

Hayek's Federalism and the Making of European Integration

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Abstract: Following the collapse of international relations after WWI and the flawed attempt to establish an order under the covenant of the Society of Nations, most intellectuals—and economists among them—dwelled on the ways to design and implement a sustainable, peaceful, effective, durable international economic and political system.

Within this extraordinary effort, the conceptualization of federations as constitutional systems, allowing for both decentralization and strategic unity, to building supranational cohesion upon heterogeneity and diversity, was paramount. Most economists engaged in designing an international order based on the principles of constitutional federalism. One key actor in such debate was Hayek.

Nevertheless, an issue is still open on the nature and scope of supranational federalism as advocated by Hayek, compared to other approaches, such as Robbins's. The paper aims to reaffirm the distinction between their two approaches to federalism and to assess the intellectual influence Hayek exerted on the making of European integration, the most advanced experiment of supranational construction in history.

INTRODUCTION

George L. S. Shackle (1967) labeled the period from the late 1920s to the end of the 1930s as “the years of high theory”, to mark the huge effort towards theoretical innovations in economics worked out during that decade. Such definition should probably be extended to what concerns the international economic and political order. Following the collapse of international relations with WWI and the flawed attempt to establish a sound order under the Society of Nations, virtually all major intellectuals—and economists among them—dwelled on the criteria to design a sustainable, peaceful, effective, durable international order once political conditions would turn favorable.

Within this extraordinary effort, the conceptualization of federations as supranational constitutional systems allowing for both decentralization and strategic unity was paramount and, surprisingly—given that most economists of those years were engaged in designing an international order based on the principles of constitutional federalism¹—not much explored in the economic literature. This group, even the smaller circle that formed the early “neoliberal thought collective” (Mirowski and Plehwe 2009), was far from homogeneous in the way federalism was represented and advocated (Masini 2012).

One key actor in the dominant narrative on federalism as an instrument to building a new international order was Friedrich August von Hayek (Van de Haar 2009), who dealt extensively with the virtues of (his own version of) federalism in the mid-to-late Thirties (Hayek 1937, 1939, 1944a).²

The dominant historiography argues that Hayek derived his interest in federalism from Lionel Robbins, and that they “took broadly the same position on the question of federalism” (Spieker 2014, p. 928; see also Slobodian 2018, p. 102ff). The aim of this paper is twofold: to highlight the characteristics of Hayek’s calls for international federalism and reaffirm that Hayek and Robbins *did not* share the same idea of federalism; and to challenge the (also dominant) historiography of European integration that highlights its technocratic bias as a, direct and indirect, result of the intellectual influence exerted by Hayek (Streeck 2011; Bonefeld 2015; 2019; Biebricher 2015; Wilkinson 2019).

To illustrate our points, in the first two sections we shall highlight the nature and scope of Hayek’s “instrumental federalism” in contrast to Robbins’s “constitutional federalism” (Masini 2016); in the third section we shall build on their differences to assess and challenge the historiography on Hayek’s alleged influence on the making of European integration.

1. HAYEK, ROBBINS, AND THE NATURE OF FEDERALISM

In early 1931, before moving from Wien to London, Hayek published *Prices and Production*, in which he provided a robust explanation of the 1929 crisis along the Austrian tradition (Hayek 1931). Two years earlier, in 1929, Robbins had become Professor of Economics at the *London School of Economics and Political Science* and was about to engage a theoretical struggle against Cambridge on the analysis and the ways out of the crisis. Hayek’s moving to London, upon Robbins’s suggestion and a formal invitation by William H. Beveridge, was part of such struggle. A struggle that was mainly directed against Keynes’s approach to economic crisis and the way out of it.

We recall that both the LSE-Austrian and Keynesian starting point to understand the Wall Street collapse and the following spread of economic depression came from Wicksell’s theory of the business cycle, originating from a gap between the *market rate* and the *natural rate* of interest. The difference lied in their diverging interpretation of US economy in the late 1920s: while Hayek and Robbins thought that banks had provided a cheaper market rate than the natural rate (that would have balanced investment and savings), Keynes thought the latter was smaller (even below-zero) than any possible market rate. Hence the diverging opinions of a crisis derived by over-investment (LSE-Austrian view) or under-investment/consumption (Keynes).

