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On Liberalism 2013**

PROCEEDINGS

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Preface

Giulio Ercolessi, European Liberal Forum

Everyday politics is getting more and more short-sighted in our countries by the day. National political establishments are more and more absorbed in the task of winning decimal fractions of a point in opinion polls in their daily fight for survival in a more and more hostile and “liquid” social environment, infested by demagoguery and quackery. And, more and more, the first quality required of a would-be politician appears to be that of not caring too much about his/her reputation, as personal negative campaigning appears to have become one of the most usual tools of electioneering. The relative decline of Western liberal democracies is also a result of a consistent decline in the quality of political debate and political personnel.

Countering this trend, reconstructing the conditions for more far-sighted and reliable political establishments should be the duty of all those concerned with the lot of our democracies, with the place of Europe in the global world and with the very future of our civilization. We try to play our part and to fulfil our duty in this effort. The European Liberal Forum, the organisation reuniting European think-tanks and foundations connected to the ALDE party, has the task of promoting liberalism and liberal ideas and policies, hopefully to be implemented in our political systems. We contribute to the debate on European public policy issues and the process of European integration, through education, training, research and the promotion of active citizenship within the European Union, particularly with regard to young Europeans. And the schools of liberalism we promote with the contribution of our member organisations are of paramount importance in our effort to help the renewal of ever new generations of young liberals.

The 2013 ELF Southern European School of Liberalism held in Santiago de Compostela on September 27th and 28th was a very successful example of this effort. A very committed group of students gathered for two days of intensive discussions, lectures and debates, revealing the existence of a real school of thought in the local University, anything but limited to our two days

event, that can count on a committed and enthusiast group of distinguished academics. Speakers and lecturers from six European countries contributed to the success of the School, that was realised thanks to our Galician member organisation Galidem, with the contribution of Movimento Liberal Social, Forum for Greece and the Friedrich Naumann Stiftung.

Our friends from Galidem hosted us in the local Casa de Europa, in the middle of a luxuriant park, and gave us the opportunity to discover the capital city of Galicia, that many of us only knew as the final destination of traditional religious pilgrimages, as the enchanting and captivating medieval and modern city it is, with its intriguing past, its eminent historical heritage, its lively university life, and also its delicious cuisine. And to discover a European region struggling to find its peculiar place and identity in a democratic Europe.

On Adam Smith

Eduardo L. Giménez, University of Vigo and GALIDEM

This essay presents a brief sketch of Adam Smith's life and ideas. Three questions are answered in the text: who was Adam Smith?; what were the main academic debates of the 17th and 18th centuries that made Adam Smith's contributions relevant?; and what were his very contributions and answers to those debates?.

Who was Adam Smith?

The popular view on Adam Smith is divided among those who consider him as the champion of the individual and market freedom and a sound supporter of free trade and *laissez faire* policies, and those who blame him as the philosopher that sanctified any outrage against social equality and humankind solidarity in the name of the free trade and individual freedom. But ,... who was Adam Smith?

Adam Smith was a Scottish philosopher and an archetype of university professor: absent-minded, and usually absorbed in his thoughts. He was born in Kilkardy, Scotland, in 1723 and all his academic life was around the University of Glasgow where he was student, eventually became professor and, when old, its Rector. He started his university studies in Glasgow at the age of 14, which was the normal age at this time. In Glasgow he was student of Francis Hutcheson, a relevant empiricist philosopher. From 1740 to 1746 he moved to the University of Oxford. But, at that time Oxford was not the present well-known institution of academic excellence. Professors in Oxford did not even pretend of teaching classes, so Smith spent his time reading books guided on his own interests. After leaving Oxford, he got back to Scotland at the University of Edinburgh, where he met David Hume, another empiricist philosopher. In 1750 he moved to Glasgow to become Professor of Logic at the, and in 1752 he also became Professor of Moral Philosophy at the University of Glasgow.

In 1759 he published *A Theory of Moral Sentiments*, a book on ethics that became a best-seller of the time, even overseas. In Germany, "Adam Smith's problem" (*Das Adam Smith Problem*) was a topic of debate. Smith became

a popular person. People stopped him at the street to wonder him about the content of the book and ask his opinion.

His fame reached to Charles Townshend, a person interested in philosophy and politics who eventually became the British Minister of Finance. Townshend got married in 1754 with the Duchess of Dalkeith, widow of the Duke of Buccleuch, and turned out to find a tutor to his son-in-law in a journey through continental Europe. Townsend thought that Smith would be the suitable companion for the young Duke, and offered Smith 500 pounds, plus the expenses of the journey and a life-time pension of 500 pounds to accompany the Duke. This was a proposal difficult to reject, since Smith earned 160 pounds a year as a professor in Glasgow.

