro divorzio [...] (Parsi 2006, 29).

Clearly, such prediction is not desirable. Europe and United States should not be, as Parsi metaphorically says, “separated but living under the same roof”, but on the contrary they should aim at a mature relationship based on cooperation. In particular the EU-US relation is crucial in the light of the thorny historical transformations we are facing today. There are critical scenarios that require diplomatic assistance of all the stable democracies, which by working together can avoid serious consequences. Yet, there is no doubt that European Union need to implement the Common Foreign and Security Policy. As Parsi asserts,

si tratta allora di non sciupare tutto in nome di quella sindrome europea che si direbbe fatta di rinuncia e di debolezza nelle prospettive politiche più ancora che negli strumenti diplomatici e militari. Si tratta di non essere per una volta, come troppo spesso accade a noi europei, maestri insieme di retorica e di cinismo; e di

essere invece realisti e nello stesso tempo idealisti: guardare le cose per quello che sono, e però continuare a credere che la politica è anzitutto suprema arte creatrice del domani, e non mera amministrazione dell'esistente (Parsi 2006, 11).

Nevertheless, this quote was written in 2006, which is something not entirely negligible. At that time, the transatlantic relationship still suffered the legacy of the crisis caused by Iraq war in 2003. This conflict had spoiled not only the relation between United States and Europe, but also the balance within the European countries. Today, the friction seems to be partially overcome, largely thanks to the transition from Bush to Obama presidency. As a matter of fact, the democratic President enjoys a good reputation in most European countries.

In the last seven years, the international framework traced by Parsi has not much changed. Despite the recent controversial events in Syria and Middle East, the unipolarity of the global order remains strong. The United States is still the main actor in terms of distribution of power, as Panebianco clearly explains in the introduction to the Parsi's book. However, something changed compared to the postwar years. Referring to the British historian and essayist Niall Ferguson, Parsi defines the global order as "apolar", which means that even the highest possible concentration of power is not able to ensure a perfect balance among all the actors involved (Parsi, 2006, 8). In the years following the end of the Cold War, United States had glimpsed the possibility of establishing a unipolar order in the traditional sense. The shortcomings and the uncertainties European Union demonstrated with the non-intervention in the Balkans, had left enough room for United States to practice its hegemony globally. Yet, 9/11, Afghanistan and Iraq wars destabilized the whole system, implying a different balance of the forces in the field. The new equilibrium was not based on the reinforcement of other actors, but rather on the withdrawal of the only power able to play the role of the protagonist. With the first Obama presidency, and even more with the second, this strategy has been even more strengthened. The intervention in Libya in 2011 and the approach to the so called "Arab Spring" are clear evidences of the new

American way of dealing with foreign policy. As the diplomatic crises in North Korea and in Syria demonstrated, United States seems to have rethought the centrality of the expansive military policy. Due to economic and political reasons, as happened in Libya, US decided to act behind the scenes. The final goal is probably to avoid as much as possible the reaction of the media, which in particular for the States can have risky consequences, both domestically and externally.

This scenario corresponds in all respects to the “strange unipolarity” outlined by Parsi and confirmed by Panebianco. At the base of this theory there is the tidy division among economics, politics and security, which are all essential features to a contingent opponent of the United States. During the Cold War, these features coincided with the Soviet Union, while today economics, politics and security are shared among different actors. In fact, Panebianco claims that

se sul piano politico è la Cina la potenza da tutti giudicata emergente, la potenza che tra non molto tempo, secondo diversi analisti, potrebbe addirittura sfidare l'egemonia americana, sul piano economico, invece, è e sarà ancora a lungo l'Europa il principale rivale degli Stati Uniti. Sul piano della minaccia militare, infine, il grande antagonista del mondo occidentale, quello da cui provengono le minacce più serie alla sua sicurezza, è il terrorismo islamista (Panebianco 2006, XI).

In the near future, it will be interesting to see how the situation evolves, especially in the light of the two thorny scenarios we are facing today. On the one hand the consuming conflicts in the Middle East and on the other the deep European recession. It seems clear, however, how the EU-US axis will play a crucial role anyway, today and tomorrow. The transatlantic relation is fundamental for the resolution of the uncertainties to come, both economically and politically. The two countries need to build a relation as solid as possible, in order to strive for the same goals. Recalling the words of European leaders at a meeting in June 2003 on the future of Europe, Parsi asserts that

nessun problema importante nel mondo può essere risolto senza l'impegno congiunto di Stati Uniti ed Europa; nessun problema è irrisolvibile quando lo affrontiamo insieme (Parsi 2006, 1).

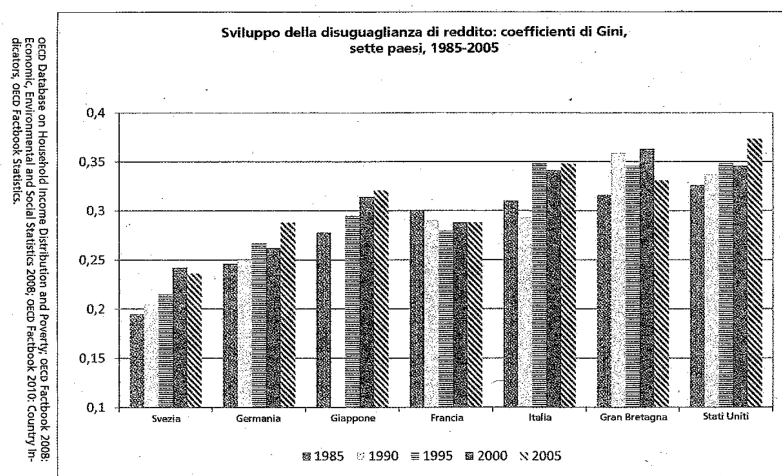
# 1

## 1.1. *Where are we now?*

The complex topic of this thesis requires either a multi-level discussion or an interdisciplinary approach. In substance, the whole issue is structured in three different sets, which are the levels I have just mentioned. The first set is capitalism, which entails a proper subset that is Neoliberalism. In this last set is entangled the relation between European Union and United States, which is the heart of the matter. In particular, the case in point takes into account the second and the third set, as it consists of a comparison between EU and US from neoliberal perspectives. Nevertheless, to get at the bottom of the issue, it is necessary to go step by step, by briefly analysing the upper set. Before entering the question of Neoliberalism, it is important to understand where it could be dated back, both critically and historically. Many critics assert that negative consequences of Neoliberalism took shape from a broader scenario, namely the crisis of modern capitalism.

Scholars coming from diverse fields tried to understand how modern capitalism undermined the society and prevented social justice. Wolfgang Streeck, a sociologist of Freiburg School, in his recent work *Gekaufte Zeit*, offers a plausible explanation based on the theory of money illusion. As the title of the book suggests, Streeck claims that governments, as soon as they realised that to the capitals growth during and after the Golden Age was not corresponding a social growth in terms of welfare state, tried to hide the problem in many ways, thus keeping to pave way for the accumulation of money. There has been two mistakes in evaluation, i.e. the overestimation of polity capability and underestimation of capital capability (Streeck 2013, 22). In the first place capital was not consider since the beginning as an active actor capable of deeply altering the society, both politically and economically. In the second place governments failed to integrate,

more or less voluntary, free markets (both of goods and capitals), consumer society and democracy. This is basically what caused the problem of redistribution by increasing the gap between the rich and the poor, well explained by Gini coefficient<sup>6</sup>.



As the chart above shows, the discrepancy is worldwide growing without any exception. Particularly in the United States, it is estimated that 1% of the population owns more or less the same national wealth of the rest 99%<sup>7</sup>, which makes the United States the worst countries in the industrialized world as far as iniquity is concerned.

At the beginning of 1970s, during the first economic crisis after the war, most of the systems based on mixed economy turned to be not as efficient as they have been before. Capitals, along with markets, were growing, so that tariffs and state

6 Gini coefficient, invented by the Italian statistician Corrado Gini in 1912, explains the iniquity as regards wealth distribution within a society. For more details as far as different countries are concerned, see: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html>

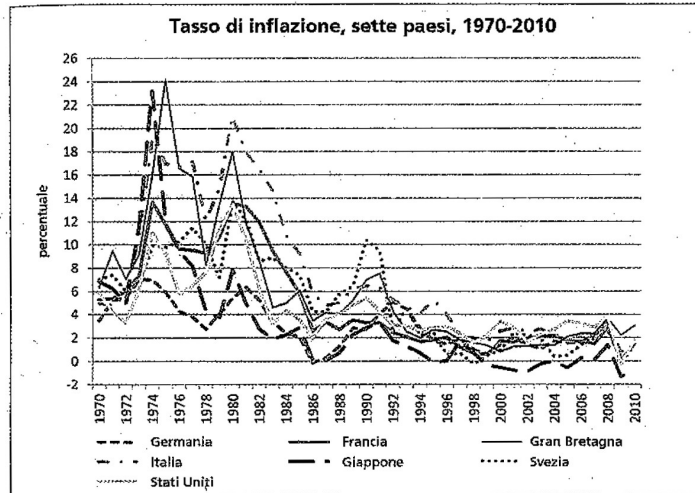
7 For more information see: <http://www.theguardian.com/news/datablog/2011/nov/16/occupy-protests-data-video>

interventions were bringing world economy into stagnation. A revolution in the system was therefore necessary and it was governments' task to carry on reforms that should have taken into account the society as a whole. In substance, the goal was to find a way to regulate the market, in order to guarantee both steady growth and welfare state. In this phase, Europe and United States both decided to reinforce market-based economy, even though, mainly because their different cultural background, they developed different models. This point will be fully discussed in paragraph 1.2, as it concerns the transition to what many critics define as a neoliberal order.

According to Streeck, the crisis we are facing today was caused basically by the wrong management by politics of capital growing. Moreover, the reforms adopted were not only wrong, but voluntary in favour of a deregulated system that left money flowing with any surveillance. Basically, three are the causes that have brought to three effects that all together have been fostering the credit crunch from 2007 until today. The causes all took form from the three economic depressions in the second half of 19<sup>th</sup> century. They are basically the solutions shared and proposed by many governments during the crises, namely inflation, public debt and private debt. The effects, we are today very familiar with, are the crisis of the banking system, the crisis of the public finance and the crisis of real economy.

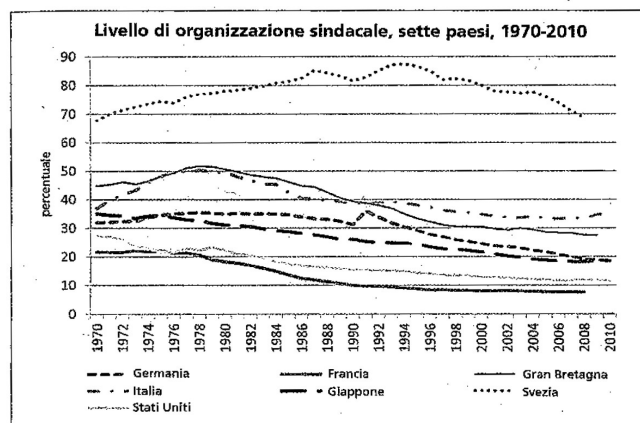
Some proofs can be easily found by looking at historical facts and by analysing the related data. At the beginning of 1970s inflation immoderately grew in whole OECD countries. In the US, for instance, it reached 14% in 1980 and in some European countries, like Italy, it exceeded even 20%.





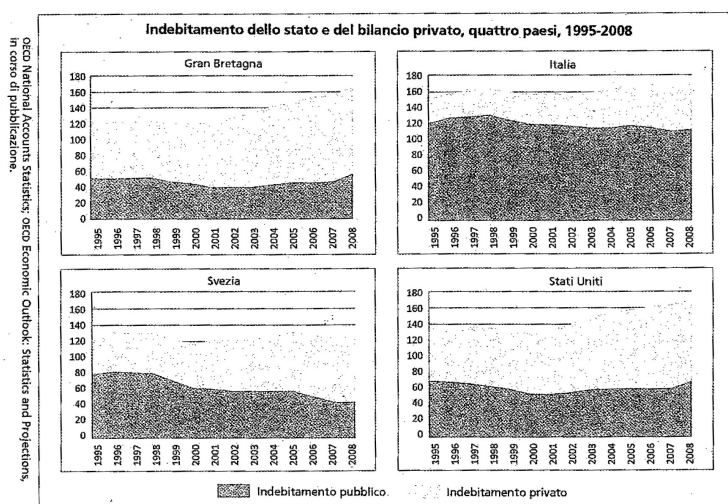
OECD Economic Outlook: Statistics and Projections, in corso di pubblicazione.

This was the first illusion governments used to overcome real problems in economy. As a matter of fact, as soon as inflation started going down again, unemployment remarkably started to raise. Together with unemployment, kept expanding accumulation of capital and inequity. This means that to growth, in terms of money, did not correspond a proper redistribution in the society. It is interesting to notice that to the the increase of unemployment concurs a decrease of trade union organization, as the chart below demonstrates.



Amsterdam Institute for Advanced Labour Studies: ICTWSS Database, 3 maggio 2011.

In other words, instead of structural reforms that could create new jobs and social reorganization, governments preferred to pull more money into the system. For almost ten years, the situation seemed to have level off, because thanks to high inflation people had the impression that the depression was overcome. In 1980s governments decided unanimously that inflation had to be contain and other solutions needed to be found in order to *zeit kaufen*<sup>8</sup> and keep the *status quo*. Another macroeconomic tool was then put in the field, that was public debt. The second illusion was by then achieved, by using again money that did not come for real economy and by promoting a deregulated deficit spending. In ten years, until 1993, public debts of United States and European countries constantly grew without exception. In the last decade of 19<sup>th</sup> century there was the first differentiation in terms of macroeconomic solution between Europe and United States. Clinton, beyond implementing deregulation especially with respect to financial market, wanted to reduce public debt through what can be defined as a privatization of it. As a matter of fact, private debt in the US started to increase rapidly until the last credit crunch of 2008, when the scenario changed once again. This process is clear represented in the graph of OECD, which shows the two trends from 1995 till 2008.