This caused major differences in economic policy prescription, Hayek and Robbins being on the side that deemed it inevitable to let relative prices change, even abruptly, to absorb diverging sector equilibria, thus preferring to stabilize the external value of money to avoid further interference from public authorities; Keynes calling for a further injection of aggregate demand on the side of Government to push income and consumption, letting the external value adjust to the needs of a stabilized internal average price index.

The relationship between Hayek and Robbins was close, intellectually rich, and very fruitful for both in those early Thirties (Caldwell 2004, p. 171ff; Howson, pp. 195-8), becoming increasingly comprehensive and spanning from theoretical contributions to academic struggles, from sharing social circles and engaging in common associative endeavors to Government advisory and public advocacy. Even the friendship between the two is well documented (Hayek 1983, p. 109; Robbins 1971, p. 127 ff). Although the publication of the *General Theory* in 1936 was to become a game changer, and Robbins later acknowledged the theoretical mistakes he had made (along Austrian lines) in his 1934 book (Robbins 1934) on *The Great Depression*, Hayek was still a reference point for Robbins in the late Thirties; and vice versa.

A key issue where they seemed to be allied was their call for federalism in the designing of an international order. Robbins discussed with Hayek the content of the lectures he gave at the *Graduate Institute for International Studies* in Geneva in 1935, on whose basis and materials Robbins (1937a) assembled the book

Economic Planning and International Order (the first where he explicitly calls for an international federation). Hayek's (1937) book on *Monetary Nationalism and International Stability*, the revised text of the lectures he also gave in Geneva in 1935 where he argued against "monetary nationalism", was also commented at length by Robbins, among others (Hayek 1937, pp. xiii-xiv). They would become both members of the association *Federal Union*, established in late 1938 to create an anti-Nazi federation in Europe, starting from France and Britain (Mayne and Pinder 1990; Ransome 1991).

Their writings and quest for an international federation during the late Thirties have suggested that their understanding of federalism was at least very similar, supporting the judgement of common, shared thoughts on this (Spieker 2014; Slobodian 2018). An opinion supported by Hayek himself in several of his writings (in particular in Hayek 1944a, where he often refers to Robbins's works). Also Tommaso Padoa-Schioppa (2005, p. 6) put in the same pot rather diverse intellectual contributions to federalism and supranational institutions such as those of Hayek, Robbins and Luigi Einaudi.³

It should be noted, though, that Hayek's and Robbins's knowledge and understanding of federalism were rather different, deriving from different intellectual traditions. Hayek's federalism was a combination of Mises's ideas on the need to establish a more effective (neo)liberal international order with what he learned about federalism at the *London School of Economics*.

Robbins's intellectual inspirator on federalism and the international order was Edwin Cannan (1914, 1927), who was deeply influenced by the British debates on imperial federalism, suggesting some form of constitutional federalism as the only way to compromise between the need for decentralized decision-making and strategic unity within the Commonwealth. One further source of inspiration was the wide circle of colleagues and intellectuals based in London in those years, such as Philipp Kerr (later known as the Marquis of Lothian), Lionel Curtis, Arnold Toynbee, and many others.

These earlier influences also tell something about the different directions that Robbins and Hayek would later embrace on this issue. For Robbins, federalism was a way to escape the dilemma of classical liberals, resting on their firm (and, according to Robbins, naïf) belief that, once two fundamental global public goods—such as free trade and a stable monetary standard—were produced, a peaceful international order would result.

Robbins distinguishes between truce, a *temporary* absence of conflicts, and peace, which is a *permanent* condition that requires a specific economic, political and institutional structure. The causes of war are to be found both in market failures and in inefficient institutions, due to a monolithic concept of *sovereignty*, which is exclusively attributed to nation-States: "The ultimate condition giving rise to those clashes of national economic interest which leads to international war is the existence of independent national sovereignties" (Robbins 1939b, p. 99). In this respect, Robbins maintains that the thought of classical liberals "was implicitly not liberal but anarchist"⁴ (Robbins 1937, p. 241), as international relations are only tackled through national diplomatic efforts, without attributing any enforcement power to supranational institution. The existence of systems of national monopolies of power with an exclusive and absolute sovereignty is not coherent with the need to safeguard peaceful international relations nor with economic efficiency.

In fact, according to Robbins, the economy is based on the production and consumption of private and public goods. As concerns the former, they need to be produced and exchanged in a plurality of territorially concentric markets because each good and service is provided to satisfy the needs of more or less wide groups of individuals. Each market for each good needs to be backed and guaranteed by specific rules, juridical systems, and governing institutions. Similarly, there are collective and shared needs that require the production of public goods which are not to be provided necessarily at the national level. In both cases, the economy needs an institutional, political, and juridical system that must be structured from the local to the global dimension, following a principle which we would now call *subsidiarity*: a multi-layered system that requires the creation, at each level of collectively shared needs, of a corresponding place of collective choice (Masini 2018).

