



LIBERTY AND CYNICISM: WAS VILFREDO PARETO A LIBERAL?

Alberto Mingardi, an assistant professor of the history of political thought at IULM University in Milan, Italy and director general of the free-market think tank [Istituto Bruno Leoni](#), asks if [Vilfredo Pareto](#) (1848-1923) should belong in the history of classical liberalism? His answer is that Pareto's drastic political realism—his ambition to look at politics for what it is—is not incompatible with a classical-liberal worldview, but it is incompatible with a classical-liberal program. He is joined in this discussion by Giandomenica Becchio, an assistant professor at the University of Torino; Rosolino Candela, a Senior Fellow with the F. A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center at George Mason University; and Richard E. Wagner is Holbert Harris Professor of Economics at George Mason University.

LIBERTY AND CYNICISM: WAS VILFREDO PARETO A LIBERAL?

by Alberto Mingardi

Does Vilfredo Pareto (1848-1923) belong in the history of classical liberalism? In this short essay I want to suggest that Pareto's political realism—his ambition to look at politics *for what it is*—is not at all at odds with liberalism. The argument is relevant because of Pareto's biography: he ended up as an early, albeit not uncritical, supporter of Benito Mussolini. But it is also relevant because classical liberalism is often dismissed as a naïve ideal compared to the harsh realities of political power, particularly when the old boundaries of political parties tend to blur and charismatic leadership (often the natural companion of so-called populism) enters the game.

In the English-speaking world, Pareto is a household name for economists and social scientists, as he introduced the notion of "optimality" and his law of distribution. His *Manual of Political Economy* was recently republished in a noteworthy critical edition (Pareto 2014), although his earlier works (including the *Cours d'économie*

politique) are not available in the language of Shakespeare, Alfred Marshall, and John Maynard Keynes. Those essays are marked by a pugnacious free-trade militancy and often deal with the day-by-day of politics, fueled by outrage at corruption and privilege in the Italian ruling class.

Life and Realism

Vilfredo Pareto was born in 1848, a year of political turmoil all across Europe. His father, Raffaele, was an engineer and "guided and encouraged Vilfredo in technical studies" (Mornati 2018, 22): young Vilfredo became an engineer himself. But Raffaele, who was originally inclined towards Giuseppe Mazzini's republican nationalism before becoming nonpolitical, did not affect Vilfredo's political *Weltanschauung*.

Pareto claimed the person who won his mind to classical liberalism was Frédéric Bastiat.

I was approximately sixteen when I chanced to read two authors of a completely opposite nature, Bossuet and Bastiat. I heartily disliked the first, whereas the second fully pleased my sentiments, which under this respect were in utter contrast with those of the people who surrounded me at

that time, such as I can state that they weren't acquired, but were a consequence of the temperament I had since my birth. (Pareto 1907, 807)



Frédéric Bastiat

The young Vilfredo was also deeply influenced by John Stuart Mill, as thoroughly shown by Fiorenzo Mornati (2018). He admired English liberalism: the Anti-Corn Law League's successes in winning public opinion, positivism, William Gladstone's standing for free trade, sound public finance, and the lower order of society. All of these were highly congenial to Pareto.^[1]

He developed liberal ideas further as a young man in Florence. Briefly the capital city of newly unified Italy, Florence was an intellectually vibrant scene at the time, and Pareto was befriended and mentored by Ubaldino Peruzzi (mayor of the city, 1869-1878) and his wife Emilia. The Peruzzis used to bring the liberal *intellighenzia* of the city together for regular gatherings, essentially hosting a salon. Young Vilfredo made interesting acquaintances and made his debut in the public debate: his first public speech argued for a voting system based on proportional representation as a way to balance the dangers of the despotism of majority rule.

At the time, Pareto was a man of the world, not the secluded scholar he was later to become. He worked in the iron business, in a company in which Mr. Peruzzi was one of the leading shareholders. Pareto started by managing the factory in San Giovanni Valdarno and ended up being its CEO. He had strong views and tried

to implement innovation in the company's trade, the processing of pig iron, but soon he realized that regulations, particularly those related to the protectionist turn Italy was taking, were thwarting his efforts.

His firsthand contact with bureaucracy and the unintended consequences of protectionism strengthened Pareto's free-trade views. At the same time, his frustration with the Italian ruling class was growing. For him, so-called "liberal" Italy, as historians call it today, was "liberal" in name only. (All the factions, he remarked in a letter to *Liberty*, share this label, which therefore doesn't mean anything. [Pareto 1888a, 957]) The Italian bourgeoisie, which was supposed to treasure liberal institutions, was in fact indifferent to whatever violation of liberty "provided the number of State-salaried offices placed annually at the disposition of their sons does not diminish," and "provided that they may continue to enrich themselves by means of economic protection." (Pareto 1888b, 929)

Herbert Spencer exerted a significant influence on Pareto. In an 1892 letter to Maffeo Pantaleoni, a lifetime friend and recipient of an endless stream of correspondence, Pareto could proclaim that "I believe, with Spencer, that human society progresses by distancing itself from the military type, to draw near to the industrial. As far as I am concerned, I shall ally myself with whoever endeavors to undermine militarism, regardless of their *motives*." (Pareto 1892, 255) In 1887, Italy took a strong turn in the direction of colonialism *and* protectionism; the two things, Pareto was taught by both Spencer and by his experience, were intertwined: they both benefitted the few in government and their cronies, jeopardized the welfare of the many, and were covered up by rousing words.