8 This political strategy literally means “to gain time”.

Each of these methods of problem solving – inflation, public debt, private debt – worked for a short period, with the aim to hide on the one hand the inequity and on the other the incapacity of governments to adjust to the progress of the society (Streeck 2012, 63). This is in short what is normally called the crisis of modern capitalism. Capital has proved to be an active actor that without regulation risk to produce harmful long-term effects on the society as such.

The three relevant fallouts, which are direct consequences of the causes mentioned so far, are today visible. The crisis of the banking system was the result of the expensive credit policy adopted in recent years. By lending too much money, both to public and private sector, banks tried to speculate through interest rates. At one point, because of different reasons, a consistent part of this credit turned to be “rubbish”, because it could not be paid back. Distrust rose from the ranks both among banks and reliable private creditors, the insolvent credits could not be withdraw from the market and the system crashed.

The crisis of the public finance was again a backlash of the solutions adopted in the past. The bankruptcy of lending institutions in 2008 required the intervention of the states through nationalization and recapitalization, in order to avoid the collapse of real economy. Nevertheless, most the countries were already burdened by high public debts collected in the past, which means that they were only able to ask for more credit at risky interest rates. States were thus jeopardized by the possibility of default. In other words, they admitted that at some point they would not have been able to pay the debt back. Greece, for instance, virtually failed and only a massive intervention of the European Union prevented the public finance to declare bankruptcy officially. Of course, EU bailed Greece out at high costs, both politically and economically. And here comes the third crisis, connected with the real economy.

The only way of making the markets confident was to take strong measures to assure the state budget. As a matter of fact, the so called austerity plans consisted in cutting off public expenditure and in raising taxes. As a consequence, the demand fell together with the services normally provided by the state. Moreover,

banks started to behave hesitant in lending money to their customers, fearing of not receiving it back. The economy was at a standstill and unemployment grew enormously, especially among people who were not part of the labour market. Obviously all these factors were more evident in countries that had a weak economic and political structure, as the chart below underlines<sup>9</sup>.

**L'impatto della crisi del 2008 sull'economia reale, sette paesi**

		2005	2006	2007	2008	2009	2010	2011
Germania	PII	100,0	103,9	107,4	108,3	102,8	106,4	109,7
	Occupazione	65,5	67,2	69,0	70,1	70,3	71,1	72,5
	Disoccupazione	11,2	10,3	8,7	7,5	7,7	7,1	5,9
Francia	PII	100,0	102,7	105,0	104,7	102,0	103,4	105,2
	Occupazione	63,7	63,6	64,3	64,9	64,0	63,8	63,8
	Disoccupazione	8,9	8,8	8,0	7,4	9,1	9,4	9,3
Italia	PII	100,0	102,3	105,9	102,6	97,0	98,7	99,2
	Occupazione	57,6	58,4	58,7	58,8	57,5	56,9	57,0
	Disoccupazione	7,7	6,8	6,1	5,7	7,8	8,4	8,4
Giappone	PII	100,0	101,7	103,9	102,8	97,1	101,4	100,7
	Occupazione	69,4	70,1	70,9	71,1	70,5	70,6	71,2
	Disoccupazione	4,4	4,1	3,8	4,0	5,1	5,1	4,6
Svezia	PII	100,0	104,6	108,1	107,3	102,0	107,9	112,2
	Occupazione	72,3	73,1	74,2	74,3	72,2	72,7	74,1
	Disoccupazione	7,5	7,1	6,2	6,2	8,3	8,4	7,5
Gran Bretagna	PII	100,0	102,6	106,2	105,0	100,4	102,5	103,2
	Occupazione	71,8	71,6	71,5	71,5	69,9	69,5	69,5
	Disoccupazione	4,8	5,4	5,3	5,5	7,6	7,8	8,0
Stati Uniti	PII	100,0	102,7	104,6	104,3	100,6	103,7	105,5
	Occupazione	71,5	72,0	71,8	70,9	67,6	66,7	66,6
	Disoccupazione	5,1	4,6	4,6	5,8	9,3	9,6	9,0

Grecia	PII	100,0	105,5	108,7	108,5	105,0	101,3	94,3
	Occupazione	60,1	61,0	61,4	61,9	61,2	59,6	55,6
	Disoccupazione	9,9	8,9	8,3	7,7	9,5	12,5	16,0
Spagna	PII	100,0	104,1	107,7	108,7	104,6	104,5	105,3
	Occupazione	64,3	65,7	66,6	65,3	60,6	59,4	58,5
	Disoccupazione	9,2	8,5	8,3	11,3	18,0	20,1	20,3
Portogallo	PII	100,0	101,4	103,8	103,8	100,8	102,2	100,6
	Occupazione	67,9	67,9	67,8	68,2	66,3	65,6	64,2
	Disoccupazione	7,7	7,7	8,0	7,6	9,5	10,8	11,7
Irlanda	PII	100,0	105,3	110,8	107,5	100,0	99,5	100,2
	Occupazione	67,5	68,5	69,2	68,1	62,5	60,4	59,6
	Disoccupazione	4,8	4,7	4,7	5,8	12,2	13,9	14,6

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2012; oECD Economic Outlook: Statistics and Projections, in corso di pubblicazione.

The three crises are interconnected, both with their effects and among each other. Despite the hypotheses and the account of responsibilities, what is possible to deduce from concrete is that – after decades of discussion and attempts more or less convincing – we are facing today the same problems of the beginning of 1970s, namely stagnation and unemployment. Plus, inequity, as Gini coefficient shows, has steady grown for more than thirty years by now. At the same time it is clear how the lack of control over capital has brought to this situation. How much capital itself could be blamed is not easy to say. What could be asserted with enough certainty is that politics and polity loss of power over economy is

<sup>9</sup> All the charts are available at [www.oecd.org](http://www.oecd.org)

damaging for the society as a whole. As mentioned at the beginning of this paragraph, Neoliberalism took shape in this outline.

According to many critics, Neoliberalism set step by step in these crises to complete a predetermined plan based on privatization, welfare state demolition and deregulation. However, generalization in this regard contributes only to more confusion. This is why it is important in the first place to understand what Neoliberalism really is, where it comes from and how it developed in different contexts. This focus should shine light on how Neoliberalism is entangled in the crisis of modern capitalism just outlined, either by contextualizing the arguments or by distinguishing the positive and negative aspects of the matter.

## *1.2 A brief intellectual history of Neoliberalism*

Paragraph 1.1 contributed to frame the context where Neoliberalism has rooted so far. Now, the purpose of this paragraph is to provide a brief historical overview on Neoliberalism, with a specific focus on the transatlantic context. The reason behind this research comes from the widespread discussion around interventions connected to Neoliberalism. In particular, with respect to welfare cutting off, privatizations and financial deregulation. Over the last few years, many journalists, critics and scholars have dealt with Neoliberalism. They have both contributed either to the definition of the phenomenon, or to understand when it took shape concretely.

The scholars unanimously recognized as the founding fathers of Neoliberalism are the Austrian philosopher and economist Friedrich A. Von Hayek (Vienna 1899 - Freiburg 1992) and the American economist Milton Friedman (Brooklyn 1912 - San Francisco 2006). Although Hayek is thirteen years older than Friedman, it is possible to consider them of the same time period, as their studies already reached maturity during social and economic changes of the postwar. This is demonstrated by the fact that both Hayek and Friedman were awarded the Nobel Prize in Economics within two-year gap, in 1974 and 1976 respectively. Hayek was a member of Vienna School, which strongly promoted liberal ideas on the European continent. On the other side of the ocean Friedman, together with Stigler, was one of the greatest representative of Chicago School, which was the spokesman for a market-based economy. As a consequence, Hayek and Friedman are considered opponents of the planned economy normally attributed to the British economist John Maynard Keynes.

It is no coincidence that both Hayek and Friedman won the Nobel Prize in the mid 70s. The decade 70's saw in fact the crisis of a economic model accused of being responsible for the worldwide economic stagnation of those years. The barriers and the subsidies promoted by governments after the war seemed to prevent the increasing circulation of goods and capital. As Jones says,

the assumption that there was a relatively simple and manipulable trade-off between inflation and employment, the famous Philips Curve, proved to be a dangerous illusion. Repeated balance-of-payments crises were the most prominent symptom of the so-called “British disease” of industrial decline. In both Britain and the United States, the appearance of stagflation – simultaneous stagnant growth and inflation – meant that governments felt forced to change course (Jones 2012, 2).

Two factors more than any others led policy makers to consider again the *laissez-faire* philosophy, which after the war had lingered in the shade of Keynesianism. In the first place, with the advent of globalization, the free market confined within national borders appeared to be insufficient to achieve a balance between supply and demand. The liberalism fit much more easily the diminishing presence of boundaries, especially the commercial ones. In this way, the so-called embedded liberalism was put to the test. Secondly, the globalization caused the de-industrialization process that took place in Britain and in the US. As a matter of fact, from 1913 to 1984 the percentage of workers employed in the industrial sector decreased consistently, on both sides of the ocean. On the contrary, the services sector saw an exponential increase in this direction, so that in the late '80s in the United States nearly seven people out of ten were employed in the tertiary sector of the economy<sup>10</sup>. This transformation was embraced with great enthusiasm, mainly because it was common belief to be the result of a greater labour market flexibility. As long as the GDP was growing, few were those who called the new direction into question, even though together with prosperity economic inequality<sup>11</sup> was growing as well.

Thus, a new way of understanding economics was searched for, in order to find a more suitable economic development for the times. Some universities and think tanks rephrased part of the liberal theories of the 19<sup>th</sup> century, holding them to be

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10 Data taken from “% of Total Employment”, in B. Supple, “British Economic Decline”, in *British Economic History Since 1700*, ed. R. Floud and D. McCloskey (Cambridge: Cambridge University Press, 1994), chap. 11, 335.

11 The gap between rich and poor in terms of wealth and income differences.

the only possible solution to statism and protectionism. For this reason, governments and supranational institutions such as the World Bank or the International Monetary Fund were so convinced to change their policy route. New reform packages were highly recommended, with the aim of implementing the free market. United States and United Kingdom were the first countries to pioneer this change. In the early 80s was then determined on both sides of the ocean the common way to follow. From the Anglo-American initiative set off the domino effect that led many countries to follow the same path, which quickly spread from Europe to South America. The recipes of this transformation are well explained in the analysis of Cohen and Centeno on the effects of Neoliberalism in the years 1980-2000. In fact,

trade barriers were reduced, controls on capital were loosened, state-owned companies were privatized, regulatory regimes were dismantled, currencies were decontrolled, and taxes were lowered (Cohen e Centeno, 35, 2006).

The goals were to reduce the power of the state for everything concerning private capital, to reduce the influence corporatism and to relieve public sector from the burden of the welfare state. Inflation, after the hike of early 70s, was kept under the strict control of central banks, which undertook to limit it through restrictive monetary policies. The export was seen as a new frontier of wealth and therefore industry needed to be reshaped on this belief. The pricing policy should not be imposed by multilateral agreements among countries any more, but rather by free market rules based on competition. The mainstems were smaller government, free market and open borders. In summary, as Jones writes, Neoliberalism was «waiting in the wings», in order to exploit the weaknesses of the old model and make its way through institutions.

How did such transformation disclose in the transatlantic framework? As anticipated, it was United States together with United Kingdom to tip the balance of a socio-economic model that can be broadly defined as liberal. Continental



Europe remained indeed remarkably sceptical both from national and supranational perspectives. First of all United Kingdom had just joined the then-European Community and British role was still minor<sup>12</sup>. Secondly, the presence of communist parties especially in France and Italy was strong, thus fuelling a protest against the new liberal ideas as far as economics was concerned. The European Community was aware of the presence within the countries of conflicting political ideologies, which would eventually cause the collapse of the Single Market without a plausible compromise. These are the reasons why by that time, experts began to consider the *Sozialmarktwirtschaft* model, which had been discussing for ten years at Austrian and German universities. I will come back to this point in the second chapter. However, it is important to keep in mind that this transition period marked indelibly the social and cultural development of the Old and the New Continent.

Hayek and Friedman drew their inspiration from 19<sup>th</sup> century liberalism and adjusted it to the modern financial capitalism. This explains the revival of the term liberalism in the neoliberal context. What was the real innovation of this movement remains to be understood. Nevertheless, more clear was what this school did not want to be. As mentioned above, Neoliberalism was born in response to a precise model of economic development, historically known as Keynesian. In the book *Liberalism*<sup>13</sup> written in 1973 at the instance of Institute Treccani, Hayek identifies two different liberal trends that developed in Europe in the 19<sup>th</sup> century. It is an explanation that helps to shed light on the ambiguity of the word "Neoliberalism".

On the one side the train of thought that spread on the Continental Europe had anticlerical traits and was close to democratic movements. On the other, the British line displayed from the outset a stronger version of laissez-faire

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12 UK, Denmark and Ireland were part of the first enlargement of the Community in 1973. After the resolution of May '72, the treaty was signed by the Members of the Council on 22<sup>nd</sup> January 1972.