According to Robbins (1937a, b; 1939a, b; 1940) the most adequate constitutional framework coherent with this picture is federalism, as it provides an optimal constitutional equilibrium between decentraliza-

tion and centralization, between local and supranational. As he argues: “independent sovereignty must be limited” (Robbins 1939b, p. 104) and “the national States must learn to regard themselves as the functions of international local government” (Robbins 1939a, p. 105). Hence his call for a European federation: “There must be neither alliance nor complete unification, but Federation; neither *Staatenbund*, nor *Einheitsstaat*, but *Bundesstaat*” (Robbins 1937a, p. 245).

Interdependence among States implies potential conflict and a systematic effort to escape problems of collective action at a supranational level. Hence the need for a supranational juridical framework and institutions that, just like national authority coordinates individual freedom, bringing conflicts within the framework of law and the police, may enforce international rules even against the will of single nation-States. The idea of a social order requiring coercive power implies a legal framework where market relations and individual plans are carefully and credibly ruled through “an apparatus of international co-ordination and coercion” (Robbins 1939b, p. 100). As he would later write (Robbins 1963, p. 149): “to create lasting harmony, authority is essential”, at all levels.

It should be stressed that for Robbins a federal structure does not (necessarily) imply less government: federal authorities may decide whether or not to intervene in economics and to what extent (Robbins 1940, pp. 240-1). A federal structure is a constitutional architecture where different ideological approaches can politically confront each other, not necessarily a means to reduce public intervention in the economy (Masini 2018).

2. HAYEK’S INSTRUMENTAL FEDERALISM

If we dwelled on Robbins’s idea of federalism is to mark the distance from Hayek and his intellectual background. Hayek, it should not be forgotten, was raised in Wien under the mentorship of Ludwig von Mises. In his *Nation, Staat, und Wirtschaft*, Mises (1919) had underlined that liberalism implies a political struggle designed to free economics from the (ill) influence of politics: “Liberalism, which assumes full economic freedom, tries to solve the difficulties which the different political institutions pose to the development of the market, detaching economics from the State” (Mises 1919, p. 35). Such early reflections would be further dealt with in his *Liberalismus*, where Mises (1927) explains the international aspect of the liberal struggle in connection with the question of how the liberal ideology can best serve the goal of world peace.

His polity proposal is for a top-down international system of organizations which may defend (impose?) peace among nations (Mises 1927, p. 148). Liberalism requires binding norms and institutions at the international level. The crucial question, though, is what kind of global public good is to be provided by such international institutions. Mises’ final goal is an international system of economic freedom, not a peaceful juridical arrangement worldwide where national sovereignties are limited so that war becomes impossible. According to him, “liberalism [...] is indifferent towards the State itself” (Mises 1919, p. 66) unless it proves detrimental to the establishment of a free-market international framework. In that case, the problem becomes “limiting State power to a minimum” (Mises 1919, p. 126).

Building on this approach, and on the theoretical need to contrast the rise of a Keynesian approach to economic policy aimed at the stabilization of an average price system (on a national basis)—which was the cause, not the remedy—of the turbulence of the market, Hayek dealt extensively with the virtues of federalism in the late 1930s. In several of his books and articles of that period, when discussing about a projected international liberal order, he often claims in favour of international federal institutions. We shall illustrate how, for Hayek, such an architecture is (only) a means to cancel out the distortions imposed on the market by national sovereign decisions concerning the economy.

The 1929 crisis, with the subsequent Great Depression were the resultant, according to Hayek, of an unduly intervention of public authorities in the market and an ill-conceived role of commercial banks, that had provided money for investment at a rate lower than the natural one. Central bank cooperation, in this context, only delayed market adjustments that were necessary to establish a new equilibrium in the economy. This all reinforced his conviction that State authorities are an evil for the free operation of the economy.

As Bonefeld (2015, p. 873) suggests, for Hayek: “society is either governed by the liberal rule of law securing individual freedom or it is governed by the democratic principle of majority rule, leading to tyranny and planned chaos.”