In the 1880s and 1890s Pareto was "ideologically, a crusading liberal doctrinaire." (Raico 1994, 14) He was always searching for outlets to publish his writings, eager to enter the battle of ideas against privilege and over-government. Since he ran unsuccessfully for parliament in 1882, some commentators have pointed to the psychology of a spurned lover (Stark 1963, 105) as a key to understanding his bitterness. A similar view was

advanced by the Pareto scholar *par excellence* Giovanni Busino: since "his sporadic experience of practical politics persuaded him that power is evil, that power is corruption and malice," Pareto searched for a safe harbor in colder rationality, becoming "a sort of mere onlooker of the outside world. In sum, in every page, in every line of his, an unconscious repugnance for action can be recognised." (Busino 1964, 20)

Pareto's life experienced a definite turn when he moved into academia, succeeding Léon Walras in Lausanne, Switzerland. Fiorenzo Mornati, in the second volume of his biography of Pareto, pointed out that at the beginning Pareto believed that as a teacher he was continuing his liberal mission: feeding students with the "scientific principles" of economic freedom, hoping some of his students might pass them on to others. (Mornati 2017, 27). With time he grew more detached. As he received an inheritance, he planned to retire from active teaching to write his big books.^[2] But he also suffered from being left by his wife in 1901 and became less confident in the potential success of teaching the liberal principles, that very same effort in which he was so enthusiastically involved just a few years ago. Yet the fact that Pareto thought it was far better for politics to move in the direction of Spencer's "commercial society" never blinded him to the faults, problems, and scandals of politics.

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James Burnham maintained that young Pareto "defended, for some while, the point of view of orthodox 'liberal' economics ... the classical liberalism of free trade and free markets. This point of view he gradually abandoned. It was not replaced by any other." (Burnham, 171-72) Others emphatically called Pareto "the Karl Marx of fascism" (Worthington 1933), a label that stuck with him. This may be due to the fact that Pareto was more and more interested in the role of force in political affairs, which at a certain point he deemed inevitable. Yet he died

in 1923, only a few months after Mussolini seized power and well before fascism became a full-fledged authoritarian regime in 1925 after the assassination of Giacomo Matteotti. Pareto's relationship with Mussolini is a complex matter, far beyond the scope of this essay. Mussolini claimed he attended some of Pareto's lectures in Lausanne, in 1903-1904: there is no evidence he did. But Mussolini's claiming an acquaintance with the old sage, self-exiled in Switzerland since the 1890s and yet never oblivious to his country's political happenings, could not hurt the soon-to-be Duce's reputation.

Sympathy for fascism in the early 1920s was certainly unfortunate but not incomprehensible. The period 1919-1920 in Italy is known as "Biennio Rosso," "the two Red years." Strikes and demonstrations were so frequent and, often, violent, that they fostered an atmosphere comparable to that of a civil war. Many a liberal saw Mussolini's iron fist as the only possibility for restoring some sort of order. However, in a couple of essays in which he attempted to advise the new prime minister and his acolytes, Pareto stressed the importance of having an opposition and a free press, as absolute power weakens even those who hold it.

Optimism and the Status Quo

Pareto's political realism is thus strongly indebted to one of his youthful enthusiasms: his admiration for Frédéric Bastiat. In a sense, Pareto took Bastiat's theory of plunder and expanded it, making it a pillar of his own understanding of society. Bastiat's most famous quote, "The State is the great fiction by which everyone endeavors to live at the expense of everyone else," alludes to what has been at times called the classical-liberal theory of class struggle: the idea that "plunderers" always attempt to appropriate the resources of the "plundered" and do so by means of politics.

In the *Course*, Pareto seems to consider economists and social scientists that avoid this consideration as hopelessly compromised by government.

The censure in which plunder incurs caused economists to frequently refrain from investigating it, thus imitating amateur

entomologists, who restrict themselves to only catching the most attractive butterflies. A naturalist, in contrast, does not flinch from any insect, not even the most repugnant. Plundering always existed in human societies; we can hope to considerably decrease it, but it is not certain we can ever succeed in making it entirely disappear or it entirely disappear. [Pareto 1896: II, 423, § 1042]

He saw Bastiat and Gustave de Molinari as "brilliant exceptions" to the rule of economists playing amateur entomologists. (Pareto 1896: II, 423, § 1042n) In the same context, Pareto appreciated that Bastiat's views were helpful in understanding the defects of political democracy. (Pareto 1896: II, 49, § 637)



Gustave de Molinari

This may help explain why Pareto was so harsh on those "liberal Utopians," whose patron saint he likewise identified in Bastiat. These "Utopians" were the economists who stressed the harmonic features of economic development, which is indeed a theme dear to the author of *The Law*, but who forgot their master's lesson on plunder. By overemphasizing economic progress and neglecting plunder, Pareto felt, economists were becoming little more than apologists for the status quo.