13 The essay was also published in 1973 in *New Studies in Philosophy, Politics, Economics, and the History of Ideas*.

philosophy coming from classical liberalism of Adam Smith. According to Hayek, the two traditions had not only different geographical development, but temporal as well. The Continental liberalism began its decline in Germany with the return of protectionism and welfare state reforms of Otto Von Bismarck (Schönhausen 1815 - Friedrichruh 1898). While the English Liberalism survived the new century until the outbreak of the First World War, and only afterwards it had to give in to the disastrous consequences of the conflict. It was English Liberalism that many years later inspired policy makers on American soil. In fact, at the end of the 19<sup>th</sup> century, United States was still experiencing the internal backlash of the Civil War and was about to enter the new century marked by isolationism and protectionism. The articulation of liberalism in these two tendencies is relevant to explain the substantial dichotomy between European and US market-based economic system. It was because of this detachment that we are facing today on the two sides of the ocean two models, structurally and historically different. It is interesting to notice that also linguistically was necessary a distinction, which emphasizes the traits of the two perspectives discussed above. On the Continental Europe there was a disagreement between political and economic liberalism. In Italy, for instance, Benedetto Croce talked about *liberalismo* and *liberismo*, in order to distinguish the two lines of thought. In political terms, the word *liberalismo* refers to a government able to guarantee the individual freedom to make choices of ethical nature, whereas *liberismo* means the need to ensure the same freedom as far as the economic sphere is concerned. In particular, the discussion involved issues such as private property, free market, taxation or tax revenue. In the following years, this could have been the reason that drove the European Community to consider alternative solutions that could bring together both the understandings. As the second chapter will show, the *Soziale Marktwirtschaft* was committed to guarantee either the stability of welfare state or free market rules. However, according to Hayek, a strong supporter of the English tradition, this distinction did not make any sense. As a matter of fact, the English word “liberalism” (or Neoliberalism

afterwards) contains both the ideas behind *liberalismo* and *liberismo*<sup>14</sup>. In this regards, the economist claims that

per la tradizione inglese, i due liberalismi sono inseparabili. Infatti, il principio fondamentale per cui l'intervento coercitivo dall'autorità statale deve limitarsi a imporre il rispetto delle norme generali di mera condotta priva il governo del potere di dirigere e controllare le attività economiche degli individui. Se così non fosse, il conferimento di tali facoltà darebbe al governo un potere sostanzialmente arbitrario e discrezionale, che si risolverebbe in una limitazione della libertà di scelta degli obiettivi individuali che tutti i liberali vogliono garantire. Le libertà nella legge implica la libertà economica, mentre il controllo economica rende possibile – in quanto controllo dei mezzi necessari alla realizzazione di tutti i fini – la restrizione di tutte le libertà (Hayek 1973, 25).

Before considering the application of Neoliberalism in the political spectrum, the prefix “neo” still needs to be defined. Despite the exasperation of the 19<sup>th</sup>-century liberal thought actually represents a novelty, it is not sufficient condition to outline a new way of thinking. What sets Neoliberalism apart from classical liberalism is the detachment from the natural order involved in the logic of the free-market economy of Adam Smith. Free market is no longer a direct consequence of a natural process, but rather the result of a precise reforms ploy fully operated by human beings. It is no longer the natural course of its laws that rules the functioning of trade among individuals, but a well-framed set of regulations. At the base of such change lays the renewed relationship between free trade and the role of the individual. The American dream and the famous pursuit of happiness are seen as extremely individualistic paths, as men are driven by nothing more than self-interest. The artificial core of the new form of liberalism requires grounded legal and administrative bases. This is one of the many contradictions of applied Neoliberalism, which needs not nearly a small government in order to

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14 Afterwards it will be demonstrated how, especially in the United States, these two concepts were improperly divided according to political contexts. This division, as I explain, was not covered neither by Hayek nor Friedman.

operate. As stated by Brown,

part of what makes Neoliberalism “neo” is that it depicts free market, free trade, and entrepreneurial rationality as achieved and normative, as promulgated through law and through social and economic policy – not simply as occurring by dint of nature (Brown 2006, 694).

A brief historical account is essential and explanatory in this regard. It is widely accepted that Neoconservatism, admittedly close to economic liberalism, was the main promoter of Neoliberalism. The neoconservative movement was born in the United States during the seventies, when some supporters of the Democratic Party combined economic liberalism with a conservative ethics and military interventionism. The development of this phenomenon, which could by now be summarily identify with the American Republican Party, will not be here discussed. However, it is crucial to determine when Neoconservatism revealed itself politically on the international scene. As Harvey points out at the beginning of his book *A brief history of Neoliberalism*, it was between 1978 and 1980 that Neoliberalism disclosed a new economic vision essentially through four main protagonists.

By the late seventies, Neoliberalism received across-the-board approval, independently from the political party. In 1978 Teng Hsiaping, eminent leader of the Communist Party of China under Mao Tse-Tung, began the reforms process that led to the well-known “socialism with Chinese characteristics”. It was a real liberal revolution in the economic field, which legitimized the reconciliation with the United States already begun several years before on a trade-relation agreement. China started to grow enormously for the next two decades, at rates never occurred in history. A great debate today is whether such grow is in compliance with the ambiguous internal social structure of China. On the American side Paul Volcker, now chairman of the Economic Recovery Advisory Board<sup>15</sup>, was elected Chairman of the Federal Reserve under Carter Presidency in

<sup>15</sup> The Economic Recovery Advisory Board is an advisory committee consisting of non-

1979. Volcker was chairman of US central bank for nearly a decade and started off monetary interventions aimed at the strict control of inflation. In Europe, Margaret Thatcher was elected Prime Minister of the United Kingdom in May 1979, a position she held until 1990. As leader of the Conservative Party for 15 year, she became famous for adopting liberal reforms including a fierce fight against trade unions and privatization of large state-owned enterprises. Finally, in 1980, the new President of the United States, Ronald Reagan, achieved a crushing victory against the Democratic opponent, bringing for the first time Neoconservatism to the White House. Reagan, who was a great admirer of Friedman, spilled over a economic plan of deregulation based on the supply-side theory<sup>16</sup>, popularized by liberal economists. According to all the critics, this is the political framework by way of Neoliberalism spread throughout the world the theories of Friedman and Hayek. Referring to these historical facts, Harvey declares that they were the heart of the neoliberal revolution that changed permanently the world around us ( Harvey, 2005, 10).

A question rises spontaneously from the foregoing considerations. What did conservatives like Reagan and Margaret Thatcher have to do with Friedman and Hayek? I am referring to political conservatism, along the lines of what Benedetto Croce defined liberalism. When ones read that Ronald Reagan was used to walk around during the election campaign with *Capitalism and Freedom*<sup>17</sup> underarm, it is obvious to ask whether he had ever opened it. Who did establish the legitimacy within the same doctrine to discern political and economic liberalism? Who did decide that for Hayek or Friedman the society could be separable from the economic sphere? This is exactly what has been done by Neoconservatism, which

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government economists, entrepreneurs and other experts. It was established by Obama in February 2009 to deal with the crisis. The team is responsible to inform regularly the President of any plans or economic policy to face economic need of the country.

16 The supply-side economics is the economic theory thought in the seventies in opposition to the Keynesian theories of supporting aggregate demand. This theory is based on the Laffer Curve, which identifies a critical point of juncture between taxation and productivity, the overcoming of which discourages the production. Promoters of this theory are in favour of a low level of taxation that can boost investments.

17 *Capitalism and Freedom* is most widely discussed book of Milton Freedman, published in 1962 by Chicago University Press

is something that call into question the linkage between Neoconservatism and liberal ideas of Hayek and Friedman.

What is interesting in this respect are the observations made by Wendy Brown in his article *Nightmare: Neoliberalism, Neoconservatism, and De-Democratization*, published in 2006. He argues that it was the political convergence between Neoliberalism and Neoconservatism to cause the corruption of both. Due to their different origin, it is unnatural to blend together the two schools of thought. Neoliberalism is based on an economic belief amoral by nature, whereas Neoconservatism is grounded on a marked political and religious morality. It is therefore licit to wonder how it was possible that two views in opposition to each other have been merged under the flag of the Republican Party, with a combination that led to the process of de-democratization explained by Brown. The result is well depicted by the scholar. He claims that

the saturation of the state, political culture, and the social with market rationality effectively strips commitments to political democracy from governance concerns and political culture (Brown 2006, 695).

because

indeed, these two rationalities collide all the time in what many have framed as the impossibility of the Republican Party trying to be both the party of Moral Values and the Party of Big Business (Brown 2012, 696).

Nevertheless, the ambiguity of Neoconservatism is not the political creed itself, but rather the artificial medley with Neoliberalism, which retains Friedman and Hayek forefathers of the entire movement. According to Hayek, the rule of law implies economic freedom, while control over economy brings to the restriction of the other liberties. Prohibition, religious precepts and traditional family as *a condition sine qua non* do not fit the concept of freedom. The individual freedom is a consequence of economic freedom and *vice versa*.

Despite their different nature, both Neoliberalism and Neoconservatism could not survive in the political context disconnected from each other. As already mentioned, Neoliberalism was born as a elitist intellectual movement in places such as think tanks, funded by foundations and wealthy entrepreneurs. The problem, then, was to find a means of transmitting these ideas politically, in order to reach a common acceptance. In all respects, Neoconservatism played this role, by adopting, thanks to charismatic men and women, a simple language and a demagogic approach. In the end, Neoliberalism filled the shortage of contents of Neoconservatism, which grasped these contents and used them for its profit. In other words, one owes to the other its success.

Starting from the United States and the United Kingdom, Neoliberalism changed the political thought in the last three decades of the twentieth century. During these years it was reinforced, especially thanks to the firm belief of the market-based economy, regardless political and cultural belonging. Two different models, the European and the American, was shaped on this conviction, opening to a new topic that will be fully discussed in the second chapter.

### *2.1 Neoliberalism in the transatlantic context*

How Neoliberalism did take root in Europe? The critique of Neoliberalism tends to move in a global sense. All the western countries are in fact accused without distinction to foster privatization, monetarism, social inequality and weakening of welfare state. In substance, the set of factors generally associated with Neoliberalism are critically grouped together. "Western" has been voluntarily left in quotes, because the term itself should be partially revised both from historical and geographical perspectives. This is not here a key issue, since it is out of the central theme of this thesis. However, the first fifteen years of the new century have one-sidedly dissolved the boundaries between East and West that the "Short Century" had contributed more than ever to strengthen.

European Union is rarely spared from the accusation of Neoliberalism, which basically means that the European socioeconomic model minimally differs from the American one. Without keeping the promise to create an alternative social order, the Old Continent seems to have become even "incubator" of neoliberal experiments, transforming the process of European integration in a sequence of neoliberal stages (Halimi, 2004, 273). United States and European Union are exposed to go in the same direction, controlled only by free market rules in the name of inequality.

It is not a task of this work to disapprove a liberal structure Europe is also based on. What needs to be done is to focus on three aspects: United States, Europe, Neoliberalism. To avoid confusion, Neoliberalism will always refer essentially to economic interventionism mentioned above. It is widely accepted that United States is the country where Neoliberalism had the chance to fully display itself, from financial deregulation to privatizations. Here comes the comparison with the European Union. The Old Continent is often accused of have been an "incubator"



of Neoliberalism. This statement needs to be examined in depth, especially to understand whether, when and how Europe has undertaken - or attempted to undertake – a different path compared to the US. It is crucial to take into account either the ideal configuration the European Union is grounded on, or the historical and political developments of the integration process. In this framework, the European response to socioeconomic changes since the postwar period plays a crucial role, in particular to see to what extent the EU held out or not against the "neoliberal temptation" Washington - London route disclosed in the 70s. The economic dynamics are meaningful, as from the beginning they represent the soil Europe wanted to base its diversity on. On the other side, political perspectives have always been more straightforward. The United States of Europe continues to be the political goal of the European Federalist Movement, which can be philosophically identified with Neofunctionalism. The European ambition to follow the American federalist structure can be easily proved by the design of a union today many would like to legitimize with the direct election of the President of the European Union.

Considering the historical and the cultural context of the United States and the European Union, the transatlantic comparison could lead to misunderstandings. There are in fact preliminary and obvious reasons that require special attention whenever the relation between the New and the Old Continent is taken into consideration. The structural differences of the institutions of the two countries developed advise against a simplistic approach to the problems that both arise in diverse ways. As a matter of fact, whenever the transatlantic relationship is considered, multiple levels of analysis are required. Only in this way it is possible to achieve a process that aims to integrate rather than exclude, as mentioned by the Italian economist and journalist Federico Rampini in his essay entitled *Non ci possiamo permettere uno Stato Sociale: falso*.

The research should not focus on who is more akin to the other. In recent years self-accusations have been constantly cast, on both sides of the ocean. Prominent American politicians accused the United States of imitating the European countries, burdening the American citizens with public debt and excessive welfare

state. From the Old Continent set off the same criticism, charging the European Central Bank with monetarism and deregulation along the lines of the American tradition. Why do not both admit alternatively their differences and discuss them with awareness of the facts? Why do not accept that two different socioeconomic models could be developed within a profitable relationship? On the one hand, the setting up of a federal Europe that reflects the United States is plausible, but on the other exclusive features should be promoted, as has often been done in the European integration process. These features should not ignore the social and economic context they belong to, which means in the first place to respect the fragmentation of the European continent. Without these preconditions, it will be difficult to proceed with grounded non-EU relations, like the essential one with the United States.