Hayek firmly argues against economic international cooperation also for theoretical reasons: “the conscious cooperation between Central Banks certainly played a great role” (Hayek 1932, p. 124) to create the conditions which degenerated in the 1929 collapse, a cooperation aimed to “avoid the inevitable fall in the national level of prices” (Hayek 1932, p. 123).⁵ Nevertheless, on several occasions a few years later, Hayek argues in favour of an international system of economic and political institutions designed along federal constitutional principles (Hayek 1937; 1939).

Although there is apparently a contradiction here, Hayek’s reference to the international institutional framework based on a federal political structure in his writings of 1937, 1939 and 1944 is aimed at strongly fencing off the intervention of (national) public authorities on economic relationships. This is basically the message behind his *Monetary Nationalism and International Stability* of 1937. For the whole Thirties, international federal structures and institutions become for Hayek the best substitute for the complete negation of any public intervention in the economy. This is the reason why, in 1939, Hayek joins the association *Federal Union*, founded in London to promote some sort of defence federation between Britain and France, as his contributions to the debate within the association demonstrate (Ransome 1991).

Along similar lines he publishes an article in *New Commonwealth Quarterly*, also in 1939, titled *Economic Conditions of Inter-State Federalism*, where he argues in favour of federal supranational institutions to support the principles of economic freedom (Hayek 1939). The context whence this writing emerges is key to its understanding. In this paper, written within the experience of *Federal Union*, Hayek is worried that the proposed defence union might be implemented without unifying their respective markets, and that both governments might force the economy outside market logics (which was rather plausible in the context of the economy of war). This is the reason why he stresses that political integration is unable to establish peaceful international relations without a parallel economic integration.

And also the reason why he is so keen to support the federation as a negative-sum game as concerns public intervention in the economy: “the conclusion that, in a federation, certain economic powers, which are now generally wielded by the national states, could be exercised neither by the federation nor by the individual states, implies, that there would have to be less government all around if federation is to be practicable” (Hayek 1939, p. 266).

The reason for this is easily understandable if we follow his logic. In a national context, it is reasonably easy to create and enhance a patriotic narrative pushing for tariffs, protectionism, planning. In a federal (supranational) union it is much more difficult⁶. Hence the conclusion that: “Planning, or central direction of economic activity, presupposes the existence of common ideals and common values; and the degree to which planning can be carried is limited to the extent to which agreement on such a common scale of values can be obtained or enforced. It is clear that such agreement will be limited in proportion inverse to the homogeneity and the similarity in outlook and tradition possessed by the inhabitants of an area. Although, in the national state, the submission to the will of a majority will be facilitated by the myth of nationality, it must be clear that people will be reluctant to submit to any interference in their daily affairs when the majority which directs the government is composed of people of different nationalities and different traditions” (Hayek 1939, p. 264).

A message which appears slightly different from the one emerging from Hayek’s *The Road to Serfdom* (1944) that, as we already noticed, was in fact written in several moments and successive drafts during the Thirties. Here, Hayek stresses the relevance of an alleged constitutional supra-national federalism, using a few concepts and wording already expressed by Robbins (1937a), such as: “there can be no international law without a power to enforce it” (Hayek 1944a, p. 173).

Such supranational power should nevertheless be confined to minimal competences⁷; and be put at the service of the economy, against any abuse of intervention from public authorities. As he suggests: “an international authority which effectively limits the powers of the state over the individual will be one of the best

safeguards of peace. The international Rule of Law must become a safeguard as much against the tyranny of the state over the individual as against the tyranny of the new super-state over the national communities. Neither an omnipotent super-state, nor a loose association of ‘free nations’, but a community of nations of free men must be our goal” (Hayek 1944a, p. 175).

As Hayek claims: “the need is for an international political authority which [...] must be able to restrain them [the people] from action which will damage the others”, but this is confined to guarantee economic freedom: hence his call for “a supranational political power which can hold the economic interests in check, and in the conflict between them can truly hold the scales, because it is itself not mixed up in the economic game” (Hayek 1944a, p. 172). Peace is the by-product of the establishment of a market hegemony.

The role of the supra-national level is to defend individuals from undue interferences of nation-States on their free choices, not to create room for collective supranational decisions, democratically taken (as was Robbins’s purpose): “the federation will have to possess the negative power of preventing individual states from interfering with economic activity in certain ways, although it may not have the positive power of acting in their stead” (Hayek 1939, p. 267).