In 1764 Smith gives up the university, and struck towards France with the young Duke. In France he visited Voltaire and met François Quesnay, a physician in the court of Louis XV and the leader of a group self-called “les économiques” (*the economists*). The journey was suddenly interrupted on 1766, when a younger brother of the Duke died, and Smith and his disciple had to return the British Islands. Smith return to Scotland, to live with his mother, and will spend the following ten years working in a book that has started in France.

On 1776 Smith published **The Wealth of Nations**, a monumental treaty of economics, politics and public finance while living in London. His popularity increased so much that, on 1778 he was appointed Commissioner of Customs for Edinburg, which being a supporter of free trade it brings with some contradiction, but this allowed him to return to Scotland, live with his mother and, after her dead, with a cousin.

Smith died on 1790 after requiring to burn 16 volumes of non-published works, probably on Jurisprudence.

What were the main academic debates of the 17th and 18th centuries that made Adam Smith’s contributions relevant?

The main social debates of the 17th and 18th centuries were centered around the following question: “who humans can live in society without someone

to rule them out”. Some authors, like Niccolò Machiavelli and Thomas Hobbes,¹ asserted that without an authority life in society was impossible. Thus, an absolutist State is need for human society survival and the social order. This idea entails that (i) authority, based on the monopoly of power, is justified without any further legitimacy; and, (ii) authority, based on violence, is justified without as a way to ensure obedience. The alternative faced by society is the social dismemberment and the law of the jungle.

A different answer was provided from the British and Scottish empiricists, like Francis Hutcheson (1694-1746) e David Hume (1711-1776). By assuming that there exists a “natural benevolence” —or *moral sentiments*— among humans, these authors supported the thesis that live in society is possible thanks that people is concern with other human beings. Not being selfish by nature, Individuals tend spontaneously to associate themselves. This is a “natural order,” so it is not needed any external intervention in society by the State.

However, There were two problems in this argument: i) it was not clear —in fact, it was an assumption- why human beings are benevolent, and ii) it was not clear why selfish interest promotes the social wellbeing.

What were Adam Smith’s contributions and answers to those debates?

Adam Smith appears in scene tackling both problems in his two main contributions: *A Theory of Moral Sentiments*, published in 1759, and *The Wealth of Nations*, published in 1776.

The *Theory of Moral Sentiments* aims to explain why human beings are benevolent. The reason is humans are endowed by a sympathetic feature that allows them to understand other people’s own circumstances and feelings. That is, different from other animal species, humans display the ability to “put in other people shoes”, and benevolence stems from this ability. From the first paragraph of the book:

“How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others,

¹ For instance, these ideas can be found in Machiavelli (1532)’s *The Prince* or Hobbes (1651)’s *The Leviathan*.

and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.” *Smith (1759, Part I, Chap.I, Sec. I)*

Yet, sometimes sympathy is not enough, since we cannot take at anytime an unbiased view of our personal actions, so some *moral rules* are required, i.e. a generalization of actions that are commonly accepted or not. Finally, in those cases that moral rules are not sufficient, it is required *positive laws*.

Once it was clear that there exists a benevolence that allows individuals to live together in society, Smith faced the challenge to answer the second issue: why selfish interest promotes social wellbeing. In this quest, he will spend ten years writing *An Inquiry into the Nature and Causes of the Wealth of Nations*, a five-part book with about 1282 pages. This is an academic book, wrote with the style of the time, with several digressions that apart the reader from the main argument. The book’s content has been nicely described by Alois Joseph Schumpeter:

“There are five Books. The fifth and longest—taking 28.6% of total space—is a nearly self-contained treatise on Public Finance and was to become and to remain the basis of all the nineteenth-century treatises on the subject until, mainly in Germany, the ‘social’ viewpoint—taxation as an instrument of reform—asserted itself. The length of the book is due to the masses of material it contains: its treatment of public expenditure, revenue, and debts is *primarily* historical. [...] The fourth Book, nearly as long, contains the famous indictment of the ‘commercial or mercantile system’—the patronizingly benevolent criticism of physiocrat doctrine in the ninth and last chapter does not call for comment—from the ashes of which rises, phoenix-like, Smith’s own political system. Again: the reader beholds masses of facts painstakingly marshalled, very little of very simple theory. [...]“Book III, which occupies less than 4.5% of total space, may be described as a prelude to Book IV, filling in general considerations of a primarily historical nature on the ‘natural progress of opulence,’ the rise and the commerce of towns as distorted—hampered or propelled—by the policies sponsored by various interests. This third Book did not attract the attention it seems to merit. In its somewhat dry and uninspired wisdom, it might have made an excellent starting point of