Yet, the bias perspective of some of the accusations are not negligible, especially if their source is taken into account. If we consider for example the case of Serge Halimi and his book *Le Grand Bond en Arrière*, he is fully representative of its country, namely France. With the exception of Holland presidency<sup>18</sup> and the first ten years of European integration<sup>19</sup>, France has always had remarkably intergovernmental claims, in order to subordinate Brussels institutions to national ones. Europe has often taken on within French borders a negative impression, labelled as a supranational entity that threatens the identity of France. Shining examples were the Empty Chair Crisis of the 60s or the non-ratification in 2005 of the project for the European Constitution. In this respects, Halimi quotes the leading personalities closest to these ideals, first among everyone Charles De

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18 François Holland was the secretary of the French Socialist Party. He defeated Sarkozy in the presidential elections of May 2012, becoming the 24th President of French Republic. He stood out for having supported together with the then Italian Prime Minister Mario Monti, the European integration process in the midst of economic crisis. With the new Italian President Enrico Letta, he still struggles in favor of growth policies connected to the serious problem of youth unemployment in Europe.

19 The period of time from the Treaties of Rome to the Empty Chair Crisis, which opened in '65 and ended in '66 with the Luxembourg Compromise, is commonly defined by historians as the Golden Age. Since the creation of the European institutions, these years saw the best achievements under the neofederalist influence. In this regard, see the texts of Antonio Varsori and Sergio Pistone, two of the greatest Italian scholars as far as the history of European integration is concerned.

Gaule:

il futuro liberale non sarebbe stato radioso, anzi. Dieci anni dopo la firma del Trattato di Roma, che sfocia nella Comunità Economica Europea (diventata Unione Europea nel novembre 1993), l'avvenire annunciato dal primo del generale De Gaulle veste i panni di una preoccupazione costante (Halimi 2004, 249).

It is relevant to refer to De Gaulle and his *entourage* as regards both Europe and intercontinental relations with United States. The General and President of the French Republic displayed on several occasions not only anti-European, but also anti-American attitudes. Therefore, for the sake intellectual honesty, such pronounced positions should play a secondary role and not stay at the heart of the discussion.

In which way Europe has been accused of Neoliberalism? According the the critics, one of the fault of European Union is to have been founded on the logic of the free market. Thanks to a small group of neoliberal economists, Europe started off the revision of the concept of national state and scarified it to the institutions in Brussels.

This statement is in part true and allows to frame the origin of the European layout in the transatlantic context from the postwar period. If both Europe and United States decided to hark back to a liberal order, it is important to understand where such inspiration originated and to what extent. In Europe, since the Treaties of Rome, the free market has been considered the cornerstone which economic union should be founded on. In response to the annihilation of economic and political freedom caused by totalitarianism during the wars, the word "free" was intended in that context as an evocation of rebirth. It is not indeed a secret that the economic policies of Adenauer recalled the liberal economic school of Freiburg. Germany had been destroyed, Europe divided between left and right-wing and the free market was therefore seen as an alternative way to natural disasters of the previous decades (Jones, 2012, 122).

The identification of Neoliberalism with the free market is the first object of the discussion. The free market is in fact only part of Neoliberalism and this fact could be rhetorically define as synecdoche. Moreover, the functioning of the free market widely depends on the political and economic context where it is applied. A statement such as "Europe and United States are neoliberal countries since they are both based on a free-market economy" is inconsistent and incomplete. It is clear that Neoliberalism could not exist without the free market, but yet this connection does not imply, for instance, the fainting of the welfare state. Sweden represents today a real proof. The Scandinavian country has topped the rankings of competitiveness, flexibility and social protection at the same time. Sweden is, like the other 27 EU countries, subject to the monetary policies of the European Central Bank. On the contrary, the United States leads the first two charts but not the third one. In this sense, could Sweden be called neoliberal? A question that would be worth answering.

One possible answer may be found by investigating the origin of Neoliberalism in Europe. The issue involves elements not easy to define. During the 50s, as United States, also Europe and particularly Germany lead by Adenauer, looked with great admiration to economic liberalism. From this school came in fact the social market economy. The assimilation of social market economy into German culture is very relevant, since later on Germany was taken as a model for the entire European macroeconomic structure. However, since the ideas related to the free market were the same of the Chicago School of Friedman, German economists sought to find a complementarity with social justice. The idea was to ensure through the intervention of the state all the rules necessary to guarantee both the free market and social equity. This is the crucial difference with Friedman's liberal mindset, which United States was inspired by to reform the socioeconomic system . The idea that the state should be the guarantor of welfare state is wrong for Friedman. This role belongs to the free market, which is a sufficient condition to guarantee equal opportunities to individuals. According to the economist, free market is the supreme necessary to balance the society, thanks to which

individuals are protected from external injustices. The stance taken by scholars like Müller-Armack, according to whom the state is directly involved in the citizens' lives, was not acceptable for the Chicago school. As stated by Jones while talking about Freiburg school, «this emphasis on the need for a social safety net was something that second Chicago School<sup>20</sup> left behind after 1950» ( Jones , 2012, 122). For historical and cultural reasons, Europe could not ultimately be ideally based on an economic model that ignored social problems.

It is clear that the tools used by the state to protect this socioeconomic order belonged to laissez-faire philosophy, namely competition, antitrust, currency stability and battling inflation. This is why many scholars of Freiburg School did not refuse to attend milieu like the Mont Pelerin Society. In particular, their position was more moderate as regarded laissez-faire and inclusive of some fundamental issues related to social equity. At this point the distinction between the United States and Europe is understandable. First of all, both the countries in a sense developed a neoliberal order. Secondly, however, American Neoliberalism, aims at the promotion of the boundless free market together with the belief that welfare state is a overburden. European Neoliberalism, which could be more precisely defined Neo-liberalism, on the one hand harks back to a liberal economic model, but on the other adapts this model to its historical and cultural background. The problem emerges clearly from the analysis of Jones, when he explains that

in contrast to Germany and other parts of Europe, the different historical, cultural and geographic traits of the United States, especially its deep-rooted cultural obsession with the rugged individualism of the frontier, also played their part in generating these different emphases and made the country fertile ground for a more radicalized version of neoliberal political theory (Jones 2012, 125).

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<sup>20</sup> Jones identifies two generations of the Chicago school. The first ilead by Henry Simons, who had liberal views very close to Freiburg school. The second generation was lead by Friedman, who as we have seen Europe in part diverged from.

This distinction is crucial, especially in light of the theory of the ideas power of Keynes. The philosophical and economic thought behind the functioning of institutions does not play a generic and abstract role. It is one-sidedly true that European Union has often tried to move away from its roots to get closer to United States. This attempt, however, has been most of the time a failure and the crisis of 2008 is the clear proof. The point is not to determine which is the guilty party, but rather to understand and consciously admit that the social and cultural ground of a geographical context cannot be neither exported nor de-naturalized. Another fundamental issue in this regard is the concept of the nation state, at the base of the whole process of European integration. The new understanding of the state and its overcoming represents the pillar of the entire institutional structure ensued from. It is the rich soil European and American democracy developed from, in order to grow steady with the distinctive features that make them unique. There are several authors that are commonly referred to as the founding fathers of what we know today as the European Union. In Italy, for instance, there are two relevant authors well-known for the nobility of their thought, who in their masterpieces dealt with the topic of nation state within the European community. They are *Il Manifesto di Ventotene* and *Gli Stati Uniti d'Europa*, the first written in '41 by Altiero Spinelli<sup>21</sup> and Ernesto Rossi<sup>22</sup>, while the second written by Rossi in '44 under the pseudonym Storeno. As Sergio Pistone says in his introductory essay to *Il Manifesto*,

se la Dichiarazione di Schuman del 9 maggio del 1950 costituisce il documento fondatore del processo di unificazione europea sviluppatosi sulla base delle Comunità europee, il Manifesto di Ventotene, scritto nel luglio del 1941, costituisce il documento fondatore della lotta dei movimenti per l'unificazione federale europea (Pistone 2001, IX).

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21 Altiero Spinelli (Rome, 31<sup>st</sup> August 1907 - Rome, 23<sup>rd</sup> May 1986) was a Italian politician commonly considered on of the fathers of the European Union. He was also the founder, in 1943, of the European Federalist Movement.

22 Ernesto Rossi was a Italian politician who played a central role in the fight against fascism. He was, together with Spinelli, one of the fathers of the European Federalist Movement. The book *Gli Stati Uniti d'Europa* is the European Union's founding manifesto read all over the world.

According to Spinelli and Rossi, the nation state indirectly caused the global conflicts that have worn out Europe in the first half of 20<sup>th</sup> century. The nation state provokes also the tendency of the European people to confine themselves within the boundaries that have alternately brought Europe to wars. It is therefore necessary not to forget that what the Old Continent is experiencing today represents the first real period of peace that history has ever known. This condition of uniqueness must be neither taken for granted nor considered a natural consequence of events. Peace in Europe was created and persistently wanted by men, not having before compromised for centuries the land with blood. As Spinelli says, thought and action have been the two driving forces. At the beginning of the European integration process, the war was in fact the first enemy to defeat. Wars were within the continent endemic and that is why a ultimate way out was fundamental. As Pistone claims,

poiché viviamo in un'epoca storica in cui le guerre sono diventate endemiche, ed è quindi diventato inderogabile il passaggio dal regno della forza al regno del diritto anche nei rapporti internazionali, siamo di fronte ad un'alternativa drastica: unità imperiale o unità federale. Entrambe le forme di organizzazione possono eliminare la guerra su tutto il territorio in cui si estendono (Pistone 2004, XIII).

Europe strove to go in this precise direction. After the terrible experiences of totalitarian regimes, it is clear that while the totalitarian solution stifles democracy and progress, federal unity allows people to live in peace without sacrificing the independent development of their individuality (Pistone, 2004, XIII).

Thus, federalism became the only possible solution to ensure peace, social and industrial development on the continent. As also Kant wrote<sup>23</sup>, the origin of war corresponds with international anarchy, devoid of rules and rights. Wars are not started by ruthless warlords or heartless capitalists, but by the absence of a

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23 The reference is to *Zum ewigen Frieden*, published by Kant in 1795.

supranational order that guarantees compliance with a set of laws. Therefore, it had to be created on the European continent a Union that contains the same principles applicable within the national state, because

in ciascuno stato l'ordinamento giuridico provvede appunto gli argini che frenano e contengono le forze distruttrici pericolose per la vita collettiva. Le forze distruttrici prevalgono nel campo internazionale solo perché in esso mancano analoghi argini giuridici (Rossi 1944, 10).

Spinelli and Rossi went beyond the Kantian international order, moving towards a federal union they strongly hoped for. First of all, peace was seen as a primary condition for the achievement of federalism, not then as the ultimate goal. In fact, peace had been often sought through war and this was wrong. Peace became by then an essential part of the edifying process, which nothing could be built without. From such perspective came the combination of economic and social development. As the Italian philosopher Norberto Bobbio asserted in a essay published in 1973,

la pace non viene considerata in seno al movimento federalista sin dai suoi inizi come il fine ultimo ma come presupposto, la *conditio sine qua non*, per la realizzazione di altri fini considerati come preminenti, quali la libertà, la giustizia sociale, lo sviluppo economico e via discorrendo (Bobbio 1973, XXXV).

Here it is possible to find one of the basic and unique features of the European Union. If the history of the United States is taken into account, in fact, the integration process was rather different. The US was formed first through a war of independence and then through a war of secession. In particular with the second, Lincoln wanted to preserve something that had already been experienced for nearly a century, that is to say the Union. Peace had not been by then a desultory phenomenon, which was most of the time set apart, as in Europe, for bloody wars that always brought back people to backwardness. Since the first colonies, American



people had demonstrated a certain unity, undertaking more external wars than internal. Yet, despite the diverse European roots, in the early immigrants of the New Continent arose a sense of identity that set the ground for a strong civil society. What originated this process is not easy to say. Many scholars of European integration are now investigating this phenomenon to seek possible solutions to the weak sense of belonging in Europe, which is at base of the debate on the democratic deficit. Perhaps what was missing in the creation of the United States – with positive consequences – was the ideology of the nation, which on the contrary has always been rooted in the European continent. As stated by Norberto Bobbio, this ideology must be distinguished from the concept of absolute sovereignty. This is in fact independent from the nation state. In particular, in the United States seemed to have failed the function of the nation, which, by acting as a catalyst, has led to the creation of states. State and nation are two closely related concepts and their merging led to the fascist states of 20<sup>th</sup> century. European fragmentation has provided a fertile ground for the creation of the state power, which has focused on the nation as a cultural entity to trigger nationalist policies ( Bobbio , 1973, XXX). Since 19<sup>th</sup> century in fact, the concept of “nation” has been the focus of great political and philosophical debates. In the United States, the cultural element at the base of the European diversity has been much lower or at least put aside, because of the need to create *ex nihilo* a new nation with its own culture. Among others, it is often underestimated the linguistic element, which has always implied historical identities. Although it may present different tradition, however, a common language leads to a common line particularly relevant. These are the essential features needed to be taken into consideration whenever one considers the transatlantic development. This variance has been leaving back traces for years, which plays a crucial role in the social, political and economic structure of the two countries.

In order to start the integration process immediately after the Second World War, Europe had to face ideas deeply rooted in the continent. This meant on the one hand to recognize the presence of states that could in no way be excluded. On the

other hand it was necessary to establish an interdependence among the states, which could force them to cooperate and prevent other conflicts. Federalism was the answer to this dilemma. The principles of “state” and “nationality” had to be separated, because this was the only way to change them and overcome them. As Bobbio wrote, it was dual challenge, namely

da un lato lo statalismo, ovvero la pretesa dello Stato, qual è venuto crescendo negli ultimi secoli, a non riconoscere limiti al proprio potere nei confronti degli altri Stati, dall'altro il nazionalismo, ovvero la pretesa della nazione di essere considerata come l'unico principio motore dello Stato (Bobbio 1973, XXXI).