Hence Spieker’s (2014, p. 928) conclusion that, for Hayek: “a future federal government would have to be constitutionally restricted from planning or otherwise interfering with the free market, and [...] it would have to be given the powers necessary to prevent member states from doing so”. Although Spieker infers from this that Hayek and Robbins had a similar attitude on this point, this sentence in fact shows how Hayek’s view of international institutions was in sharp contrast with what Robbins was suggesting (Masini 2018).

Hayek’s intention might be better understood if taken in the context of his efforts to institutionalize the neoliberal thought collective⁸ that had been emerging just before and during the war. In 1944, when *The Road to Serfdom* was eventually published, in a not-very-well-known speech he gave to the *Political Society* at King’s College in Cambridge on February 28, Hayek quoted at length from Lord Acton (1886), especially when he argued that: “a restricted federalism is the one possible check on concentration and centralism”. And (Hayek, 1944b, pp. 213-4) concluded: “Nobody who knows central Europe will deny that we cannot hope there for lasting peace and advance of civilisation unless these ideas become at last victorious, nor that the most practical solution of the problems of that part of the world is a federalism of the kind Acton advocated”. We know that the association, which was supposed to be named after Lord Acton and De Toqueville, later became the Mont Pelerin Society (MPS).

The project of supranational order he had in mind was therefore detached from Robbin’s idea of a multilayered democracy (Masini 2018) and increasingly tending towards a neoliberal organization for the establishment of neoliberalism within an international framework of facilitating institutions. As I have illustrated in *Trading-Off National and Supranational Collective Goods: The Birth and death of Neoliberal Pluralism* (Masini 2016), major differences started to appear publicly between Robbins and Hayek during the 1947 founding meeting of the MPS, when the former was asked to draft a final text that might compromise among different degrees and tones of sensitiveness (Mirowski and Plehwe 2009, pp. 22-25; Hartwell 1995, p. 41).

In his review to Hayek’s 1939 version of *Freedom and the Economic System*, Dickinson (1940, p. 436) had well realized this: “The price we have to pay for a system of free discussion and government by agreement is the restriction of governmental action to fields where agreement on common values can be obtained. By implication, this means the exclusion of governmental action from the economic field”.

Although he would later support the federalization of post-war Germany (Klein 1992, pp. 223-33), after the war Hayek increasingly abandoned any ambiguous reference to supranational federalism *à la* Robbins and kept pursuing a neoliberal agenda (*à la* Mises) where economic freedom is not the by-product of a worldwide constitutional arrangement based on the federal principles but is a goal in itself, to be pursued in each national political arena and coordinated worldwide. Apart from a very short period in his life, not only could Hayek’s political liberalism be labelled as “instrumental” (Kley 1994), but also his claim for constitutional federalism can be said to be *instrumental* to an economic and social *Weltanschauung* aimed at

preserving the spontaneous social order expressed by the market from the interference of any collective political body. Hayek's federalism was perfectly fit to the coming neoliberal agenda, pursuing the goal of detaching as much as possible, both at the national and at the supranational level, democratic dynamics from the market economy.

3. HAYEK'S INTELLECTUAL INFLUENCE ON EUROPEAN INTEGRATION

Hayek's intellectual influence⁹ in shaping European integration is a rather recent topic in scholarly discussion, although on the general impact of neoliberalism on the making of western society and the European Community/Union we can cite a well-established literature, whose typical example may perhaps be Michel Foucault's (2004) celebrated lectures at the Collège de France in 1978-9, where he discusses at length the influence of German *Ordoliberalism* and of what he considers Hayek's market-preserving constitutionalism.¹⁰

After the emergence of major shortcomings and country-specific macroeconomic divergencies due to an allegedly technocratic bias of European economic institutions and governance, during the 2008-2012 crises, the literature supporting the thesis of Hayek's and neoliberal influence on the making (and flaws) of the EU received increasing attention (Streeck 2011; Biebricher 2015; Bonefeld 2015; Wilkinson 2019; Ventresca 2019). Streeck's (2011; 2013) arguments, in particular, have become the dominant narrative: Europe is flawed by a Hayekian technocratic bias, that increased the democratic gap between European institutions and its citizens, liberalizing transnational markets and thus imposing an austerity stance on (national) economic policy.

From a different perspective, Christophe Deutschman (2014) replied as follows. First, a *Hayekian Europe* of liberalized supra-national markets was established already since the collapse of Bretton Woods, in the early 1970s. Second, European crisis management is precisely trying to get rid of the negative effects of a Hayekian regime: the deregulation pursued for over thirty years in the global and European economy led "into disaster" (Ibid., p. 355). Notwithstanding differences, in the end both Streeck and Deutschman agree on recognizing an overwhelming influence that Hayek exerted on the making of European integration.