a historical sociology of economic life that was never written. Books I and II—respectively about 25% and 14% of the whole—also overflowing with illustrative fact, present the essentials of A.Smith’s analytic schema. They can indeed be perused by themselves. But the reader who, more interested in theory than in ‘application,’ refuses to go beyond them will miss much that is indispensable for a full understanding of the theory itself.” Schumpeter (1954, Parte II, Chap.3.4.(e))

The book aims to answer two issues:

- 1) How is it possible that a community, with its individuals each seeking their own interest, the results is not a chaos and it is not torn up? That is, how does a society accomplish to develop all the task necessary for survival without a central authority planning?; and,
- 2) What is the future of society?

Smith answers the first question posing the market laws. The first law is the *selfish interest* driven humans to undertake those tasks that are valued by the society. Since there are a human tendency towards commerce and exchange, a feature that does not exists in any other living species, each human might specialized in any particular task within society. As Smith states,

“It is not from the benevolence of the butcher the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages.” *Smith (1776 Bk.I Chap.II)*

This self-interest, however, may bring with excesses, so a second law is needed: *competition*. The existence of competition mitigates the self-interest behavior of human beings in society.

The result of the interaction of these laws is the “social harmony”, characterized by Smith with the *invisible hand*:

“[Each individual] by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain;

and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. [...] By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it.” *Smith (1776 Bk.VI Chap.II)*

Several comments are in order. First, the social harmony as a result from self-interest behavior is an unexpected result. The compulsory requirement of competition is crucial to achieve this result. Second, Adam Smith put self-interest at the center of the debate. Thus, Smith prevents us from those people, usually people in authority, who ask for supporting policies “in the public interest”. Cynically, Smith comments

“I have never known much good done by those who affected to trade for the public good.” *Smith (1776 Bk.VI Chap.II)*

Third, since we cannot trust in those people claiming for the public interest, should we trust in business people? Not at all, indicates Smith:

“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.” *Smith (1776 Bk.I Chap.X)*

Business people have their own self-interest, which does not need to coincide with the interest of the society. Then, if we cannot trust on the people in authority, nor in business people, whom can we trust on to promote social wellbeing? Smith displays a clear message: on the market laws. By guaranteeing that all members in a society can take free (selfish) decisions, and encouraging competition among (selfish) individuals, social welfare will be promoted.

The second issue addressed in the *Wealth of Nations* is “what is the future of society?” What can be expected from an economic organization that any member of the society is guided by his self-interest, and competition controls individual selfish excesses? Smith asserts clearly: towards a continuous economic growth that benefits all members of the society. He states,

“No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.” *Smith (1776 Bk.I Chap.VIII)*

And which are the keys for this never ending economic growth? They are the division of labor and the capital accumulation. This is the virtuous circle: more division of labor expands the size of the markets, and this brings with an increase of labor productivity that encourage further division of labor. As Smith asserts at the very beginning of the book:

“The Greatest improvements in the productive powers of labour, and the greater part of the skill, dexterity, and judgement, with which it is anywhere directed, or applied, seem to have been the effects of the division of labour.” *Smith (1776 Bk.I Chap.I)*

So the division of labor triggers the economic growth, since it encourages exchange, which requires further division of labor in society and further economic growth.

Some final comments

To conclude, Smith explained the working of the human organization system grounded on the individual freedom. He showed that this system can work better than other alternative organization systems, and he envisaged that this system of social organization will increase the welfare of all members of the society.

It is worth wondering whether that system detailed described and explained by Adam Smith really works. Does the society moves towards a greater wellbeing of all its members? At the light of the impressive improvement of the economies in the last two centuries, it is hard to avoid showing amaze about Adam Smith predictions.

Concerning Economics, the new science he found, the academic relevance of Adam Smith contributions on the economics research developments in understanding the system described by Adam Smith has being clearly summarized by Ronald Coase in his Nobel Prize Lecture:

“During the two centuries since the publication of *The Wealth of Nations* the main activity of economists, it seems to me, has been to fill the gaps in Adam Smith’s system, to correct his errors and to make his analysis vastly more exact.” Coase (1991)

If we realize that Coase is talking about a book written in 1776, more than two hundred years ago, this is a very significant statement.

