
Are

We

Winning?

Antonio Martino

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Foreword

Michael James

THE direction of historical change can never be ascertained at the time it occurs, but only years, and possibly decades, later. This truth is obvious; but the present ascendancy of liberal ideas has inevitably prompted speculation on whether this success signals the beginning of a long retreat of the state or whether it is just a temporary intellectual setback in a long-term trend away from individual freedom and towards statist control.

Such speculation forms the substance of Professor Martino's paper. He arrives at the somewhat paradoxical conclusion that although statisticians are losing, liberals are not winning. Whereas socialism is bankrupt in practice and hence in theory, liberalism has so far succeeded only as an intellectual critique: in most Western countries, the state is continuing to grow. This latter point is difficult to make in the face of superficial media reports that frequently highlight spectacular deregulations and cuts in particular programs but ignore the quiet but continuous extension of regulation in other areas and the steady growth of total state spending.

Professor James Buchanan has recently noted that the drive for liberalisation in the post-communist economies of Central Europe may well overtake that in the mixed economies of the West, where the forces opposing liberalisation are still strong. In Australia and New Zealand, free market policies have in recent years been promoted by Labour governments. Would the conservative parties, which presided over much of the expansion of the state in recent decades, follow this change of direction? Or would they display their normal preference for 'politics' — trying to please everyone today — at the expense of policies that promoted the long-term interests of ourselves and our children? In stable democracies politicians are always attracted by the spurious 'pragmatism' that despises knowledge of the unintended consequences of political actions and pretends that market forces can be successfully overcome by political willpower alone.

Professor Martino notes that liberals are hampered by their lack of agreement on how statist structures should be dismantled. But he makes a possibly more significant point when he says that 'there is no such thing as victory (or defeat for that matter), a state of affairs which, once attained, will for ever be maintained'. In open, pluralist societies, no one point of view can expect to win all the time. The most that can be hoped for is a long-term trend towards greater scope for individual freedom and initiative. Those engaged in the battle of ideas can derive some encouragement from the evidence Professor Martino cites of the tendency of ideas to spread into public opinion and, perhaps decades later, to work their way through public policy.

About the Author

Antonio Martino has been Professor of Monetary History and Policy at the University of Rome since 1979. He is the author of numerous publications in the fields of monetary theory, taxation, constitutional economics and liberal economic policy. His books include *Constraining Inflationary Government* (1982) and *Noi e il Fisco — La crescita della fiscalità arbitrata: cause, conseguenze, rimedi* (1987). He is a regular contributor to European and American newspapers and periodicals, and is currently President of the Mont Pelerin Society.

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GIVEN the profession's unexciting record in forecasting, I shall abstain from making any kind of prediction, and obey Sam Goldwyn's advice: 'Never prophesy, particularly about the future'. My aim is modest: I just want to determine whether we've made any progress in the confrontation with our opponents both at the intellectual and at the public policy levels.

Who Are 'We'?

From the point of view of this paper, the soul-searching question of trying to spell out the differences between freedom fighters is largely irrelevant. In our case, I believe that Aristotle's wisdom applies: 'Things differ in what they have in common'. 'Conservatives,' 'libertarians' and 'classical liberals' are likely to differ on many issues, but in our epoch their differences are unlikely to be as important as the values they share.

This was Hayek's opinion at the time of the first meeting of The Mont Pelerin Society in 1947, when he remarked that his goal was that of putting together 'a group of people who are in agreement on **fundamentals**, and among whom certain basic conceptions are not questioned at every step'. His evaluation of the number of such people was pessimistic: 'the number of those who in any one country agree on what seems to me the basic liberal principles [is] small', especially if compared with the 'very big' task it faced (Hayek, 1967:149).

The effectiveness of the Society in its infancy is illustrated by a remark Schumpeter made in 1949 in the course of an address to the American Economic Association entitled 'The March to Socialism'. After having listed a series of socialist principles, which, as a result of the 'disintegration of capitalist society', were being 'taken for granted by the business class ... and by the large number of economists who

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feel themselves to be opposed to (one hundred per cent) socialism', he added: 'I believe that there is a mountain in Switzerland on which congresses of economists have been held which express disapproval of all or most of these things [i.e. socialist policies]. But these anathemata have not even provoked attack' (Schumpeter, 1950:418).

We have come down from that mountain, but have we made any progress since then?