In this sense, Europe had to take a step forward compares to the United States. The US had to overcome the notion of absolute sovereignty to join democratically in a federal state. The spontaneous cultural differences came together and proved to be sufficient condition for the formation of the United States of America. In Europe, on the other way, it was no less then essential the overcoming of the principle of nation, a basic step at the origin of the entire European integration process (Bobbio, 1973, XXI). These dynamics spilled over the inner working of the European development, which is something that brings the discussion to the discontinuity between continental and Anglo-American liberalism. As already mentioned, the peace was a prerequisite for European integration. But what did peace really mean to Europe? It was not an end to itself, but rather the starting point for all the other issues, namely freedom, economic development, social justice. The first element, i.e. the fundamental defence of freedom, originated from the overcoming of any forms of violent coercion by an exogenous or endogenous power. In other words, anything that could prevent the emergence of a democratic government. The second point, well discussed by Ernesto Rossi in the chapter of *Gli Stati Uniti d'Europa* entitled "La distruzione della nostra civiltà", consists of a reflection on the material consequences of the war in Europe. The Italian politician, after

having explained the endemic danger of the war, focuses on the economic consequences of the so-called “armed peace”. The war, thanks to a new international decentralized scenario, was literally eradicated from the perspectives of European people. The danger of war, both internal and external, threatens and poisons peaceful time, causing serious imbalances in the society. According to Rossi, the worst consequence is what he called economic liability, due to which

le ferrovie, le autostrade, i porti, invece di essere costruiti per rispondere alle necessità dei traffici, vengono costruiti in funzione delle necessità militari. Si danno sussidi di centinaia di milioni ogni anno agli arsenali e alle compagnie di navigazione per avere la marina mercantile necessaria ai rifornimenti in caso di guerra (Rossi 1944, 7).

This fact explains in part the reluctance of Europe in any kind of military intervention. Beyond the inability of the European Union to organize a common army<sup>24</sup> and a concrete foreign policy, European states have military investments among the lowest in the world. An example is Germany and Italy spending just 1% of their GDP on armaments and military infrastructure. This trend has always been negatively assessed by the United States, which continues, even though less than before, to employ contingent economic affords in the military sector. The third attribute mentioned, namely social justice, can be defined as a structural consequence of the other two. Democracy, as a legitimization of freedom of expression and protection of minority groups, must edify on a system of social justice. The society has to deal progressively with individuals, guaranteeing everyone the opportunity to pursue their own desires. Social justice is finally the answer to the atrocities of World Wars. The war, which itself represents the paradigmatic symbol of injustice and burden the weakest with sufferings and

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<sup>24</sup> The first attempt in this direction was the European Defence Community (EDC), born from the collaboration between France and Italy, at that time under the presidency Alcide De Gasperi. The project involved a military collaboration between the states belonging to the European project. The EDC failed due to an afterthought of France, which was indispensable to the negotiations.

atrocities, had to be replaced by its antithesis, namely justice. The adjective "social" refers to the society as a whole, which, after having been crumbled twice in little more than thirty years, it could not by then be forgotten.

The key concepts of liberal socialism of Carlo Rosselli are here evoked once again<sup>25</sup>, all the more that federalist movement was deeply influenced from Rosselli himself. The same pattern of the economic thought - mentioned at the beginning of the chapter – reached out the political sphere in the same way. The idea was to constructively combine the liberal American democracy with the social needs that took form all over the European continent after the Second World War. It was primarily put forward an economic model that would have allowed large-scale restructuring of the entire production system. Secondary, solidarity was guaranteed by the state itself towards the lower classes. For the first time fair competition and social policies were supposed to coexist in the same system, making feasible a positive capitalism that could exclude inequalities. Going back to the essay by Sergio Pistone, it was also believed,

che per far prevalere in modo duraturo l'interesse generale in alternativa allo scatenarsi dei conflitti fra gli interessi corporativi (definiti "sezionali" nella terminologia di allora), e per allontanare quindi la tendenza da parte di vaste masse a cercare una apparente stabilità nel totalitarismo, la via maestra consiste nell'integrare un più avanzato regime liberaldemocratico (soprattutto per quanto concerne la partecipazione popolare e le autonomie locali) con un regime di economia mista. Questo implica l'attribuzione allo Stato e ad altri enti pubblici delle funzioni economiche necessarie alla creazione di una *equality of opportunities* per tutti, lasciando per il resto operare, e promuovendo anzi il loro sviluppo, la libera concorrenza e lo spirito di iniziativa individuale (Pistone 2007, XIII).

From these social, economic and political believes took shape the European design. It is no coincidence that all European countries, except of course the UK,

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<sup>25</sup> Carlo Rosselli was a well-known anti-fascist Italian, pioneer of liberal socialism. He fled to France under the Fascist regime and was assassinated in 1937 by a group of militants of the French right party, probably on behalf of the secret services Italian fascists.

presenting a massive welfare state, albeit in different quantitative and qualitative forms. The states, which are the framework of the European Union, have been built on this line of thought. It is unrealistic to talk about the European Union only from macro-perspectives, without considering the single countries as anchors of the whole system. Nor it is possible to compare Europe and United States from just one standpoint. Unlike Europe, which inherited a liberal socialism, United States is more representative of social liberalism. This explanation is normally used to define progressive parties in countries, like the US, where coexist two parties both remarkably liberal. Unlike the European social democracy, American social liberalism advocates a vision of society more individualistic, in which rights and citizens' liberties hold the central role. State interventions such as nationalizations are therefore unwanted, although less severely criticized by the Democrats than by the Conservative Party. In economic fields, liberal socialism and social liberalism often converge, especially as far as free market is concerned. This concept has been accepted by both of them as the backbone of innovative economic system as such. The key difference is that, for liberal socialism, free market should be controlled and regulated by the state in order to ensure social justice.

The dividing line between social liberalism and liberal socialism caused the confusion that brought the mixing up of two traditions not easy to compare. Because of the drift of some remarkable liberal presidencies, social liberalism of the American Democratic Party encouraged liberal economic reforms widely shared by both political sides. One good example is the repeal of the law on banking regulation of 1933, better known as Glass-Steagall Act<sup>26</sup>. It gave birth to the financial deregulation, considered by many critics the main cause of the current crisis. Politically, it was a turning point that had strong repercussions in Europe, notably because of the influence of the United Kingdom. For the first time, in fact, the parties of liberal democratic tradition opened up to some parts of

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<sup>26</sup> The Glass-Steagall Act was a 1933 law designed to fight against speculation in response to the crisis of 1929. In addition to setting up a company dealing with Banking Supervision, the Federal Deposit Insurance Corporation, this Act separated banking and financial tasks.

the neoconservative economic project, fostered by Ronald Reagan and Margaret Thatcher. Bill Clinton, George Bush, Tony Blair, Margaret Thatcher all shared a common line with regard to financial markets and their regulatory mechanisms. Neoliberalism originated from this community of the interests, which were the result in turn of theoretical speculation.

The consequences of deregulation will be not here taken into consideration, as the 2008 credit crunch together with the “subprime dump” already showed its harmful effect. What is important to underline is the peculiar functioning of the European system, especially as regards some recent adversary statements. In most of the countries of the European Union, because of historical and political reasons, there is a specific social structure that is unlikely to be uprooted. The fact is that the originating matrix influenced by liberal socialism led to the creation of a state bare bones bound to provide certain services to citizens. There are structural elements such as public health, public education or trade unions, which are and will continue to be guarantees for the people. Although privatizations have been sporadically implemented, such as Health Reform in Germany, the state must still provide support and coverage to all citizens without any exception. This is of course the ideological belief at the base of politics. Today, in the midst of a depression that is mowing entire segments of society, especially in the countries of southern Europe, such belief seems anachronistic. Yet, it is essential to keep in mind the choices made in the past, which brought in Europe a precise idea of society. Today, in times of severe crisis, countries like Greece are facing partial decay of this system, which has said to be unsustainable. The importance of having clear ideals foundation, however, will be a necessary condition for periods, hopefully in early future, of economic and social restructuring. It is then that Europe must not forget its past to build its future.

These are the reasons why, it is sometimes rash to accuse Europe of Neoliberalism in the same, negative way United States normally is. If neoliberalism is an anomaly due to the departure of social liberalism from its roots, European Union can be linked to this process with a misgiving. First of all, because federalism

Europe aims to originate from a different cultural movement, namely liberal socialism. Secondly, by observing the reality of European countries, the so-called "neoliberal actions" such as privatization and dismantling of the welfare state have within Europe different features than the United States. There are cases that even prove that Europe moves, where and when possible, in the opposite direction, as is the case of the cancellation of tuition fees in Bavaria – the last Land to have them – from 2014.

Having determined which is the Europe's conceptual background, still far from being completed, it is now possible to come to a first end. Anyone who put into question the notion of national sovereignty<sup>27</sup> revolutionized by the EU founding fathers, necessarily misunderstands at the same time the very core of the European Union. The awareness realization of a peculiar idea of the polity contains, as showed, the guide line that indicates the path the Community needs to follow both economically and politically. Behind this reasoning stands the concepts of peace, freedom, democracy and social justice of the Treaty of the European Union. Here follows the first part of the Preamble:

RESOLVED to mark a new stage in the process of European integration undertaken with the establishment of the European Communities, RECALLING the historic importance of the ending of the division of the European continent and the need to create firm bases for the construction of the future Europe, CONFIRMING their attachment to the principles of liberty, democracy and respect for human rights and fundamental freedoms and of the rule of law (TEU, 1).

The threat of ultra-capitalism, by many conferred to the European context, seems in this sense far away. The stretching with which the European Union is compared to the United States in neoliberal terms is often misguided and sometimes unrealistic. On the one hand it is understandable that the economic interventions

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<sup>27</sup> The Treaty of the European Union, or Maastricht Treaty, entered into force in 1993. Together with the Treaty that established the European Economic Community in 1958, the Treaty is the legal basis of the European Union.

normally associated with Neoliberalism have found rich soil in the United States. Avoiding negative criticism, it is evident that the American social model encourages, because of its flexibility, privatizations or deregulations. The risk of this model is to carry a precise complaint addressed to a liberalism that appears at times excessive. This is why a specific criticism has been pictured as contrived. In Europe, it is unlikely that such Liberalism will take form in the same way as it did in the States. As already mentioned at the beginning of the chapter, the American and European system are on the one hand both capitalist, but on the other socially and economically diverse. As demonstrated they have different origins, different paths, and therefore lead to different goals.



## 2.2 Europe and United States: synonyms and contraries

Europe manages to find its own identity whenever EU avoids to imitate other models that do not take into consideration social and cultural aspects of the Old Continent. If European Union is seen by many critics as a victim of Neoliberalism, the Grand Old Party came forward with accusation of completely different nature. Federico Rampini, the Italian correspondent in the US for *La Repubblica*, closely followed the campaign of the Republican candidate Mitt Romney. He argues that

noi europei siamo stati nel mirino della destra americana durante tutta la campagna elettorale [...]. Vista dagli Stati Uniti, la nostra Europa è economicamente defunta. E con lei affonda per sempre una certa idea di solidarietà, dei diritti di cittadinanza: il “modello sociale europeo” (Rampini 2012, 1).

Rampini talks about some of the structural features of the two countries, especially the ones able to directly affect citizens' lives. Savings plays for instance a crucial role that helps to understand cultural and social differences between Europe and the United States. Whenever European societies are taken into account, a generic approach is barely unavoidable, as in the EU there are significant differences in terms of income average and GDP per capita. However, savings for a European family tends to be accumulated for the next generation, who has the responsibility to hand it down in turn. What allows the conveyance of capital is a pension system that guarantees most of the time a subsidy sufficient to fully support needs after the end of the working activity. When such assurance falters, as Italy has been now experiencing for years because of the recession, it can produce serious consequences. Unfortunately, this phenomenon did not happen only in Italy. Greece is facing in recent months the erosion of the health care system, with dire side effects on the poorest segments of society. The regression caused by the crisis gave way to a mechanism in which the European

Union has found itself unprepared, in particular with respect to the influential role of the International Monetary Fund.

US public spending provides much less expansive state intervention concerning public welfare, i.e. the pension system. The Social Security ensures in fact only 40% of the income hoard in life. Consequently, in order to retire with a adequate annuity a person needs to spare along the whole life 15% of his or her income (Rampini, 2012, 11). Many Americans rely on private pension funds, which, however, especially in times of crisis, are not easy to keep. It is estimated that

la famiglia media americana, con un capofamiglia tra i 60 e i 62 anni di età, oggi sul suo fondo pensione ha a malapena il 25% di quanto occorre per mantenere lo stesso tenore di vita dopo la fine del lavoro (Rampini 2012, 10).

An American family living in New York was interviewed in March 2013, demonstrating the hypothesis of Rampini. This family unit, with middle-incomes and three children, has a precise twenty-year plan of saving, precisely since the birth of their first child. A percentage of it goes to a college fund, another part both to a private pension fund and to a security fund in case one of the parents remain temporarily without a job. The father has changed five jobs in ten years and the mother knows that the investment bank she is working for is not reconfirming her once she will be forty-five. The workplace flexibility entails that, as Rampini says, any employee in the United States is dismissible at sight ( Grappling , 2012, 17). If we consider for example the Italian case, a very high percentage of people born within twenty years after the war have not changed job more than once during the entire working life. The interesting aspect is that what might be detected from a European perspective as excessive insecurity, from an American point of view such phenomenon is absolutely normal. This kind of social structure is perfectly rooted in their lives and that is why they do not find unexpected neither the necessity to change job several times nor to work longer than expected. The interviewed family has always voted the Democratic Party.

Nevertheless, both the parents remains sceptical about the health care system reform Obama is pursuing, in their view too “European”. Wall Street reform<sup>28</sup>, Obamacare<sup>29</sup> or less aggressive foreign policy do not seem to arouse much enthusiasm even among Democratic electors. These factors are not taken for granted and they reflect in citizens’ daily lives the aspects discussed so far. They highlight in concrete the incongruity between two socioeconomic models with different origins, underlining both the difficulty of a unilateral comparison and ultimately, as a result, the importance to consciously accept this diversity.