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Liberalism and definitions

Giulio Ercolessi, European Liberal Forum

«Every man has a property in his own person».

If it were not for the total lack of gender neutrality in this sentence (but until a few decades ago nobody would care), one could think that we are dealing here with such biopolitical issues as abortion, gay rights or euthanasia.

These issues were far away from the interests of the man who first wrote this sentence, a man of the 17th century, who, as all the people of his time, would likely not be in tune with today's liberal positions on these issues. It was John Locke, in his Second treatise of government (1690), that probably set the birth of proto-liberalism as a political theory. What is telling is how this principle can still produce ever more profound effects on the ever changing problems of our time: the «property in his own person», that was first, at least de facto, meant for the male, adult, white, mostly well-to-do, protestant, heterosexual, able-bodied, native citizen, is in fact now the more and more obvious domain of universal rights.

Property itself was given by Locke the very political role of a defence against the king's absolute power. And that political – and not merely economic – role has proved to be as much important in the 20th century. The experience of communism has confirmed that a free society can only be a polyarchic society, in which the holder of political power does not also hold most of the economic power and power over the media. And the self-determination of what Locke called “every man” – i.e. every individual – is today, too, the centre of liberal concern.

To an extent, liberalism has so deeply shaped, more than any other ideology, the very fabric of the Western civilization in the contemporary age, that nowadays liberalism and Europe, liberalism and the Western political civilization, almost identify.

Hence, defining liberalism is more difficult than before.

Is a definition necessary?

I think it is in order to have a critical control on one's own language, but we cannot expect it to be a prescriptive definition: it can only be a proposal, not the prescription of a particular use.

And I think a definition is also necessary in order to avoid confusion. Otherwise, if we accepted to define as liberal whomsoever adopted the label, we should include in our family, for example, the antisemitic and anti-Western Russian party of Vladimir Zhirinovsky, the so-called "Russian liberal-democratic party". (And, to the shame of us Italian liberals, Berlusconi too, who sometimes describes himself as liberal – and his non-liberal opponents have let him do so for twenty years).

There are other difficulties.

1. Political definitions also carry very subjective, non-rational understandings. Think, for example, of the different resonance and understanding that the words that define the principal political ideologies have, depending on the personal opinions of different individuals. Norberto Bobbio quoted the example of the word "communism", synonymous with deprivation of all individual liberties and of generalised misery for most of us, and synonymous for earthly paradise for millions of committed communists decades ago.

National traditions also may bring about misunderstandings. European integration and globalisation itself would obviously require a joint vocabulary, but all political speech is rooted in different linguistic and historical traditions.

One year ago, I was at an ELF seminar in Prague. The audience was mostly composed of Central and Eastern Europeans from former communist countries; three of the speakers in one of the panels were Western Europeans – a Frenchman, a German and myself. When we used the word "federalism", we were naturally thinking of the US, of Switzerland, of the success story of the Federal Republic of Germany; but we realized that for the audience that word was linked to totally different historical experiences: the Soviet Union, former Yugoslavia, communist Czechoslovakia.

And another example of such misunderstandings is typical of this part of Europe: here the word “nationalism” bears today a very peculiar meaning, if compared to the rest of Western Europe. It is not a more moderate form of “chauvinism” or “jingoism”, but is related to the request of self-determination of parts of the Spanish state, traditionally deprived of their democratic rights by a centralistic and for centuries authoritarian power. Yet, if you asked an average learned and cultivated European what can be described as “nationalist” in the contemporary history of Spain, this person would quite obviously think of the Franco regime, rather than of any democratic movement.

2. The thing liberalism (unlike, for example, mainstream socialism) was born before its theory. The theory was formulated after a number of demands for political reform, economic reform, religious reform, social reform, produced a melting pot of new ideas and institutions during the “Great Rebellion” of XVII century England. The new form of government finally arisen from the “Glorious Revolution” towards the end of the century, despite all its contradictions, was the only relevant and real alternative to the opposite model of that time, the French “solar monarchy”, that had been a reference for all the major European countries.

3. Thing and theory were both born before the name was born. Perhaps surprisingly, the word “liberal”, as a way to qualify a political stance, was born in Spain, at the time of the Cortes de Cádiz, in 1810-12, when a parliamentary assembly was drafting the first Spanish constitution, protected by a British fleet; and when, very tellingly, a “servile party” – “partido servil” – was opposed to a “partido liberal”.