Pessimists, Optimists, and Others

On the question of freedom's future, opinions have always differed widely. Schumpeter himself was, as we all know, very pessimistic. At the time of the foundation of the Society, he wrote:

Can capitalism survive? No. I do not think it can ... (T)he actual and prospective performance of the capitalist system is such... that its very success undermines the social institutions which protect it, and 'inevitably' creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent. (1950:61)

The pessimism has continued to flourish until recently. For example, I remember that at the first Mont Pelerin Society meeting I attended, in Hillsdale in 1975, a prominent member of our Society was convinced that England would become a dictatorship in five years. Though many on the British left would probably say that his prediction was confirmed, most of us would conclude that this kind of pessimism proved to be excessive: today, while socialism appears destined to fade away, capitalism is alive and there seems to be a widespread revival of faith in the free enterprise system.

Indeed, in **political rhetoric** we have many reasons for being at least moderately optimistic in our evaluation of current trends. Political rhetoric has been changing fast in many countries, including, for example, the People's Republic of Italy. Twenty five years ago, at the time of the 1963 general elections, things were very different. Those elections marked a change in government: from the so-called 'centre' government, which had presided over the economic miracle of the 1950s with a largely *laissez faire* policy, the country was moving towards a 'centre-left' government based on an alliance with the Socialists, with the exclusion of the Liberals. The slogans of the time centred on the theme that liberalism, with its emphasis on the free market, was not enough. The economic miracle had to be replaced by

a 'social' miracle, and for that purpose modern economic policy had to supplant the traditional reliance on market forces. The leader of the Socialists, Francesco De Martino, declared on television that if his party won an absolute majority it would nationalise all economic activities, with the possible exclusion of barber shops. Statism, in other words, was the consensus of the overwhelming majority of politicians of almost all political parties. Those of us who dared to challenge the prevailing wisdom — based on deficit spending, national economic planning, nationalisation, and direct government intervention -- were labelled 'reactionaries' and simply ignored by the new mandarins.

The spectacular growth of government of the last 25 years, which resulted from that political change, seems however to have disappointed its promoters. On 12 July 1987 the leftist weekly *L'Espresso* published a debate between Claudio Martelli, deputy leader of the Italian **Socialist** Party, and Achille Occhetto, then deputy leader, now leader of the Italian **Communist** Party. During the debate, Martelli said: 'It's simple: both in the East and in the West we see the crisis of a philosophy that's been common to both social democrats and communists: statism'. To which Occhetto replied: 'I agree with you more than you do! ... Statism, as you say, is the true burden which both social democrats and communists must get rid of'.

Similar statements are being made by political leaders of different parties almost everywhere, and a comparable change can be observed both in the academic world and in public opinion. Isn't it tempting to conclude that we've been winning?

The Time Horizon

In answering that question, we must first of all be aware of the danger of historicism and be sceptical of what Karl Popper sarcastically calls the belief in the 'inexorable laws of historical destiny'. Our question, however, does not necessarily entail a fatalistic attitude towards history. It's a very important question, and, if we can specify its meaning exactly, it deserves to be asked.

The first problem is that of specifying the time interval under observation: over which time span are we making our comparison? This is a universal problem. In the words of a scientist: 'When people ask me whether the climate is getting warmer or colder, I generally answer "yes". It all depends on over what time scale we average. If the time scale is a few months, then the answer in the spring would of course be "warmer" and in the fall "colder"' (Singer, 1989:36). The

intellectual climate is now more favourable to the cause of freedom than it was 25 years ago, but does this mean that it is more favourable than it was, let us say, ten, 50, or 100 years ago?

What I mean is that there is the danger of taking a temporary lapse in the historical process for a radical change of direction, Schumpeter was well aware of this, when he warned:

The transformation of social orders into one another is an incessant process but, in itself, a very slow one. To an observer who studies a moderate span of 'quiet' time, it may well seem as if the social framework he beholds did not change at all. Moreover, the process often suffers setbacks which, considered by themselves, may suggest to him the presence of an opposite tendency. (1950:419)

Ideological Victory

Let me stress that at this point I am concerned with the **intellectual** climate, not with actual policy. We are all **painfully** aware that drastic changes in rhetoric do not necessarily translate themselves into changes in policy. It is important, therefore, to separate the two and maybe ask ourselves under what conditions a change in the intellectual climate results in a change in policy.