The risk of a simplistic approach to the European Union is something not easy to avoid. From American perspectives in fact, it is unnatural to deal with a union of countries without considering it as a whole. Realistically, this is exactly the case of the EU. Europe, for its unique cultural background, presents a social structure far more heterogeneous than the United States. On the one hand, it is true that within all the European countries common line is traceable on the big issues such as education or health. On the other hand however, especially as regards single economic systems, surveys should be always carried on case by case. It is vague to come to conclusions that define the entire European Union neoliberal, just because of the monetarist strategies of the European Central Bank. It would be more useful to understand the historical reasons why it has been decided at a supranational level for a specific economic model that has as primary goal to keep inflation under control. Before stating certain allegations, it is important to evaluate the solutions adopted in the past by countries such as Italy, in response to previous economic crises. The devaluation and inflation of the 70s and 90s did not

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28 The Dodd-Frank Wall Street Reform and Consumer Protection Act is a federal law signed by Barack Obama in July 2010. It was an act of the President in response to financial indiscipline banks and US Agencies, responsible for having kicked off the 2008 crisis. It contains a series of measures designed to regulate the operation of the entire range of financial services on US soil.

29 The Patient Protection and Affordable Care Act (PPACA), known as Obamacare, is a law enforced by Obama administration in May 2010. It is a real revolution in US health care system. It aims to provide a affordable health coverage for the entire population. Minimum standards of coverage and state subsidies will be introduced by the government with potential tax rising for the maintenance of the system.

bring any long-term benefits, but on the contrary these measures have uploaded today's generations of a debt that keeps in check the economy. European Central Bank<sup>30</sup> has been established in response to certain harmful policies, in order to ensure monetary protection against the mistakes of the past. An opinion that can be shared is that the economic and political union are often confuse and uncompleted, but some historical evidences can not be ignored. What Rampini asserts in this regard is rather interesting, as

questo pianeta “rivisto e corretto” dagli Stati Uniti ha il valore di una provocazione, non va preso alla lettera né deve essere vissuto come un destino ineluttabile. Soprattutto per la parte che riguarda l'Europa, e ci tocca da vicino, sentiamo che gli americani ricorrono talvolta a semplificazioni brutali. Può servirci però come un richiamo e uno stimolo. La storia non è una gabbia. Il mondo è pieno di nazioni che hanno saputo “svoltare”, hanno reagito a un decennio perfino secoli di un declino che sembrava irreversibile: dalla Cina all'India al Brasile, abbiamo formidabili esempi di popoli e classi dirigenti che hanno sconfitto la forza d'inerzia, hanno saputo imprimere un corso diverso alla propria storia. A noi l'opzione, a noi decidere quale modello considerare nostro. È molto più di una scelta politica, è una scelta di civiltà (Rampini 2012, 107).

In this perspective, reasonable and realistic is to recognize the weaknesses of the European Union, which, however, institutions have been recently become aware of. Although still lacking, the anti-crisis measures taken by the EU since the beginning of the crisis in 2008 are now bearing fruit. According to foundation Hume, Europe closed the second quarter of 2013 with a weak growth of 0.4%. It is a small sign, which nevertheless can be a tangible starting point. Exceptions are of course Italy, Spain and Greece, as they are struggling to find a political

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30 The European Central Bank was established by the Maastricht Treaty in 1993, within the creation of the monetary union. It is officially operational since January 1999. Since then, all the functions of monetary policy and exchange rates of national central banks have been transferred to the ECB. In addition to banking supervision and other emergency plans adopted during the economic crisis, the ECB's main function is to control inflation at around 2%. Rising prices and purchasing power are thus kept under control with monetary policy instruments such as interest rates or monetary bases.

agreement that will encourage their economies to be competitive within the European Single Market.

Another shortcoming that delays the reinforcement of the EU-US relations is the EU Common Foreign and Security Policy. In particular during the Syrian crisis of 2013 CFSC has once again revealed its weaknesses. For the US is still hard today to establish a plausible and cohesive relationship with Europe, very important to solve the thorny scenario Middle East is nowadays presenting. A strong relation between the European Union and the United States could act as a balance among the various countries involved in the diplomatic crisis hidden behind the bloody conflict that has been plaguing Syria for years. From the European continent continues to arrive different opinions, that bring fragmentation and confusion into the whole matter . The role of the High Representative of the Union for Foreign Affairs and Security Policy, performed today Lady Ashton, is still inconsistent and lacking in respect with executive capability. With the Treaty of Lisbon progresses have been made, but much remains to be done. Some positive signs come from Battlegroups<sup>31</sup>, the European military units operative since 1 January 2007. In January 2013 Battlegroups still had not taken part in any missions, but it seems that the intergovernmental coordination and functioning - under the command of the Council of the European Union - are giving good results. Similarly, the EATC<sup>32</sup> (European Air Passenger transport Comand), established in 2010, offers exceptional results in terms of share & pooling. However, the EATC is still an agreement confined to few countries, namely not part of the European Union as such. At the same time, it is true that EATC is a solely European initiative, which new ideas for the future could be drawn from. As far a federal management is concerned, Europe looks at the United States Army as a model, especially concerning a logistical structure that tends to centralize rather than delocalize the

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31 For more information about the functioning of the Battlegroups see the report from the European Security Review available on [http://www.isis-europe.eu/sites/default/files/publications-downloads/esr56\\_EUBattlegroups-June2012%20MH\\_2.pdf](http://www.isis-europe.eu/sites/default/files/publications-downloads/esr56_EUBattlegroups-June2012%20MH_2.pdf)

32 For more information see <http://eatc-mil.com>.

command. As the EATC shows, the supranational coordination of the army brings gains in terms of effectiveness and efficiency. Yet, in this field it is necessary to find a system that fits the prerogatives of the European Union. Foreign policy in the EU has always been a delicate issue. Not to be underestimate are the different perspectives of single countries, which due to historical reasons have developed different positions in the international context. This is a key point that remarkably distinguishes Europe from the United States. As a matter of fact, in the case of the US it is not necessary to seek consensus unanimously in all the states of the union, as the states are unified in a concrete federal union. The voices of Europe are 28 and are likely to increase in the years to come. The key is to find the right mechanism to coordinate them as efficiently as possible, both in terms of spending and effectiveness.

### *2.3 Soziale Marktwirtschaft: Europe's last train*

An extremely important factor still remains to be analysed, in order to bring the discussion to a end by presenting a concrete acknowledgement of the diversity between Europe and the United States. It is a key concept connected to the economic life of the European Union, for two main reasons. In the first place it marks the final boundary line between the European model and the American model. Secondly, it offers a plausible account that could remove some doubts as far as Neoliberalism in Europe is concerned. Article 3 of the Treaty of the European Union states that

The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.

It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child. It shall promote economic, social and territorial cohesion, and solidarity among Member States. It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe's cultural heritage is safeguarded and enhanced (TUE, article 3).

In addition to the large room made in the second part for social justice, what is striking is the definition of social market economy, which is already peculiar in terms of words. It contains in fact two concepts according to criticism difficult to reconcile, namely "market economy" and "social". This point summaries many of the critical points that have been discussed so far. Social market economy traces the substantial difference between the pure liberal thought of Friedman and the more balanced European framework. First of all, in opposition to what has been stated by the American economist, according to this school the market as such

does not naturally provide to the social progress. Therefore it is a state's task to guarantee the rights to citizens the market alone is not able to safeguard. Linguistically, the need to complete the definition "market economy" is in itself a distrust evidence, thus rejecting partially the position of the Chicago school. For this reason, it is crucial to precisely understand what the quote means. "Social", which should not be confused with "collectivist", is generally anything that promotes justice and equality within a society. Halimi for instance includes Wilhelm Röpke in the neoliberal context, although at first he defines him neoliberal<sup>33</sup>. Wilhelm Röpke, together with Ludwig Erhard and other economists of the Freiburg School, was one of the father of the *soziale Marktwirtschaft*. What does social market economy exactly mean? In recent years there has been much discussion around, beginning with the definition itself. Regardless of the political spectrum, the real concept behind the term "social market economy" is not easy to grasp. A brief historical summary could shine light on this issue.

The social market economy entails a clear economic perspective, namely the need to think about the economic order within the social order (Felice 2010, 8). It is the concept at the base of German Ordoliberalism, which Walter Eucken and more generally the Freiburg School started. From Ordoliberalism comes the conceptual cornerstones of what has been defined social market economy. The basic thesis is that the economy can not operate without legal basis, which guarantees both a legal and moral order. The individual is at the centre of socioeconomic mechanisms, and therefore he or she must be protected as such. It is no coincidence that this economic philosophy was born in the 30s, in response to the terrible crisis of 1929. It was meant to avoid state's malfunctioning due to economic dysfunctions. The idea was to combine the free market with a grounded competitive framework regulated by the state. In this perspective, the state becomes an active player in the economic field. After the downfall of Weimar

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33 Ludovico Einaudi also talked about Neoliberalism with a reference to social market economy.

This does not mean that if you bring together one of the father of the social market economy – as Röpke is – with the context of "neoliberal" accusation, the etymology loses its real meaning as such.



Republic, as University of Freiburg professors Goldschmidt and Wohlgemuth write,

la incapacità dello Stato di impedire cartelli e di esporre l'economia ad una corretta concorrenza di prestazioni poneva la teoria economica davanti alla sfida di pensare nuovamente i compiti dell'economia (Wohlgemuth e Goldschmidt 2008).

At that time, it was necessary to find a system regulator that could bring the social question back at the centre of the discussion. The aim of Ordoliberalism was to include within the functioning of a liberal economy rules that could have not only protect the freedom of trade, but the subsidiarity principle as well. The economy was somehow conditional upon a broader social design, which could have provided aids to not independent citizens. Economics returns in the first place to be understood as completing part of the society, and secondly to be seen as additional value only if controlled the institutions. Whenever economics is left independent, namely on the basis of *laissez-faire* philosophy, it ends up with losing sight of its ultimate goal, that is a fair society with concrete chances for anybody. In substance, free market as has been before interpreted according to the classical liberalism, was not enough anymore either to himself or to individuals. It is clear that this new interpretation changed the role of the state, putting into question the marginal position in which liberalism of Hayek and Friedman relegated it. A new trust has been put again in the cognitive mankind's capacity, which Friedman lacked confidence in. These are two opposites reasoning. In the case of Friedman, the failure of the government is completed by the laws of supply and demand, which are able to fill in the gap of human knowledge. The market is almost understood from transcendentalist perspectives, where nature is the only possible guide line. On the contrary, according to Ordoliberalism and more specifically to social market economy, the state and the reason are key actors in charge of regulating the laws of the market, which are insufficient to meet the socioeconomic needs of modern society. In this sense, the ultimate goal

of the economy is rather different, because, quoting Wohlgemuth and Goldschmidt,

l'economia dell'ordine è dunque alla fine un programma di ricerca interdisciplinare e di scienza sociale, che può anche riguardare posizioni nell'ambito del discorso in tema di etica sociale. Le questioni economiche sono parti di questioni dell'intera vita sociale, collocate nelle rispettive condizioni di fatto istituzionali e culturali. Una conformazione e un ordine dell'economia che promettono successo devono tener conto di queste condizioni complessive (Wohlgemuth e Goldschmidt 2008)

It comes here to the light the analogy with the theories of Friedman as regards the interdisciplinary nature of economics. As a matter of fact, the American economist was in favor of a versatile vision of the economic system, which always acts on different levels. Friedman considered economics closer to social sciences to natural ones, as only social sciences could communicate with the complexity of human beings

Alfred Müller-Armack, an economist of the Cologne school, is the author of the famous essay of 1956, *Soziale Marktwirtschaft*, which the definition social market economy is taken from. Müller-Armack's purpose was to introduce the solidarity of Christian humanism in a liberal political design. First of all he wanted to depart from economy interventionism, mainly because he retained this system could limit the freedom of individuals. The same danger could equally come from a non-regulated market that fosters unfairness among the competitors. The cornerstone of the balance became consequently competition, which turned into an indispensable means of society organization only if it ensures a clear framework of the competition itself (Alfred Müller-Armack 1976).

In other words competition, as impartial referee, is the solution to the problem it can cause itself, i.e. competitive unfairness. Competition becomes cause and effect at the same time. It is responsible either for a unregulated market, or for adjust the market through concrete measures. Competition performs in this sense a institutional role, acting as right-hand man of the government. The new concept of

economy should not give away both to statist drifts nor to libertarian laissez-faire threats (Felice 2010, 16). By relying on fair competition, social market economy aims to ensure liberal principles of progress and balanced public intervention. In this way, citizens could exploit the advantages of the market without running the risks of deregulation. The concept is well defined by Müller-Armack, according to whom

l'economia sociale di mercato può essere così definita come un'idea di politica dell'ordine il cui scopo è di legare, sulla base dell'economia della concorrenza, la libera iniziativa con un progresso sociale assicurato proprio con le prestazioni dell'economia di mercato (Alfred Müller-Armack 1976, 23).

Social market economy could be considered as a sequence of four factors, namely state, competition, market, equity. Each of these elements are closely related, which means that none of them could exist without the others. The state guarantees competition, which in turn guarantees a fair market, which in turn ensures social equity. The loss of confidence towards the classical definition of market is clear. In other words, market could not provide the needs of the society as such. The state acts as the first link of the chain. As society is seen as a complex combination of relations, the old bipolar concept of economy is not sufficient anymore. As Röpke says, social market economy admits the existence of a positive and a negative liberalism, of a positive and negative welfare state as well as of a positive and negative capitalism.