4. Liberalism (unlike socialism – at least at its beginning) does not coincide with one single philosophy: it has always been a philosophically polygamist (libertine in the trivial sense of the word), merely political theory, that married with empiricism, the Enlightenment, Kant’s criticism, idealism, positivism, instrumentalism, and with the most diverse “analytic and “continental” contemporary philosophies; and also with libertinism, rationalism, atheism, some very important Protestant theological currents since its birth – and even with some minority brands of Catholicism);

5. Liberalism largely coincides with a civilization, despite countless contradictions, and yet has a universalistic vocation. It is not the common fruit of the Western civilization as a whole, even though it grew on some typically Western cultural depositories.

Some of these depositories deserve to be mentioned. A) The Greek classical philosophical tradition and the political thought and “constitutionalism” of the Antiquity, as reassessed, re-appropriated by scholars and revitalized since the Renaissance. B) The heritage of Roman Law and Common Law: i.e. the rule of law, gradually led by liberal constitutionalism to cover even the production of new laws under the judicial review of ordinary or constitutional courts (this connection between liberalism and legal traditions, practices and theories is often underestimated by historians, political philosophers, and even political scientists, perhaps because outside their academic focus). C) Conflict among political and religious powers, that forced Western Europeans, throughout their history, to take side in political, religious and politico-religious struggles. Conflict entails differentiations. At a time when these differentiations were believed to involve individual salvation or perdition, the personal choice of the Western individual, whose loyalty was contended by Popes and Emperors, became crucial. D) Hence, also, arose the new Western idea of the individual, especially born in the Ancient Low Countries and in Northern and Central Italy in the late Middle Ages and well visible in the material culture and in the figurative arts and literature of both regions. E) The central role and the incoercibility of individual conscience, born with Christianity and empowered by the rift caused by the Reformation. F) The disenchantment of the medieval world – also an unintentionally joint result of both libertinism and the Reformation – (that forced to a smaller extent also the Catholic church of the Counterreformation to rationalise its doctrine and impose a sharp resizing to spontaneous and superstitious popular faith, at least in those areas where the Protestant challenge was most dangerous) and the birth of modern science. G) Tolerance, as a lesson taught to us by religious wars.

But liberalism – and tolerance as a value, and not as the consequence of the impotence of power to crush dissent – is basically a Dutch, English, American and French product, that proved capable in the last three centuries of being introduced, transplanted, copied, adapted, sometimes even improved, in very

different cultural and political environments. This historical expansion of liberalism beyond its original boundaries can be seen today as a promising precedent for regions where new totalitarian or fundamentalist threats seem to be on the rise.

This process is particularly evident in the history of the Italian Risorgimento, when both moderate and radical liberals mostly shared the idea that the civic backwardness of 19th century Italy was largely a consequence of the political predominance of the Roman Church: Italian patriotism at the time was largely nourished by the *leyenda negra* of Counterreformation Spain, that had ruled over a large part of Italy, especially in the 17th century, and by the positive opposite examples of British parliamentarianism, of the French secularist principles of '89, sometimes of Swiss federalism and – in the eyes of the most far-sighted – of the new-born and at the time far-off American democracy. But the British and later the American examples had been an extremely important reference even for French liberal-minded thinkers before and after the Revolution: just think of Montesquieu, of Voltaire's *Lettres anglaises*, of Constant, of Guizot and of Tocqueville. And in Spain, too, the British example played a major role (that was recently explored by Manuel Moreno Alonso in his book *La forja del liberalismo en España*).

In any case, liberalism is today almost synonymous with our political civilization, as opposed to others in the world. So much so, that almost no political force in our countries can survive today on a totally anti-liberal platform: at least, they have to pay lip service to some of our basic principles, even when their policies openly contradict them.

Hence, every definition of liberalism can only be what is called in social sciences an ideal type, i.e. an abstract intellectual construction, to which we can compare what exists in history and in societies, in order to be able to appreciate what is most liberal, what is least liberal, and, of course, what is most illiberal or anti-liberal.

We should therefore try to propose a definition. And this is my proposal: liberalism is a theory of the ends and a theory of the means: maximising individual freedom and self-determination, mainly through the instrument of the legal limitation of powers.

If we accept this definition, Liberalism is a perpetual work in progress.

First because, from the very beginning, it was connected with an ever more comprehensive and ever more consistent fight against authoritarian traditions and beliefs, and because of the natural inclination of every political, traditional, bureaucratic, social and economic power to confront and overrun its imposed limits.