Hayek certainly exerted a major intellectual influence *on many neoliberal thought-collectives, epistemic communities, think tanks, and policymakers*; some of them received some hints from Hayek's thought, and some in turn contributed to shaping the European architecture. Nevertheless, it is not necessary to call into question Hayek's approach to federalism to imagine that some of them favored an economic, rather than a political, integration of Europe.

Along this line of reflection, a few authors suggest that Hayek exerted an *indirect influence*, helping shape German *Ordoliberalism* and a few influential academics and policymakers that in turn impacted on the making of European integration (Bonefeld 2012, 2019; Brunnermeier, James and Landau 2016, p. 59ff). Allegedly, this happened in particular through Ludwig Erhard and the Freiburg School of Walter Eucken and Erich Hoppmann (Hien and Joerges 2018, p. 11).

In fact, the question whether, and to which degree, German *Ordoliberalism* impacted on both Germany itself and the making of Europe is controversial. Beyond anti German hegemony rhetoric, and beyond the plain fact that Germany pursued its own national interests within the intergovernmental institutions of the EU, it seems that the arguments in favor of a positive answer to both questions are not resting on robust bases. Some authors even suggest that the *Ordoliberal influence of and on Germany* is questionable (Beck and Kotz 2017; Young 2017). Some others have pointed at the European construction as a systematic and evolving compromise between French and German intellectual, constitutional, and economic influences (Maes 2002).

The first years and concrete steps of European integration were certainly marked by a prevailing influence of Monnet's (French) team of functionalist visionaries. Nevertheless, we should not forget the caveat by Lechavalier (2017), who suggests that there were major influences of German *Ordoliberals* on French intellectuals and policymakers.

There are certainly two key episodes where Hayek's name emerged in public debates on European integration, and both are difficult to assess in terms of the (intended) influence of Hayek's ideas. The first was during the Seventies, when a wide-ranging consensus from academics, policymakers and public opinion emerged as to the first concrete attempts to pursue monetary integration, that eventually led to the establishment of the European Monetary System (ESM) in 1979. This is the period when Hayek published *Denationalization of Money* to underline that any public monopoly over money creation was ill-conceived. Hence a controversial assessment on whether the ESM was an instrument to allocate a monetary power to some supranational mechanism (in the end, providing German authorities with the privilege to impose its monetary stance on the whole Europe) or a way to denationalize it in Hayekian terms. The theoretical supporters for a parallel currency approach to integration along Hayek's lines (such as Vaubel 1978) seemed to prevail in this first round: the *ecu* was indeed a sort of parallel currency, although in the form of a basket currency.

The second episode concerns the period 1989-1991, when the idea of a single currency was launched and eventually adopted. The foundation of the euro certainly was against Hayek's idea of *denationalization of money*. This was the very reason why the British Government had attempted to negotiate a proposal for a market-driven monetary integration (HM Treasury 1989) based on a *hard-ecu* parallel currency (explicitly winking at Hayek's intellectual influence). Our enquiry on this (Masini 2010) suggested that the move of the British Government was purely tactical, and that Hayek was only instrumentally used to fight a political struggle against Brussels's dirigisme that would undermine British monetary sovereignty.

Although such proposal was dismissed and the path to the euro firmly pursued, the statutory independence of the ECB from both European and national democratic institutions (being the ECB only subject to the policy provisions set by the Council, which represents the European States, not their peoples) have raised issues concerning the democratic accountability of monetary policy in the euro-area. On this, again, Hayek was called in: "The market-liberal watchword for both Hayek's interstate federalism and the established institutional structure of European monetary union is subsidiarity. Subsidiarity entails a system of 'relative sovereignty' (Röpke 1954, p. 38) in which the fundamental freedoms of a free labour economy, including monetary conditions and 'anti-trust rules and institutions for the supervision of state aid', are regulated by supranational institutions that are not 'directly controlled by the electorate' (Engel 2003, p. 430; Bonefeld 2015, pp. 877-8)."

We should nevertheless wonder whether we do need to call in Hayek to explain central bank independence, given that since the Seventies a consensus emerged, along Kydland and Prescott (1977) seminal work, as to the greater credibility (and efficacy of monetary policy) granted by an independent central bank.