From the perspective of the **ideological** confrontation, I am convinced that we live in one of the happiest times in the contemporary history of mankind. It seems to me that never before has the case for freedom been more thoroughly analysed and better understood.

I realise that this is a strong statement. There is an inevitable distortion in our perspectives produced by chronological selection. Few people who are great thinkers in the eyes of their contemporaries stand the test of time and are still considered great by future generations. As a result, we are often led to believe that there are more great scholars among our contemporaries than there were in the past. However, even if we allow for this distortion, it seems still true to me that a very large number of the great liberal thinkers of all times belong to this century. Furthermore, even though ideas always have parents, in the sense that their origin can be traced back to past achievements, the case for freedom as presented by today's thinkers is more consistently argued and better supported than ever before. Finally, more people are aware of the importance of freedom on a theoretical level today than at any other time in the past 50 or 100 years.

Let me illustrate. I think we all agree that the gravest threat to freedom comes from government; private threats are easier to deal with. This was Adam Smith's view:

The capricious ambition of kings and ministers has not, during the present and the preceding century, been more fatal to the repose of Europe, than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit a remedy. But the mean rapacity, the monopolising spirit of merchants and manufacturers...may very easily be prevented from disturbing the tranquillity of any body but themselves. ([1776], 1937:460)

The growth of government and the resulting danger to freedom have two major sources. The first is the pressure coming from interest groups trying to secure political rents or to be sheltered from competition. This threat is more formidable because, as Adam Smith pointed out, the collusion of private and political interests is favoured by the structure of political incentives. In his words again:

The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists. (Smith, [1776], 1937:438)

The second source of government growth has been socialism and its faith in the benevolence of government. Frank Knight called this 'the essential content of socialism', and he characterised it thus:

It is imagined that the state, i.e. the government, conceived in the abstract as a benevolent and all-powerful agency — essentially as God rather than realistically as a group of politicians — could order economic affairs rightly without generating new

evils or incurring serious social costs; that humanity would with approximate unanimity approve and like the result; that no other serious problems would remain; and, finally, that everybody — or nearly everybody, apart, perhaps, from a few criminally recalcitrants — would 'live happily ever after'. (Knight, [1947], 1782:159)

At the **intellectual** level, both of these sources of government growth have been subject to extensive critical scrutiny, and the underlying interplay of interests has been exposed. As a result, it's much more difficult today to enlarge the scope of government in the name of the 'public good'. We now have extensive empirical evidence that regulation often ends up serving the interests of the regulated producers, thus providing a good illustration of Adam Smith's view on the 'mean rapacity and monopolising spirit' of merchants and manufacturers.

Even more important, we have seen a dramatic shift of opinion away from the myth of the benevolent government in the past two decades. That shift has largely resulted from viewing government as a group of politicians rather than as a mythical, abstract entity. The sobering effect of the economics of politics on the intellectual climate has somewhat tempered the mystique of government as the problem-solver, leading James Buchanan to conclude:

I can be very pessimistic when I look at many aspects of our current economic policy and as I contemplate post-Reagan political economy. But I am optimistic when I compare the discussion and dialogue in the 1980s with that which might have taken place in the '60s or even the late '70s. Ideas do indeed have consequences, the fatal conceit has been exposed, and the romantic notion will not return. Camelot will not return. (Buchanan, 1989:37)

The economics of politics and the economics of regulation are only two examples of our intellectual victories. Liberalism has faced the challenge of Marxism, Fascism, welfare statism, and Keynesianism, and it has won: except for a few desperate, hopeless fanatics, no one believes in central planning, nationalisation, wage and price controls or incomes policy, deficit spending, inflationary growth, protectionism, the superiority of public health care, and all the assorted paraphernalia of excuses for bigger government that were so overwhelmingly popular only a generation ago.

Are Economists to be Credited with the Change?

An interesting question arises at this point: must the intellectual change be credited to the work of prominent liberal thinkers in general, and economists in particular, or has it been the product of circumstances? As far as economists are concerned, George Stigler has always been convinced that, as a profession, they are not terribly relevant.

In a paper written in 1959, he asserted that 'Economists are subject to the coercion of the ruling ideologies of their times', which would suggest that their output has little, if any, impact in shaping those ideologies. But, he adds: 'I believe that the economics profession has been basically more conservative than the educated classes generally' (Stigler, 1965:54-5). However, he has often repeated that 'economists exert a minor and scarcely detectable influence on the societies in which they live' (1965:63), and 'The main lesson I draw from our experience as preachers is that we are well received in the measure that we preach what the society wishes to hear' (1982:13).