Second, and as a consequence of that, because liberalism was never restricted to the limitation of political power: liberalism always aimed at imposing limits also on the ever possible tyranny of a democratic majority; on the abuse of economic power, through anti-trust legislation protecting free market and competition, and through a legal protection of workers from abuse, and defending consumers from fraud and adulteration; on the abuse of power even inside communities and families, advocating equal rights for women (since Locke's time, and his reduction of marriage basically to its merely legal framework) and protecting children from abuse and indoctrination.

Third, finally, because the economic means necessary to fulfil the goal of enhancing individual self-determination do change with the different challenges we have to face.

The brand of liberalism that was mostly recognized as such, after the end of World War II and until a couple of decades ago, the one that largely influenced most of the political spectrum in most Western democracies throughout the Cold War, not only required the guarantee and the implementation of the individual liberties that were trampled by communist and other totalitarian regimes, but also included a push towards an ever greater inclusion and empowerment of each individual in the actual exercise of his/her citizenship and liberal rights. That had originally been a typically liberal idea, born in the Victorian age in the same country, England, that had given birth to liberalism two centuries before. The idea was that public powers should actually put individuals in the condition of making real use of their liberal liberties. The Welfare state itself was first conceived and designed by liberals as Keynes and Beveridge, who were card-carrying members of the British Liberal Party, not by socialists or social democrats. And for years, not only communists,

but also a lot of mainstream socialists, had been accusing the wicked liberal economist John Maynard Keynes, for having rescued capitalism from its certain downfall, thus preventing the rise of a happy global socialist society.

It is a fact that almost all national political classes and state bureaucracies had long been squandering since, for their own advantage, much of the benefits they were supposed to make available to a majority of citizens.

A healthy liberal mistrust towards ever possible abuses committed by the holders of political power, and a less naive and more sober notion of democracy, should have suggested that “public” is by no means equivalent per se to “caring for public interest”. Moreover, the demographical and technological transformations of the last three decades nowadays impose deep reforms of the welfare systems in order to assure their financial sustainability. But, as it frequently happens in politics – and in social sciences – an overreaction took place since the late Seventies on both sides of the Atlantic, in the end substituting the liberal consensus that had been shared in most Western countries by the moderate left and the moderate right alike while we were containing and opposing Soviet communism, with what was – usually derogatively – called Washington consensus in the Nineties, that was more inclined to accept growing inequalities, and, especially, also decreasing equality in opportunities.

In some countries, namely in France, and elsewhere to a smaller extent, that essentially merely economic and very often caricaturized doctrine became synonymous with liberalism, to the point that the previous meaning – liberalism as synonymous for political freedom and freedom of conscience in the first place – has long been labelled as *vieilli* (outdated) by French dictionaries: so that even the Chilean Pinochet regime of the Seventies and Eighties can often be defined as *libéral* in the present French political debate.

Anyway, this new basically economic theory, not the comprehensive liberal political views that embodied the Western opposition to communism from the Forties more or less to the late Seventies, was the ideology upon which the globalised world was restructured after the fall of communism.

At the beginning it was a success, because of the enormous growth caused by

the more open societies in general and by the opening of totally new markets; and perhaps most of all by the simultaneous huge technological revolution; and, later, due to the practice of easy indebtedness. The subsequent global economic crisis still ongoing, and the consequent discredit that the most radical interpretations of the so called Washington consensus are undergoing, should not be allowed to drag liberalism into disrepute together with them.

A liberal society cannot survive without a free market economy, not only because private enterprise is an expression of individual freedom, and because the economic development, that it alone can make possible, is necessary in order to achieve a satisfactory degree of human development, but also because a liberal society must be polyarchic: political power, economic power and power over the media power should be as much separate as possible. Strong counter-powers to the political power are vital for a liberal society. And free trade is also the best guarantee for peace in a global world: thanks to globalisation, perhaps for the first time in history, the rise of a new global superpower like China is not leading to a war among the major powers, that today would be the global nuclear war that had been threatening all of us for forty years.

It is however not only a long overdue tribute to historical accuracy, but also a statement of fact, that different views on the extent of legitimate and suitable state intervention, and different ideas on the desirable level of equality of opportunities, have always been present in the history of contemporary liberalism. We should remember this while trying to find the way out of the present global crisis.

