

From Vienna (1919) to Berlin (1989): the neoliberal paradigm's rise

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‘*How the city of ideas created the modern world*’ says the subtitle of Richard Cockett’s *Vienna* (Yale University Press, 2023). And with the book in your hands more than one instance of intellectual achievement will bring you back to Austria’s capital. When then you begin to read it, page after page will be a crescendo of amazement on discovering how numerous were indeed the artistic and scientific spheres in which Vienna excelled in 20th century’s early decades. Still the book recounts an additional astonishing story, and namely how the ideas that took shape in Vienna at that time the diaspora of its intellectuals, which began with the rise to power of the Nazi-Fascists (1934), diffused in other countries – in the United Kingdom and United States especially. And how they hybridised with other ideas, matured, and became so much influential to trace the path to our present time.

The greatest surprise for the general reader, however, might be to discover how many contrasting and seminal ideas on the relationship between capitalism and democracy we owe to Vienna’s intellectual milieu. And among the several pathways the book suggests – and makes intersect in space and time – to explore Vienna’s magnificent intellectual landscape I shall now retrace the one that leads straight to the ascent of the neoliberal paradigm, and to European democracy’s current crisis.

If it is an economist who holds the book in his hands, the subtitle of Cockett’s *Vienna* will remind him of the last lines of John M. Keynes’ *General Theory* (1936) – possibly the most known 20th century’s economics book: ‘*But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.*’ While writing *The General Theory*, Keynes believed that “good ideas” are bound to prevail – and he regarded the effort to make them prevail an important part of intellectual work. But he died too early (1946) to realise that if the world, as he assumed, “*is governed by little else [than] the ideas of economists and political philosophers*”, to attain control over the ‘systems’ governing the genesis and propagation of ideas – in particular, of ideas about democracy and capitalism – would become a political issue. And therefore, it is by no means an inevitable outcome that good ideas shall prevail.

The constellation of ideas that emerged in Vienna on democracy and capitalism in the first decades of the 20th century can be referred to two paradigms. The neoliberal paradigm – Ludwig von Mises and Friedrich von Hayek were the most prominent among the numerous intellectuals who participated in its construction – took shape in Vienna in the 1920s; the liberal-socialist paradigm took also shape in Vienna, – a paradigm to which Otto Neurath gave a great contribution and that Karl Polanyi, more than any other social scientist, was going to explore in its theoretical underpinnings and historical premises in the subsequent decades.

To show the Viennese roots of both paradigms, as Cockett brilliantly does, amounts to adding one more amazing piece to the already extraordinary intellectual mosaic of this city. At the same time, it raises a compelling question: *which constellation of ideas about democracy and capitalism has prevailed in Europe in the end.* The answer is the final chapter’s title: “*A Viennese Apotheosis: The Ascent of the Austrian School*”. This was a remarkable outcome, one that after the Second World War, and for some decades still, seemed unconceivable: European democracies were following a pathway leading to the opposite

direction with respect to that proposed by the neoliberal paradigm. An outcome that deserves to be explained.

The march towards the neoliberal hegemony, which would become triumphant in the 1990s, began at the end of the Second World War, when Hayek published *The Road to Serfdom* (1944). A pamphlet with which he summoned the neoliberal intellectuals, who were then scattered across Europe and the United States. He did that in view of an upcoming intellectual and political question: *which model of capitalism for post-war Europe* – which model that could effectively dispel the *fear of democracy*? For this is the key factor explaining the neoliberal paradigm's birth: the fear of democracy that had manifested among the liberal elite facing Vienna's municipalist experiment (1919-1934).

Part of Austria's political and intellectual elite, bereaved of the social hierarchies and economic privileges that the Habsburg Empire had ensured to it, did not tolerate the progressive political project manifesting in Vienna after the First World War. Many intellectual revolted against democracy – against its objective of redistributing income and wealth, of ensuring for all citizens 'existential minima', of guaranteeing to all citizens access to education and health services and much, much more, as Cocket describes in his book – in particular in Chapters 3 and 4, which are devoted to present the *Red Vienna's* radical municipalism and highlight its theoretical underpinnings.