Today there is the trend again to go back to the dichotomy Keynesianism / Liberalism. Such perspective does not take into account the different trains of thought liberalism have developed, in particular the social market economy. Among the critics of Neoliberalism, it is common to group together economists like Einaudi or Röpke as promoters of Neoliberalism or Ultracapitalism. Yet, Luigi Einaudi defined historical capitalism "born rotten". This is why the Italian economist talked about the need to create new institutions that could limit the

damage of capitalism<sup>34</sup>. He said that

non l'economia di concorrenza, ma la inosservanza delle regole del gioco di concorrenza da parte del capitalismo o liberalismo storico del secolo XIX è la grande colpevole. [...] Se si lascia libero il gioco al laissez-faire laissez-passez, passano soprattutto gli accordi e le sopraffazioni dei pochi contro i molti, dei ricchi contro i poveri, dei forti contro i deboli. Degli astuti contro gli ingenui. Ma questa che è la critica distruttiva del liberalismo storico, impone soltanto un ritorno alle origini pure del sistema di concorrenza (Einaudi 1942, 64).

From today's perspective, this quote is premonitory, in particular for the events the world is recently facing. Monopolies and cartels may be consequences both of statism and liberalism, and that is why a compromise should be found. From Einaudi's remark emerged a new holistic idea of the state and the economic system, which entailed an interdependence among different parts. In this respect Röpke asserted that one tragic mistakes was to consider the market economy as something autonomous relying only on itself (Cited in Einaudi, 1942, 65).

Nevertheless, not be confused is the word "social", as Francesco Forte<sup>35</sup> well explains in his introductory essay to a series of articles on social market economy. Social here does not mean massive state intervention, which would consistently limit the inner working of the market. In this case, it would be better to talk about economy of social market, as the adjective "social" would modify the concept of market and not of economy as a whole. On the contrary, within the social market economy, "social" means a bottom-up economic structure aiming at the wealth of the entire society (Forte 2010, 35).

And yet a government intervention aiming at the right functioning of competition is enough to recognize two diverse kind of liberalism that, although similar, have

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34 In this regard see the essay 'Economia di concorrenza e capitalismo storico', in *Rivista di storia economia*, n.2, 1942.

35 The book is called *Il liberalismo delle regole: genesi ed eredità dell'economia sociale di mercato* edited by Francesco Forte and Flavio Felice. The text contains a series of articles by major economists of social market economy. It offers a interesting space-time comparison between Italy and Germany, thanks to the contribution of scholars such as Röpke and Einaudi, who, although in different countries, moved in the same direction.

different goals. This is the line that traces the boundary of the whole issue that has been tackled so far. Social market economy is a model developed *ad hoc* for Europe and its cultural background. In the United States in fact, the same model could not have rooted. Despite recent leanings of Obama's presidency, liberalism overseas always refused the idea of collectivist society, which admits the existence of a dependent segment unable to support itself. This view is justified by the fact that the opportunities offered by the United States are endless and for all the American citizens, and it is responsibility of the individual to catch them or not. On the contrary, the context and the history of Europe has led in the opposite direction.

However, recent years have demonstrated that often European Union and Brussels institutions tend to commit the same mistakes. In 2008, the penetration of deregulated finance in the European banking system revealed the weaknesses of a structure Europe did not sufficiently strive to strengthen. In March 2013 was presented at the European Forum of Alpbach an essay published by Bertelsmann Stiftung *A European Social Market Economy? - Index Results*. It consists of a recent research presenting the results of the social market economy so far. According to the authors, the tendency has been to foster to a considerable extent market freedom rather than social protection, putting into question the definition of social market economy as such. In fact,

the results of the Index of Modern Social Market Economis (IMSE) show congruence around a liberal market economy, but great diversity in principles indispensable for social market economy (Bertelsmann Stiftung 2013, 1).

The EU institutions responsible for the coordination of economic reforms gave high priority to competitiveness at the expense of the social economy. The balance within European economy seems in this way defective, as EU is apparently moving toward a liberal market economy rather than to a social market economy (Bertelsmann Stiftung 2013). The analysis takes into account six representative

countries of the European Union, namely France, Germany, Spain, United Kingdom, Sweden and Netherlands. They all converge in terms of open markets, property rights, competition and freedom of contract. The conformity of these four points indicates a precise direction aiming at the consolidation of liberal market economy. There would not be nothing wrong in this data, if only the other five areas related to the social market economy followed the same path.. Indeed, regarding consistency of policy, effective price system, liability, efficient environmental protection and effective labour markets, the six countries, and particularly Spain, still show substantial differences. These are all crucial features for «the fulfilment of a social market economy» (Bertelsmann Stiftung, 2013, 7). The summarizing chart points out how much work still needs to be done in order to harmonize European policies and achieve a sustainable social system. The responsibility of the results is given to the weakness of EU governance, which do not provide the right instruments for the efficient coordination and adequate funding of all areas necessary to complete the social market economy. If strong measures are not adopted as soon as possible, the European Union will inevitably run the risk of moving away from the founding principles of the Treaties as such, since

absent further political coordination, the common denomination of the de facto European economic order will remain limited to the liberalization of the European common market (Bertelsmann Stiftung 2013, 7).

In recent years many economists, among which Mario Monti, have begun to talk about social market economy again. The credit crunch and the following depression led Europe reflecting on systematic and long-term policies. The system failed to protect groups of people who can not anyway fend for themselves. Yet the principle of solidarity should be one of the founding pillars of the European Union, as in sever occasions it has been pointed out so far. Once established the different nature between the European socioeconomic structure and the American

one, it is essential to reason about such difference. Moreover, sometimes Europe apparently forget to keep shaping its own identity, which has been able to aspire to common goals that go beyond the conflicts of the past. Spinelli was one who, despite the difficulties of his time, always tried to follow this way. To him, Europe had to step back and take the positive opportunities when they arise, to deal with the defeats when they come, and to decide to move on when necessary.

Over sixty years of history, European Union have reached both achievements and failures. Some scholars, including Mario Monti, have tried to put again in the middle of the discussion the original European design, such as the social market economy. The Italian economist came to this conclusion, in order to proof the tangible existence of a deep-rooted train of thought in Europe. Once the principles are written down in the founding Treaties, it is basic afterwards that polity strives for implementing such principles. The Treaties need to be constantly reconsidered and revised in the institutions, so that they do not remain only a far echo of a old utopia. The social market economy is the example of what Europe would like to be and, at the same time, the example of what Europe sometimes forgets to be. For this reason, scholars like Mario Monti, who have performed in key positions in the EU decision-making process, often try to shape the European identity by going back to the origin.

In the European context, Mario Monti has been one of the most discussed scholar of the last two years, especially when he became Italian prime minister in November 2011. In the thinking of the former EU Commissioner there are many elements as regards European model mentioned in the second chapter. Monti clearly traces the line between Europe and the US, especially in light of precise analyses on the European Union carried on in his works. After having spent a training period in the United States, he served for years in Brussels' institutions. In fact, before getting involved for a short time in Italian affairs, Monti dedicated much of his life to the European Union, either as Commissioner or as scholar. Thanks to the versatile perspectives of his career – he worked and studied both in Europe and in the US - he was able to identify the typical aspects of the Old

Continent that are crucial for the European integration process.

A few hints on his biography are rather useful to a better understanding of the development of his thought. After graduating in Economics in 1965 at the University Pier Luigi Bocconi in Milan, Monti moved one year to the United States to study, more precisely at Yale University in New Haven, Connecticut. This was an important step for the education of the Italian economist. Since the mid-'50s James Tobin was a professor at Yale. Monti followed his lessons with great interest, being by him deeply affected. Tobin, who won the Nobel Prize for Economics in 1981, was in those years interested in the macroeconomic aspects of the economic model of John Maynard Keynes, in particular in respect with monetary policy. During the 1970s he proposed the famous tax on all financial transactions known as Tobin Tax. It is relevant that one of the most important professors of Mario Monti was a Keynesian economist like James Tobin.

Back from the United States, Monti was chair of the Economics Department at the University of Trento, Turin and finally at Bocconi University in Milan, where afterwards he became President and Dean of the same university. Since the 1980s he took prominent public offices mainly in commissions related with macroeconomic analysis of Italy. One of the most relevant was the commission of 1981 under the Treasury Minister Beniamino Andreatta, with the aim to shed light on the controversial relationship between politics and the Italian banking system. In 1994 he began his career as European Commissioner. Appointed by the Berlusconi government, he was designated as Commissioner for Internal Market and Services in the Santer Commission<sup>36</sup>. Monti was then reconfirmed by the D'Alema government I, taking the central and most discussed office, namely the Competition. The Competition plays a crucial role within the European Union. The Directorate-General for Competition supervises over the presence of cartels or market distortions due to unfair public or private interventions. It is one of the

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<sup>36</sup> Santer Commission, headed by the former Luxembourg Prime Minister Jacques Santer, took office from 1995 to 1999, when the entire Commission was forced to resign following a scandal in which some of the members were involved. Most of the Commissioners, including Monti, had nothing to do with the scandal but the Commission cannot one-sidedly resign.



institutional structure that has been given most power to by the states, especially in the light of the fact that competition must operate exclusively on a supranational level. As Baldwin and Wyplosz say,

the Commission has the final word on whether mergers are allowed or not. Whether particular business practices are allowed, and whether aid provided by Member State to firms is allowed. We can say that competition policy is one area where Member States have truly transferred substantial sovereignty to a supranational level (Baldwin e Wyplosz 2009, 426).

Mario Monti led in particular three battles that made him famous in the role of EU Commissioner for Competition, which undoubtedly did not attract the pleasantness of the big powers that many critics often relate to Neoliberalism. Two of these battles were against three US international corporation. In 2001, he decided to freeze the merger of General Electric and Honeywell, two American giant corporation whose production ranged from aeronautics to technology. In August 2004 it was the turn of Microsoft. The company founded by Bill Gates, already at the centre of several controversial issues in Europe since 1990s, was heavily fined for not having respected the EU antitrust regulation<sup>37</sup>. The other major event that saw Mario Monti protagonist was the famous case of "The Vitamin cartels" of 2001. A consistent number of European companies secretly agreed on price controls in the vitamins field. International companies such as the Swiss Hoffman-La Roche were sentenced as never before, with a fine amounted to 462 million Euros (Baldwin and Wyplosz, 2009, 433). These are the reasons why Monti did not enjoy a good reputation among American entrepreneurs. He was seen as the severe guard that prevented the accumulation of capital in the European area (Gillingham, 2006, 20). In addition to public offices, Mario Monti held key roles both in non-governmental organization boards or in boards of

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<sup>37</sup> In particular, Microsoft was accused of unfairly bundling its media player software to the operating system, causing damages to other companies. For more information on this event, see <http://www.economist.com/node/1976593>, or <http://www.ilpost.it/2011/11/10/la-volta-che-monti-multo-microsoft/>

directors of international corporations. He worked for Fiat, Coca-Cola, he was Chairman at the Trilateral Commission as well as advisor for Moody's and Goldman Sachs, where, in particular for the second, he was responsible for supervising the antitrust.

After the ten-year experience in Brussels, Monti kept directly or indirectly work for the European Union. The period of time he spent at the Commission made him one of the greatest supporter of European integration, along with European traditions that go back to the first Community. Monti often underlines the need to be exclusively "European", taking the right distances from a American tradition that is not our own. If on the one hand Monti refers several times to Tocqueville and to the Federalist Papers as interesting insights on federalism, on the other he insists the importance for Europe to build its unique identity, without seeing in the United States the only possible model (Monti 2012 , 17).

The same claims are confirmed by Monti in an interview of 2012 made by Federico Fubini to the then President of the Italian Council. After first few questions related to the Italian scenario, the journalist asks Monti to comment on the critique made on the Italian national newspaper *Il Corriere della Sera* by Alberto Alesina and Francesco Giavazzi. Alesina and Giavazzi are two renowned Italian economists. The first is a professor at Bocconi University, the second at Harvard University. Both the scholars are promoters of economic liberalism, therefore convinced supporters of privatization, flexibility, and restricted government interventions. In the editorial of 27<sup>th</sup> December 2012<sup>38</sup>, the two economists move a series of allegations against Monti, picturing him as overly interventionist and promoter of unnecessary nationalization. They insist, for instance, on the need to relocate the boundary between the state and private actors narrowing the areas held by the state. Moreover, they wonder what is the point of heavily taxing the richest people if at the end they are supported with free services and tax relives. At the end, they ask for education and health privatization. These

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38 See the entire article at [http://www.corriere.it/editoriali/12\\_dicembre\\_27/tropo-stato-in-quell-agenda-alesina-giavazzi\\_8161faf2-4fec-11e2-a2f4-57facfb76e8a.shtml](http://www.corriere.it/editoriali/12_dicembre_27/tropo-stato-in-quell-agenda-alesina-giavazzi_8161faf2-4fec-11e2-a2f4-57facfb76e8a.shtml).

are good example of what is commonly known as neoliberal approach.

As a matter of fact, Alesina was together with the young economist Silvia Ardagna<sup>39</sup>, a former Harvard professor, author of the essay *Large Changes in Fiscal Policy : Taxes Versus Spending*<sup>40</sup>. This article, along with the even more discussed *Growth in a Time of Debt*<sup>41</sup> by Carmen Reinhart and Kenneth Rogoff, represents a pioneering manifesto of economic policies based on austerity planning. Austerity, on the basis of appraisals of fiscal multipliers that proved to be wrong, resulted largely detrimental to all the countries that opted such measures<sup>42</sup>. As well explained by Vittorio Daniele in his article *L'austerità espansiva e i numeri (sbagliati) di Reinhart e Rogoff* published on the online newspaper *Economiaepolitica.it*,

lo stesso FMI ne prende atto, e in uno studio del 2013 rileva come i moltiplicatori fiscali durante la recessione siano stati maggiori di quelli stimati per il periodo pre-crisi: 1,5 invece che 0,5. Semplicemente: una contrazione fiscale di 1 euro ha avuto un impatto recessivo di 1,5 euro, invece che di 0,5, come precedentemente stimato dagli stessi teorici dell'austerità espansiva[3]. In breve, ci si è accorti che l'austerità è recessiva.