Rather than focusing on the traditional (and in my humble opinion largely arguable) distinction between the so-called “classical” and “social” brands of liberalism, I would express my personal preference for a third possible variety of liberalism, that has been recently identified and categorised as a distinct one in a very interesting lecture given by our ELF friend Patrick van Schie, *Bildungsliberalismus* (German translation for the original Dutch *ontplooiingsliberalisme*, difficult to translate into English or other languages): a current originating from the thought of Wilhelm von Humboldt and John Stuart Mill, for which the main role of public institutions is that of empowering

individuals to display all their personal potential, especially in the field of education, and of enabling them to free themselves from the straight-jacket of community and group coercion.

Both more Keynesians and more free-trader liberals or, if you wish, classical liberals, “social” liberals, and Bildungliberalen alike should find a common ground on the overriding importance they all attach to the freedom and free development of the personality of each single individual: personal freedom, freedom of speech, the right to a due process of law, protection from discrimination on the ground of ascribed identities (ethnicity, physical characters, age, disability, sex, gender, sexual orientation) or on the ground of political, cultural and religious choices; and equal social dignity.

Yes, the rule of law, human rights, liberal constitutional democracy are nowadays the joint heritage of all the democratic political families in Europe. But all these values and principles are the outcome of liberal initiative, liberal imprinting, liberal intellectual leadership in the past. We should be their most demanding interpreters today.

The ever impending risk of the “tyranny of the majority” is nowadays most notably visible in the debate concerning the rising and aggressive claims of religious fundamentalists (both Islamic and Christian), the new bioethical issues, prohibitionist policies and the controversies over multiculturalism.

On all these issues we should stick to the rule that basic constitutional principles – individual liberties, equal rights and dignity, the rule of law, democracy – are the only acceptable binding civic bonds of an open society despite the claims of populists and religious fundamentalists. This is what I proposed to call the “patriotism of the Liberal Grundnorm”, with an explicit reference to Jürgen Habermas’s idea of “constitutional patriotism” and to Hans Kelsen’s idea of Grundnorm: i.e. the only possible sort of inclusive patriotism, for Europe and for each of its traditional nations alike.

This implies that the state, or public powers, can never be entitled to forcefully protect adult and sane individuals from themselves (remember Locke: «every man has a property in his own person»); that individuals should always be treated as individuals, not as individual members of typified groups; that cultural

diversity can never justify a compression of individuals' rights within minority communities, or minority families, or those of minorities within minorities; that faith, ideas and practices of their elders should never be forcefully imposed on those minors that are «capable of forming their own views» (as stated by the New York 1989 Convention on the Rights of Children).

No better institutional framework could be provided, in order to protect these individual liberties and rights, than that provided by our great and successful liberal tradition of religious neutrality and separation – as large as practically feasible – between religion and political power.

This achievement was the converging result of the struggles both of deists, free-thinkers, libertines and immanentist or atheist philosophers, and that of religious minorities. In the new multireligious situation, when many claim that “interreligious (i.e. inter-communitarian) dialogue” is the key to any peaceful coexistence, we should never forget that the fight for religious freedom and freedom of conscience was from the start a fight against the religious supremacy of the established churches (at that time in the form of compulsory uniformity and intolerance), and only in the end a fight against the scourge of state atheism in communist counties or against Islamic fundamentalism. The «wall of separation between church and state» (Thomas Jefferson, 1802) is even today the most secure and effective tool to protect the freedom of conscience of each single individual and peaceful coexistence in our inherently and irreversibly plural societies.

On the contrary, today many religious leaders demand a “public recognition” on the part of our states and of the EU itself. That is almost wherever in Europe the demand of Muslim leaders. And other established religions, first of all the Roman Catholic Church hierarchy, are thus trying to seize the opportunity to ask for a renewed “public role” of all religions, that would inevitably confine non-believers and maverick believers (today's dissenters, as they were called in 16th century England) in the position of second class citizens, like the Dhimmis in the Ottoman Empire; and trying to impose on all of us, by law, personal behaviours only consistent with a faith many of us do not share, and even many more do not share in its official interpretation, as it is the case of tens of millions of Catholics in Europe.

An even more open threat to open societies comes from those populist politicians who want no “religious dialogue” at all, but use the autochthonous religion, or whatever other item they find in their country’s real or invented “tradition”, as tools to exclude people of other religion, and the autochthonous individualists alike, from their regressive dream of a society they would like to make more cohesive and intolerant through a renewed authoritarian imposition of some kind of anthropological uniformity. Christianity is for them nothing more than an ideological weapon to be brandished against minorities, and/or against immigrants.