This does not mean to deny a technocratic bias in the economic and monetary architecture of the European Union, being monetary policy sheltered in a supranational niche, while democratic dynamics remain confined at the national level. As Hayek claimed in 1939, it is easier to protect the economy from lobbies at the supranational level: "Now nearly all contemporary economic policy, intended to assist particular industries, tries to do so by influencing prices. Whether this is done by marketing boards or restriction schemes, by compulsory 'reorganization' or the destruction of excess capacity of particular industries, the aim is always to limit supply and thus to raise prices. All this will clearly become impossible for the individual states within the Union" (Hayek 1939, p. 259). A picture that fits rather well the conflictual dynamics emerged in the European Union in the recent decades.

It is also true that the European integration saw an increasing and not-yet-resolved gap between economic integration and democratic legitimization; that the pursue of the "four freedoms" resembles Hayek's 1939 call for a free movement of "men, goods and capital". The idea that this all is Hayek's responsibility is nevertheless pure nonsense. In 2015, we explicitly challenged the Streeck-Deutschman assumption, suggesting that it was not Hayek's influence that led to a technocratic, un-democratic bias, but the resistance of national political elites to surrender further parts of their sovereignty (power) to common, democratically legitimized, institutions (Masini 2015). Politics merely and instrumentally exploited Hayek's name.

Our concluding remarks were that Hayek did exert a major intellectual influence on a neoliberal approach to economic policy, that was fit to *avoiding* a path towards a federal Europe, as the one suggested by Robbins. A supranational federation was for Hayek a rational construct instrumental to detach the (virtuous) economic and market (global) catallactics from the (systematic, unavoidable) degenerations of (national) political influences.¹¹

From this point of view, Hayek's approach to federalism was very similar to the one that Mises, Rappard, Lippmann, and many other neoliberals thought the responsibility of international authorities should be: to save the market economy from the evils of politics. Hence the appellation of "market-preserving federalism" (Weingast 1995; McKinnon 1997) sometimes attached to it.¹² In any case, as Spieker (2014, p. 920) synthesized: "Hayek's federalist vision of international relations is distinctive in its uncompromising insistence on isolating a free-market capitalist economy from democratic politics".

CONCLUDING REMARKS

When he moved from Wien to London, in 1931, Hayek brought along a heavy luggage and was in search for some relief. The increasing intervention of public authorities in the economy was becoming a major hindrance to sound market (even social and political) relations, as Mises had been forcefully underlining. Collectivism, corporatism, dirigisme, étatism, were pathological aggressions to the market and society that needed to be fenced off with long-term structural-institutional solutions.

In London, Hayek discussed all this at length with Robbins, whose idea of a peaceful international order relied on the building of a multilayered structure of governments, endowed with enforceability power, based on an upscaling of Cannan's reflections on the need to match markets and public authorities at different levels, from local to global. Robbins's call for a supranational federation seemed to provide a reasonable compromise to Hayek's search for a system that could detach the pathological illness of politics from the purity of atomistic market relations.

Although the tones of their reference to supranational federalism might sound similar and they both engaged in supporting ideas and associations linked to the promotion of European and international federalism, their aims and understanding of federalism were ontologically different. While Hayek's federalism was a *negative-sum game* in terms of the role of public institutions in the market, for Robbins it was a *zero-sum game*, a mere reallocation of governmental powers to the place where they prove more effective. A *zero-sum game* that might even turn into a *positive-sum game* if the overall efficiency of the system would prove to be positively affected by such reallocation.

Hayek aimed at a *market-enhancing* federalism: a light model of supranational institutions with the powers to prevent political interference upon the market. International peace—certainly not a goal in itself—would possibly result as a mere by-product of undisturbed market efficiency. Robbins, on the contrary, meant to support a federal supranational constitution to solve the problems of monopolistic national sovereignties (as major hindrances to international peace) that transform individuals belonging to different monopolies into enemies, irrespective of shared needs, and of a lack of correspondence between multilayered collective markets and public choices.

This distinction is also key to understanding Hayek's alleged influence on the building of European integration and the place that both Hayek and Robbins have been having in the making of Europe. Europe is struggling since the early post-WWII years to experience a new model of shared sovereignty, along similar lines as those followed over two centuries earlier by the Thirteen British colonies in the USA, that founded a new constitutional model based on the principles of constitutional federalism. Robbins's intellectual influence on this goal appears manifest.