Monti was accused along these lines, markedly liberal, which he was often associated with. On the contrary, he immediately took distance from Alesina and Giavazzi, claiming that they

hanno un riferimento culturale che io condivido in parte, ma non credo sarebbe possibile – né che sarebbe una buona idea – seguire una certa linea molto americana.

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39 Here an interesting article on Silvia Argagna, especially as regards her relationships with Mario Monti plus some claims about the austerity plans, which she is still a great supporter of.

40 Alberto Alesina, Silvia Ardagna. 'Large Changes in Fiscal Policy: Taxes versus Spending'. *Tax Policy and the Economy, Volume 24*. 2010. The University of Chicago Press: Chicago.

41 C. Reinhart, K. Rogoff. 'Growth in a Time of Debt '. *American Economic Review: Papers & Proceedings 2010, 100:2*. The American Economic Association: Pittsburgh.

42 An interesting essay explains in detail how the theories related fiscal austerity coming mostly from Harvard University have been unsuccessful. See: <http://www.economiaepolitica.it/index.php/europa-e-mondo/lausterita-espansiva-e-i-numeri-sbagliati-di-reinhart-e-rogoff/#.UcmZudgmNAI>.

Neanche se, con un colpo di bacchetta magica, potessimo trasformare il tessuto economico e sociale e la psicologia degli italiani in quelli degli Stati Uniti (Monti 2012 b, 15).

Monti defines himself “a liberal not pure”, recalling in this context the European model of economic development, with specific reference to social market economy. In this regard there is an interesting discussion he had in the late nineties with Fausto Bertinotti, then leader of the Italian Communist PRC. During a meeting on European policies at Villa d'Este in Italy, Monti proposed for a "planned liberalization". Bertinotti asked how it was possible to talk about planning and liberalization at the same time, as the two concepts are taken from different political theories. Planned economy is in fact the basis of socialist regimes, while the liberalization comes from classical liberalism. Since then, experts started to talk about structural reforms that many countries, including Italy, needed in view of the entry into the monetary union. Not only radical changes were promoted in terms of infrastructure quality, market and business, but also with respect to regulation that would have ensured social protection and strong welfare state.

The regulation and supervision are in this sense duties of the state, which again has a central role in citizens' lives. Monti believes in a market economy with 'public powers', as he said in the interview mentioned above. This well explains the discrepancies with a large part of the American establishment, especially the one close to the Republican Party. The Harvard economists would hardly agree with a project that plans to reconcile competitiveness and the social dimension in the same way (Monti 2012 b, 16). This description fits the conceptual base of the social market economy, strongly supported by Monti. He asserts that social market economy has been one of the most ambitious initiatives of Europe, legitimizing our own identity. As a consequence, Monti argues that

quella per un'economia sociale di mercato è una lotta difficile per l'Europa nel

mondo e ancor più lo è per un singolo Paese. Ma secondo me è la formula giusta alla quale mira l'Europa, spesso senza riuscire a realizzarla. Il Trattato di Lisbona parla di un'economia sociale di mercato altamente competitiva: nessuna di queste parole può venir meno (Monti 2012 b, 16).

With such arguments Monti finds the common point with liberal economists like Alesina and Giavazzi, namely competition. However, it remains clear the boundary that separates the two socioeconomic models. According to Monti, in the wake of Ordoliberalism, competitiveness and social dimension are on the same level, both fundamental for a sustainable society. The state, being the main actor, must guarantee at the same time and with the same energy both market freedom and social protection. To Monti, competitiveness and social dimension are not therefore two elements that could be subordinated. In this sense he is even more moderate of the first economists of Freiburg School. Conversely, for the Harvard economists who refers to Chicago school, competitiveness, as the result of the absolute market freedom and not of state intervention, promotes social conditions equally accessible by all individuals. The heart of the debate is state intervention. The role of the state, in particular, is seen by the social market economy supporters as necessarily active, while by neoliberal economists as necessarily passive. It is clear in this regard the thought of Monti, according to whom

semplificando, si può dire che essa [l'economia sociale di mercato] concilia un'adesione di fondo ai principi della libertà d'impresa, dell'iniziativa privata e della concorrenza con l'idea che lo Stato sia chiamato a vigilare affinché le condizioni di funzionamento del mercato siano leali e foriere di progresso sociale (Monti 2012, 92).

The state is entrusted to act and not stay apart as external supervisor. As a matter of fact, Monti is closely related to the European tradition, proving to be a direct heir. Having the opportunity to interact and work with different models, Monti finally decided to chose a specific one. Monti, along with social market economy

lines, tried again to avoid a direct conflict between market freedom and social protection. According to Monti, the most common mistake made by criticism is to match the European Union only with the single market. After Maastricht Treaty, critics insist on picturing Europe as a narrow-minded construction of pure market, by establishing a conflict between solidarity and Maastricht (Monti 2012 b, 69). Solidarity means to take something from someone, willingly or not, and to give it to someone else. It is a foundation of the European Union as such, by admitting within the inner functioning the so-called net contributors and net recipients<sup>43</sup>. Nevertheless, some criticism addressed to Growth and Stability Pact is understandable. In fact, the limitation of deficit spending do not allow many countries in difficulty to deliver budget to welfare state. The Growth and Stability Pact was signed the Treaty of Maastricht to end the unruly use of public finance, which more than once brought long-term disastrous consequences, as is the case of Italy. However, as Monti argues, there is nothing that forbid the coverage with progressive taxes. The final goal is to take away something from someone and to give it the needy today, thus avoiding to steal the future from the next generations (Monti 2012 b, 70).

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<sup>43</sup> Basically there are states defined net contributors such as Germany and Italy, because they receive less than what they give in terms of budget. Conversely, the net recipients such as Greece or Poland receive more than what they give. For a detailed discussion on the financing inner working of the European Union, see Chapter 2 of the book in bibliography by Baldwin and Wypsolz.

## Conclusion

After having gone through different sets, a step back is now necessary, in order to draw some conclusion. Beyond doubt, this is a not so simple task, in particular for the natural complexity of the aim of this work. Today, more and more fields require an interdisciplinary approach that moves on different levels. On the one hand, this method offers a clearer overview of a certain topic, which tends to enclose every perspectives in question. On the other, however, the risk is to overlook specific aspects that could result fundamental for a deep understanding that avoids levity. Apparently, the only plausible solution seems a sharp choice between specificity or superficiality. Specificity aims at a more detailed but less general knowledge. Superficiality, on the contrary, aims at more general but less detailed knowledge. Which is the best one? The answer is probably none of them, because of two reasons. In the first place, the present world is too complex to be superficial, but at the same time it is too complex to be specific. As a consequence, and this is the second reason, both the concepts of specificity and superficiality are in the same way essential. Every field requires the two levels of analysis, as they are close interrelated.

Globalization presents a similar paradox. It contributed either to partially overcome the boundaries as it happened in Europe or to promote the growth of new powers with own identities, like China or India. This is basically what makes globalization a double-edged sword. It can have harmful consequences when, for instance, capitals become impossible to control. Nevertheless, a globalised world fosters a comparison among countries that can reveal virtues and vices of each. This is what Micklethwait and Wooldridge define the paradox of the United States, «that of being at once both the most admired country in the world and one of the most reviled (Martinelli 2007, 300)». Thanks to such debate, international relations could turn to be extremely constructive, and that is what this work wanted at the end to demonstrate.

Europe and United States, as the second chapter tried to prove, are two different realities. Moreover, the distance is destined to grow. Despite the critics, European Union will carry on the integration process, by trying to build more and more a grounded structure. The forthcoming banking union recently approved by the European parliament represents a concrete step forward<sup>44</sup>. The aim of EU is to strengthen its diversity, because this is what can spill over the creation of a civil society. The “common diversity” is a concept Europe has been working on for years, even though this attempt has turned to be harder than expected, both because of institutional weakness and cultural fragmentation. Yet, as Martinelli claims in the conclusion of his book *Transatlantic Divide*,

despite the persistent diversity of its constituent states and regions, is now a European society with a specific cultural identity and distinctive institutions in the making is, that is rooted in a common past but is also inscribed in the political project of the present union (Martinelli 2007, 299).

It is true, on one side, that European Union has suffered a remarkable stall in its history, especially due to the crisis. The institutions were neither ready nor enough efficient to face such a thorny situation, which underlined the fragility of the Union as a whole. What EU is trying to do now, is to take advantage of this scenario to break through by making a step forward, which is something that has already been done in the past. Beyond the operating speed, it is important that Europe has a common ground to build well-established basis on. The social and cultural peculiarities this thesis took into consideration, could be the rich soil for such goal. As again Martinelli asserts, there are

specific institutions (like the ‘social market economy’ or the welfare state) and shared values (a distinctive blend of individualism and solidarity) are specific features of the European version of a common Western identity, and they can provide specific European responses to the challenges of globalization, which are not limited

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<sup>44</sup> For more information in this regards see: [http://europa.eu/rapid/press-release\\_SPEECH-13-750\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-13-750_en.htm?locale=en)



to meeting the functional demands of global competition but take into account such key questions as environmentally sustainable development, social cohesion, and universal human rights. The project of a united Europe is far from accomplished and now at a delicate crossroad, but is still a viable project (Martinelli 2007, 299).

Two considerations are worth mentioning. First, Martinelli talks about two specific factors, namely social market economy and welfare state, that makes Europe remarkably different. This statement widely confirms what has been said so far. European welfare state system, although threatened by the crisis, must not be neither underestimated and nor taken for granted. It is an achievement most of the European countries<sup>45</sup> strove for decades and that brought into the Old Continent a rare example of social progress to world's eyes.

Social market economy is the other cornerstone in this regard. Again, despite the difficulties in implementing it, this model of economic development is something typically European that, as paragraph 2.3 has showed, has developed in a precise social and cultural context. The second key point is the scale of values Europe is grounded on. Even though many times some discussions around environmental sustainability or social cohesion are muddles, it is a concrete that these concepts are rooted in the Old Continent more than anywhere else. By looking at Scandinavian countries or Germany, very good example of sustainable growth in terms of environment and social justice could be found. Ten years ago public debate did not revolve around European common identity and values. Therefore, if today it does, this is a clear proof against the critique that sees Europe constantly on the eve of destruction.

At the end, how Europe should deal with Neoliberalism? If Neoliberalism is intended as the promotion of privatisations, welfare state cuts and deregulations, Europe has already experienced the dangers of taking such measures. The wide spread of anti-European parties – in some cases extremist – born in Greece, Italy, France and even Germany is a clear democratic dismay against a precise method

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<sup>45</sup> United Kingdom, during Thatcher's years, went, along the lines of Neoliberalism, in the opposite direction.

of economic and political intervention. European cultural background refuses by nature a radical liberalism that rooted in a Darwinian perception of the society. Individualism cannot stand alone and in particular postwar revisionism stressed the need of blending, as Martinelli says, individualism and solidarity. However, if Neoliberalism is intended as a new approach to economic matters, which means to review and thus avoid the money illusion – according to Streeck’s explanation – through unregulated deficit spending, inefficient investments and huge public debts, the story is different. In this case it would be better to talk about Neo-Liberalism, along with the distinction made by Italian language. Free market should still play the role of wealth creator, but at the same time the state, European Union in this case, should guarantee that this wealth is equally redistributed in the society through fair competition, social justice, sustainable growth. These are the guidelines that should lead the European integration process, which have been written in the Treaties but too often forgotten. This could be a sufficient condition to move Europe away from a certain neoliberal order.

What remains is to frame EU-US relation. Historically and culturally, Europe and United States are «variants of the same civilization», as US could be seen as a “Europe outside Europe” (Martinelli 2007, 299). This is the evident starting point that bonds unequivocally the transatlantic relationship. Nonetheless, some scholars use to retain the two countries too close, while other scholars believe they are too different. In order to build a strong partnership, the solution is no solution. Sometimes, and this is the case, to find the proper answer, it is the question to be changed. Obviously it is important to become aware of the diversities, but this should not be the final goal. Instead of wondering what are the differences, why not asking how can we cooperate beyond our differences, thus given them for granted? The reality is that «United States and European Union will continue to play different roles in global governance, ones that are partially complementary and partially competitive» (Martinelli 2007, 302). The two countries present a wide variety of approaches both to economy and politics. The objective is not to

change one aspect of the EU to follow the American model or *viceversa*. Europe and United States should change and progress simultaneously rather than individually, by mutually confront themselves. Moreover, the debate needs to be inserted in a wider context, as globalization requires the world to move along together. As the recent crisis has demonstrated, countries are all tied to a common invisible line, which can trail them forward or behind. There is no room for options that leave someone back.

This work tried to give some answers, although still inaccurate and imprecise. Neoliberalism has been partially described and included in the transatlantic relation. It was probably subjective the detachment that has been outlined between European Union and Neoliberalism. In other words, Europe is here still retained capable of developing an alternative, both liberal and social. The conclusion does not aim at defining the best and the worst. Both Europe and United States developed a market-based economy, but differently conceived. This is why as far as European Union is concerned, Neoliberalism has been redefined Neoliberalism, as the hyphen contains all the structural differences described so far.

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