Soon a network of intellectuals started to oppose Vienna's democratic model in the sphere of ideas. They did that by elaborating an interpretation of capitalism that by implication leads to treat most collective actions as socially harmful. It fabricated an economic theory – the Mises Circle on the front line in the accomplishment of this task – which allegedly demonstrates that almost all collective actions can be split into individual actions regulated by "competitive markets" – regarded as institutions through which individuals can express their preferences fully and freely, and which ensure the achievement of the best possible social and economic order.

Not many were ready to engage with Mises Circle's ideas about capitalism and democracy in Vienna in the 1920s, while a democratic revolution was unfolding. And even less interest those ideas could attract after the rise to power of the Nazi-Fascists, which democracy had brutally annihilated in all its forms. As the Second World War was coming to a close, however, neoliberals returned to the international intellectual scene with their ideas, strongly motivated by the fear that the history of European democracy might have again begun – as indeed it happened – from where it had ended, namely from the Vienna's experiment of radical democracy brutally interrupted by the Nazi-Fascists in 1934.

This prospect was already becoming real during the last years of the war. In the United Kingdom with the Beveridge Report (1942), which prefigured the "welfare state" and proposed the extension of public goods' provision; with the theories that showed the possibility of mitigating capitalism's instability through public intervention; with the return of the "ethical gaze" on the economic process. A model of democracy-capitalism relationship that were being pursued in most European countries – slowly, with great effort, wholeheartedly. A model that in post-war divided Germany took the form of the 'social market economy'. A model that in the early 1960s morphed into the 'European dream'.

Joseph A. Schumpeter – one of the "great Viennese" – in *Capitalism, Socialism and Democracy* (1942) – had foreseen and accepted the rise of full-fledged democracies as inevitable. A scenario that most neoliberal intellectuals considered a nightmare and were determined to prevent. By arguing that democratic radicalism would lead to

communism they crossbred with United States' reactionary political cultures, and merged with the "cold war intellectuals" which were already active in the battlefield. And Hayek's *The Road to Serfdom* became the manifesto of the long march that the neoliberals would soon undertake, and that would lead them to subjugate the United Kingdom in the 1980s intellectually and politically, and the whole of Europe after the Fall of the Berlin Wall.

You can follow Richard Cockett's engrossing account of Vienna's magnificent intellectual milieu and feel fully rewarded for the time devoted to read the book. Yet, you will anyway find yourself trying to answer pressing questions that the book does not address, but that appear to you of critical importance: why did it happen? which pathway has Europe followed to come to accept – in Berlin, in 1989 – the thesis of the "end of history"? Where the history that was supposed to have ended was the one that had begun in Vienna in 1919, and after being obliterated by the rise of totalitarianism emerged again in most of Europe after the Second World War, that is *the history of the democratic project's accomplishment*.

You can choose whichever pathway you prefer to set out in search of an answer to these questions, but all pathways go through a landscape we have learned to call *public debate*. A landscape that European liberal democracies have scarcely bothered to map and assess in its spatial and historical manifestations – in its here-and-now features. Judging it unnecessary, they have continued to maintain an unbounded, abstract reliance in the "free confrontation of ideas", believing in the reassuringly naive myth sketched in Karl Popper's *Open society and its Enemies* (1945). As if the "conjecture and refutation model" might operate spontaneously and with the same mechanical precision in the public as well as in the scientific debate.

Chapter 9 of Cockett's *Vienna – The World Reimagined: War Work and the Open Society* – is a perfect example of how liberals like to represent public debate. Ideas are mapped and then charted in their development while they clash, hybridise, evolve, prevail, or vanish. An ongoing collective conversation conducted according to the rules of rational and genuine argumentations – the embodiment of the Habermasian model. The public debate as an enthralling and never-ending intellectual activity. Yet a perspective that disregards what matters most: *ideas' real effects*. In fact, the consequences of ideas turned into political choices remain unfocused on the horizon of this public debate's model.

The journey through the ideas of a constellation of outstanding Viennese intellectuals is absorbing. But then, as you continue to read, the view opens over an upsetting landscape: journalism and (social) science appear to have played a decisive role in shaping the formation of public opinion and the acceptance of neoliberalism; yet they appear as structures with a manifest and arrogantly claimed ideological orientation. You find yourself reading about the very large sums of money that the *Foundation for Economic Education* (FEE) and *The Volker Fund* – private organisations – for decades invested to support the diffusion of the Austrian School's ideas in the United States and in Europe. Reading of the sums of money they made available – astonishingly together with the Bank of England – to fund Hayek's chair at the University of Chicago for a very long time; reading of the support given to international think-tanks, such as the *Mont Pelerin Society* (1947), which would play a decisive role in the dissemination and consolidation of the neoliberal paradigm in the international scientific community. Reading of the financial support given to the *Institute of Economic Affairs* (1955) – still active in London –, which would become equally highly influential in the political arena.