The resistance from national governments to such process was—and still is—paramount. Hence a functional, sectoral integration strategy that very much resembles the ideal described and supported by Hayek's instrumental federalism, where the economy is increasingly integrated (but delegated to technical agencies); and policy is not, as it directly impacts on the balance of powers of national elites. In the mak-

ing of European integration, Robbins's and Hayek's ideas/models of supranational federalism are therefore opposite to one another and still struggling for supremacy. Europe is the resulting compromise between an unintended Hayekian architecture deriving from national resistance to surrender parts of their sovereignty, and Robbins's ideal for a fully-fledged constitutional federation.

The fact that Europe is still struggling between these two models is a testimony that the 1930s were indeed the years of high theory, also in the field of supranational relations.

NOTES

- 1 Among them: Luigi Einaudi, Attilio Cabiati, Edwin Cannan, Ludwig von Mises, Lionel Robbins, Friedrich A. von Hayek, William H. Beveridge, Barbara Wootton, Jacques Rueff, Jean Monnet, Wilhelm Röpke, François Perroux.
- 2 One major source is Hayek's (1944a); nevertheless, we now know that that book was born as a memo to Beveridge when he arrived in London (Caldwell 2008), conceived as a volume in 1933, written—almost in its final version—a few years later, and eventually published in *Contemporary Review* of April 1938 with the title *Freedom and the Economic System* and as *Public Policy Pamphlet* in 1939 (Lane 2013).
- 3 He writes: “as to theoretical thinking, such eminent liberal economists as Hayek, Einaudi, Robbins had conclusively demonstrated the difference between the decision on how activist the state should be in economic policy and the allocation of power across different levels of government. On the first, they favor strong limits to public intervention, but on the second, they espouse the creation of an international level of government for its peace-keeping and wealth-generating impact”. For a detailed explanation of their different approaches to federalism see Masini (2012).
- 4 Robbins on this follows the speech Cannan gave at the LSE on *International Anarchy from the Economic Point of View* and the article *A Plea for Large Political Units*, written in 1916 but published only in Cannan (1927).
- 5 The ill-conceived international cooperation rested on the idea that an average price could be stabilized domestically and worldwide, thus impeding market prices re-alignments to take into account the evolving conditions of supply and demand.
- 6 As he writes: “In the national state current ideologies make it comparatively easy to persuade the rest of the community that it is in their interest to protect ‘their’ iron industry or ‘their’ wheat production or whatever it be. An element of national pride in ‘their’ industry and considerations of national strength in case of war generally induce people to consent to the sacrifice [while] in a federation, the problem of agreeing on a common tariff will raise problems different in kind from those that arise in a national state. It would lack the support of the strong nationalist ideologies, the sympathies with the neighbor; and even the argument of defense would lose much of its power of conviction if the Union were really strong enough to have little to fear” (Hayek 1939, pp. 262-3).
- 7 To avoid any possible misunderstanding, Hayek underlines the following: “The powers which must be devolved on an international authority are not the new powers assumed by the states in recent times, but that minimum of powers of the ultra-liberal ‘laissez-faire’ state. And even more than in the national sphere, it is essential that these powers of the international authority should be strictly circumscribed by the Rule of Law. [...] The form of international government under which certain strictly defined powers are transferred to an international authority, while in all other respects the individual countries remain responsible for their internal affairs, is, of course, that of federation” (Hayek 1944a, pp. 172-3)
- 8 As Ola Inset (2020, p. 131) suggests: “Hayek was on his way to becoming a full-time neoliberal activist”.
- 9 We are aware that assessing the intellectual influence of an author on a process is difficult and tricky. We suggest that a tentative proxy for its conceptualization may be the methodology used by Mirowski and Plehwe (2009) in reconstructing the intellectual impact of neoliberalism on specific countries after WWII, based on enquires into the tentacular personal networks, academic journals, policymakers sharing major parts of an author's (or a group of authors, as is the case with Mirowski and Plehwe) view and goals.
- 10 On this, see in particular the lecture dated 21 February 1979.

- 11 Incidentally, it might be noted that this sound ironic, as Hayek always struggled against rational constructivism, at the same not being able to escape its temptations when it came to design a (constitutional) system to allow for the preservation of the market spontaneous order.
- 12 As the term *market preserving federalism* is more often related to designing institutions that do not necessarily imply the detachment of politics from economics but that reinforce market efficiency, Hayek might rather be labelled as a market radical.

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