Claims for national identities, or for a European identity, based upon a single religion, or indeed on one single culture or tradition, are never candid, innocent claims: what is claimed is an exegetic principle, a criterion to be implemented in the interpretation of the entire system of law, creating first and second class citizens. The biggest challenge of the present time is the paradoxical erosion of the most precious historical values typical of our common civic identity, largely part of a cultural *acquis communautaire*, by populist politicians, who pose as the keepers of our “real” identity and tradition, and would like to cage all of us into closed homogeneous and mutually hostile communitarian enclosures, the smaller and the more controlled the better.

I mentioned that modern liberalism was not built upon the vacuum, but upon some cultural depositories that were the heritage of previous periods of our history. In his celebrated Funeral Oration, Pericles praised «The freedom we enjoy in our government – in Athens, he meant – extends also to our ordinary life. There, far from exercising a jealous surveillance over each other, we do not feel called upon to be angry with our neighbour for doing what he likes...» And his unlucky successor Nicias mentioned «the unfettered discretion allowed [in Athens] to all to live as they pleased». Nicias’s Athens was defeated by the tyrants of Syracuse. It took more than 2000 years for individual freedom to reappear, after that brief ancient epiphany, in the Netherlands, in England, in America, in France, now supported by a new robust individualist anthropology and a much more developed system of law; but it took three more centuries to re-take roots, after the two attempted suicides of Europe in the 20th century, in our countries, and in our European Union.

The liberals' task is not only to defend, but to enhance and to expand those achievements. And to defend, strengthen and democratise and legitimise that European Union that is for us, in the global world, the only possible tool allowing us to have a say in a world where all our old individual nation states no longer have a voice strong enough to be remarked and taken into account, and strong enough to effectively stand for liberal principles, together with the like-minded voices in today's international community.

Remember: like-minded voices are really not numberless in today's global world.

Perfectly competitive markets: Efficiency and distribution

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Free markets have been the main mechanism used to allocate resources by complex societies along History. But, why societies in different times of the human history have usually found free markets so attractive to solve their problem of resource allocation? If we wish to ask this question we need to understand how markets work because, in this way, we can realize their virtues.

Free markets, which we technically call perfectly competitive markets, allow individuals to take advantage of all profits of trade while these profits are spread among individuals according to their contribution to society. Moreover, perfectly competitive markets are informationally efficient, because prices transmit all relevant information that individuals need in order to take their decisions, while they also are incentive compatible because they also provide the individuals with incentives to transmit this information honestly.

From an ethical point of view characteristics of free markets are very interesting because respect free participation of all individuals and reward them according to their contribution to society while somebody cannot improve without somebody getting worse.

In order to understand how markets work, it is useful to develop a simple example.

A simple market

Individuals interact in a market of a good. Some individuals own a unit of the good while other individuals don't own it. Individuals owning a unit of the good will be called potential sellers and individual without a unit of the good will be called potential buyers.

Each individual has a valuation of the good. Individuals differ in their valuations. Therefore, they will be willing to reach trade agreements. An

individual with a high valuation of the good and who don't own the good will wish to buy the good to an individual with a lower valuation, while an individual with a low valuation of the good owning the good will wish to sell the good to an individual with a higher valuation. It is assumed that each individual buy or sell only a unit of the good.

The profits of trade

A free and voluntary agreement between a seller and a buyer necessarily implies a net profit. The buyer's valuation for the good must be higher than the seller's valuation. If this net profit doesn't exist then the agreement is not possible. The difference between the valuation of the buyer and the valuation of the seller is called the transaction surplus.

The transaction surplus will be shared between the buyer and the seller according to the set price. If the set price is comprised between the valuation of the seller and the valuation of the buyer then the transaction will be mutually beneficial. The surplus of the buyer is the difference between his valuation for the good and the price paid. The surplus of the seller is the difference between the price received and his valuation.

In a free market inhabited by rational individuals mutually advantageous transactions just will be carried out. A seller would never accept a price under his valuation and a buyer would never accept a price over his valuation. Therefore, the market prices will always be comprised between the valuations of the buyers and the valuations of the sellers, which implies that the surplus of any buyer or any seller is positive.

Social surplus is the sum of the surpluses of all participants –buyers and sellers- in a market. Therefore, social surplus means all profits of trade.

Efficiency

All profits of trade will be achieved when social surplus is maximized. If a market removes all profits of trade –and maximizes the social surplus- then it is said that it works efficiently. Social surplus will be maximized when all mutually beneficial transactions are carried out. Therefore, when social surplus is maximized, somebody cannot improve without somebody getting worse.