Only a few lines the book devotes to the role played by ideologically oriented think-tanks in the dissemination and consolidation of the neoliberal paradigm. But it is not a choice made for reticence. Richard Cockett had already addressed the role of think-tanks in shaping public opinion in a book published many years ago: *Thinking the Unthinkable. Think-tanks and the Economic Counter-revolution, 1931-1983* (HarperCollinsPublishers, 1994). A masterly reconstruction for precision and completeness of the neoliberal paradigm's rise to intellectual and political hegemony in the United Kingdom in 1980s. In this book, with a degree of manifest complacency, the Cockett highlights the fundamental role that think-tanks – those already mentioned above, and others such as the *Centre for Policy Studies* and *The Adam Smith Institute* – had played in orienting public opinion.

Towards the end of the Second World War, while European democracies were preparing to attain sovereignty over capitalism, neoliberal intellectuals organised themselves as an international network, aware that achieving hegemony in the realm of ideas would take several decades. A long-term task they confidently undertook, aware of the financial resources they would command to accomplish it. Cockett seems to believe that neoliberals' ideas on democracy and capitalism were the right ones, and that they became hegemonic in public opinion at the right time, while social capitalism was entering a crisis, and a new model of capitalism was needed, profoundly different from the one that European democracies had chosen after the end of the war and preserved until the 1980s. Finally, in the UK in the 1980s – and in Europe in the subsequent decades – Hayek was taking over from Keynes the role of democratic capitalism's mentor.

The rise of the neoliberal paradigm can be described as an “apotheosis” if the focus is on the ‘interplay of ideas’; but it can be recounted as a “tragedy” if the focus is shifted – as democracies, even the weakest, do in the end – to the consequences of the implementation of ideas. In fact, if your mind has not yet been captivated by the neoliberal's economic theory, you still believe in the significance of empirical evidence, and you are still committed to “critical rationalism” the rise of the neoliberal paradigm will appear to you in a very different light. You start looking at think-tanks as tools of manipulation of the public opinion, networks of ideologically oriented intellectuals convinced that their interpretation of capitalism is the “true” one, although it is based on statements and hypotheses that never meet empirical evidence. And neoliberal intellectuals will appear to you to be nothing different from “*serial evangelists*” – as Peter Clarke named them, reviewing Cockett's 1994 book in the *London Review of Books* (Vol. 16, No. 12). Nonetheless, they succeeded in imposing in the public discourse an economic rhetoric passed off as science, supporting an imaginary capitalism, qualified to replace democracy in almost all relevant policy domains.

You end reading Cockett's books firmly convinced that it is by no means a corroborated thesis that in democracies good ideas will customarily prevail, as Keynes believed while moving from Eton to King's College (Cambridge), with his political stance rooted in the moral philosophy of George Edward Moore; As all members of the intellectual circle to which he belonged, in fact, believed. As the European democracies' intellectual elites have continued to believe until now, even though the empirical evidence has indicated, beyond doubt, the decisive role that ideology, through intellectual and economic pressure groups, has had in the genesis and diffusion of ideas.

European democracy's history and its crises cannot be understood without focusing on how strong was the fear of democracy that manifested after the First World War, in Vienna and elsewhere in Europe, while the electoral suffrage was being extended to become universal. And while a social science as tool for democracy was taking shape. Fear that manifested again after the Second World War, in the face of the prospect that European democracies would reborn more radical and aware of their power after the tragedy and moral dilemmas of the previous decades. Yet, one cannot understand the neoliberal paradigm's rise to hegemony without considering a further factor, and namely the depressing superficiality that European democracies have shown by losing interest in the maintenance of the only pillar on which they stand – *the institutional foundation of the public debate*. Interest that they have totally lost in Berlin in 1989, while the Wall was collapsing, and a decisive intellectual confrontation was going to begin – one that European democracy would lose.