Even though I have been a student of Professor Stigler, on this point I tend to agree with Keynes: the views of economists are probably less important than he thought, but, as his own influence confirms, they are far from having a minor impact on society. Probably, a compromise between the two positions can be found in the view that economists influence society only when circumstances are 'right,' when their theories are not in sharp contrast with the organised interests of powerful pressure groups.

As far as our question is concerned, there is no doubt that the popularity of liberal ideas has been reinforced by the failure of statism and the desire to find an alternative. But it's equally true that without the revolutionary contribution of liberal thinkers, both the analysis of 'government failure' and the alternative to its problems would not have existed.

Public Policy Defeat?

That, however, is the intellectual part of the story. In terms of actual policy, things are totally different. While the rhetoric has changed dramatically, policies have not changed much. No one advocates a socialist system, but when it comes to policy, the organised action of pressure groups inevitably leads to more government intervention.

Let me illustrate. Each one of us nowadays seems to favour market discipline and competition in general, that is for everybody

else, but when it comes to his own interests he does not refrain from trying to use the democratic political process to extract political or monopolistic rents. We demand economy and efficiency from the suppliers of the goods and services we buy, but we like to have as high a salary as possible and we don't mind being sheltered from competition in what we produce. To some extent we are all guilty of this kind of schizophrenic behaviour: I am normally very vocal in my opposition to the growth of government spending, but don't count on me to oppose increased spending on university professors' salaries! The same is true, for example, in the field of trade restrictions: people who support free international trade in principle, that is for everybody else, often argue that their industry is a special case deserving some kind of protection.

It may very well be that we devote more energy to promoting our interests as beneficiaries of political favours than we do to promoting increased reliance on market processes for society in general. This is simply a variation on an old theme: we like high prices for the product we sell, and low prices for the products we buy. But our interest as producers of some good or service is greater than our interest as consumers of goods and services produced by others, and, as a result, we devote more effort to keeping the price of our product high than we do to keeping other prices low. Or, we devote more resources to increasing government intervention on our own behalf than we do to reducing government intervention in favour of others. This can explain why, if we compare the size of government's interference in our lives today — in our times of great liberal rhetoric — with what it was 25 or even 15 years ago, we must conclude that in most countries we are much worse off now than we were then.

If one looks at Italy, for example, where, as previously mentioned, the change in rhetoric has been substantial, there is no doubt that statist of all parties have had a go at it: from 1960 to 1988, government spending has increased 75 times in nominal terms, 525 per cent in real terms, and it has gone from less than one third of GDP (32.7 per cent) to well over one half (53.1 per cent). Despite the fact that revenue has increased by leaps and bounds, the deficit has exploded from 382 billion lire in 1960 to 124 000 billion in 1988, i.e. from 1.4 per cent to 11.5 per cent of GDP. In real terms, total public debt outstanding has gone from \$US82.3 billion in 1960 to almost \$US740 billion in 1988. Similar conclusions can be reached with respect to all possible indicators of individual freedom. Regardless of what measure one chooses, government has grown very rapidly in the past quarter century, and this is true, although to a different extent, of

almost all Western countries.

It may very well be that what we are witnessing is an illustration of the 'Friedmans' cycle', the view that:

a major change in social and economic policy is preceded by a shift in intellectual **opinion** ... At first it will have little effect on social and economic policy. After a lag, sometimes of decades, an intellectual tide 'taken at its flood' will spread at first gradually, then more rapidly, to the public at large and through the public's pressures on government will affect the course of economic, social, and political policy. As the tide in **events** reaches its flood, the intellectual tide starts to ebb ... (Friedman, 1988:455-6)

In a recent interview, however, Milton Friedman has explained that:

it takes a long time. And I emphasize that the reversal in the climate of opinion is one thing; the reversal of policies is a very different matter. The real change in the intellectual climate didn't start until the late forties or early fifties. So you really don't expect it to be fully implemented until something like the year 2000. (Brimelow, 1989:7)

Maybe so. I often tend to agree with Professor Friedman and I certainly hope that he is right. But how do we know that this is the case? Couldn't the present intellectual climate, as Schumpeter would say, be one of those 'setbacks which, considered by themselves, may suggest ... the presence of an opposite tendency'? Couldn't the present climate favourable to freedom be a temporary exception in history's course?

The obvious answer to these questions, of course, is that we do not know. There are no 'inexorable laws of historical destiny', no deterministic trends in either intellectual climate or policy. There is no such thing as **victory** (or defeat for that matter), a state of affairs which, once attained, will forever be maintained. The struggle for freedom is a 'natural', inescapable component of life. We can successfully meet the challenges of our time and score a temporary 'victory', but new problems will soon come up, as new ways of hindering our personal liberties are discovered or old ones are resurrected.

The disappointing change in policy, furthermore, is to a large extent due to the limitations of our intellectual successes. For ex-

ample, we haven't produced a workable, realistic plan or blueprint for dismantling the existing statist structure. The few instances in which there has been success in demolishing the socialist framework are remarkable in that there was (and there still is) no previous, generally accepted formula for neutralising the entrenched interests that resist any change in the status quo.

Our present, moderate successes are especially vulnerable in that they have generally consisted in a change of policy within a given, unchanged set of rules, rather than in a constitutional change of rules. Constitutional arrangements are not eternal, but, if correctly devised, they certainly possess greater durability than do policy changes within given rules. Again, this is one of our intellectual weaknesses. For example, we all agree on the desirability of replacing discretionary policy with a monetary constitution. However, when it comes to the specific type of monetary constitution, our opinions widely differ: some favour a fixed monetary rule, others want a gold standard, or competing currencies, or a variety of different remedies, and the same is true of a fiscal constitution. The wide discrepancy of views in our camp reduces the likelihood of significant success. That's why we have no a priori reason for being complacent, satisfied with the present state of affairs. We are not winning.

A Moderately Optimistic Conclusion

I would like to end, however, with a moderately optimistic conclusion. First of all, if it is true that we are not winning in the sense that we don't have generally accepted (acceptable) constitutional solutions for the major problems of our times, it is also true that they are losing: the statist recipes once so popular are totally discredited, so that our opponents don't know what to suggest.

But there is another reason for being optimistic. Like Churchill at the time of World War II, we can base our confidence in the future on their mistakes. The cumulative effect of decades of socialism has produced a state of near-bankruptcy which makes further expansions of government interference almost impossible. Statism is both intellectually and financially bankrupt: it has a past, albeit an inglorious one, but it has no future.

Take Italy, for example. Interest payments on government debt amount to 16 per cent of total public sector spending, to 76 per cent of net borrowing, and to 62 per cent of total income tax revenue. Taxation on labour income in all its forms has reached unbearable proportions: net take-home pay is only 54.8 per cent of labour costs,

and the tax protest front now includes organised business and labour. All of this while the failure of government is underscored by the tremendous success of private delivery of mail, private health insurance, private police protection, private schools, etc. Under these circumstances, it is difficult to imagine any further growth in the size of government.

Maybe, the change of rhetoric is not to be credited to our intellectual victories, being only a reflection of the simple arithmetic of government bankruptcy. In any case, if present trends continue, instead of capitalism being killed by its success, as Schumpeter expected, we shall see socialism destroyed by its failures. Definitely, these are glorious days for us reactionaries!

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David G. Green is currently the Director of the Health Unit at the Institute of Economic Affairs, London. He is the author of several articles on politics and social policy, and his latest book, *Everyone A Private Patient*, was published by the IEA in 1988.

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Are We Winning?

Antonio Martino

Although classical liberal ideas are at present in the ascendancy, there is no guarantee that they will succeed in the long run in substantially reducing the size and power of the state.

In this Occasional Paper, Professor Antonio Martino shows that while statism is intellectually bankrupt, special interests are still actively and successfully lobbying for state protection from competition. In addition, liberals have produced no agreed program for dismantling the structures of big government or for replacing them with new constitutional arrangements that could keep government small. On the other hand, new policy ideas usually take decades to work their way into routine practice, and in the meantime the financial constraints on the state makes it virtually inconceivable that it will continue to grow.

Antonio Martino has been Professor of Monetary History and Policy at the University of Rome since 1979. His publications include *Constraining Inflationary Government* (1982) and *Noi e il Fisco – La crescita della fiscalità arbitraria: cause, conseguenze, rimedi* (1987). He is a regular contributor to European and American newspapers and periodicals, and is currently President of the Mont Pelerin Society.