Even as a young libertarian, Pareto often had little patience with his fellow travellers. For example, he did not like the anti-clericalism of Italian liberals, who were blind to the abuses against the Church and against religious liberty.^[3] Not that Pareto was religious: but he thought, right from the beginning, that other political (or civic) ideologies served exactly the same purpose as religions did by giving their adherents belief in God.

If we want to come to an understanding of reality, no rationalization should go unquestioned. Indeed, in building his sociology, Pareto was ultimately making this skeptical program into a system: history and politics can't be understood by trusting the self-serving narratives of its protagonists but should be the object of a scientific inquiry that goes beyond the surface of "derivations," that doesn't stop at the reasons people provide for their own behavior. Even "rationalism" gets enlisted by Pareto among "intellectual religions." (Pareto 1920, 41) Foreign policy did not escape Pareto's dissection. Years before he thought the colonizers were not bringing civilization to uncivilized people, as they claimed, but were simply finding a nice sounding reason for conquest and exploitation. After World War I he compared Woodrow Wilson's Fourteen Points to witchcraft and "Christian Science." Pareto also distinguished between logical and non-logical actions. "For the most part, logical action is the domain of markets while non-logical action is the domain of politics, though this mapping from action to domain is not exact." (Candela and Wagner 2016: 16)

Action is due to deep-rooted motives, which Pareto called "residues," but human beings need to rationalize them: they need justifications to make actions look rational and coherent. "Derivations" are such justifications, arguments that can be used by people to embellish their political behavior. In short, men are inclined to favor those derivations that are better attuned to their own sentiments. This understanding of political action as the product of pre-political attitudes should be amenable to contemporary evolutionary psychologists.

Pareto thought different tendencies always coexisted within a society: one tendency toward decentralization, one toward centralization of power. Moreover, he

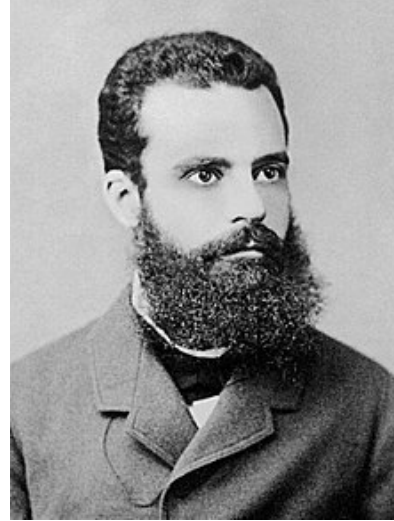
distinguished between two different types within the boundaries of the ruling classes. On the one hand, you have people who value stability and tend to oppose change and newcomers. They tend to live on land-rent or fixed income. Their characteristic "residue" goes by the name the "persistence of aggregates." On the other hand, you have people who thrive on change and seek innovation but also master manipulation and can turn the government to their own good. The residue behind them Pareto labels "instinct for combination," which indeed suggests an ability to come up with ever new things.

To be sure, Pareto thought that both types were needed for society to flourish. Yet in "demagogic plutocracy" (the label Pareto used for countries like early 20th-century Italy and France) the second type, the speculators, predominated. In those countries the governing elite unscrupulously exploited the general public by devices akin to what we call "crony capitalism." As Walter Grinder and John Hagel noted, "The politicizing of economic relationships which emerges as a prominent characteristic of state capitalist systems leads to a disharmony of interests that is manifested in constant tension, confrontation and finally violence" (Grinder and Hagel 1974, 274).

Liberty and Realism

Pareto's *Trattato di sociologia generale* (Mind and Society, 1916) aimed to strip social life of all metaphysical pretensions and easy rationalizations. In a sense this was implied in his appreciation of Bastiat's denunciation of plunder. The central fact of politics is the truth that whenever you have politics, you have someone governing and someone obeying: politics, indeed, allows somebody to take advantage of somebody else. Such truth is unpleasant: even liberal economists of the Utopian kind prefer to close their eyes to it. People want to believe things are different and they hold ideologies that allow them to avoid considering unpleasant truths. Such Pareto realism dismantled the ideological pretenses that democracy is different from and better than all other regimes; therefore it was considered an indirect aid to the anti-democratic movements then rising.

Why and to what extent is political realism incompatible with classical liberalism? Should not a liberal aim for institutional arrangements that make individual liberty and government compatible instead of disparaging such arrangements?



Vilfredo Pareto

In the liberal tradition two elements coexist. For one, you have Bastiat on plunder and Pareto on the ruling class—more generally speaking, thinkers who see the state as the ultimate device for exploitation. But you also have thinkers who stress that the market economy tends to multiply bread and fishes, thereby providing an optimistic perspective on the present and future. Superficially, the one worldview may imply the falseness of the other, but this ought not be the case. The fact that we have economic progress should not necessarily blind us to the exploitative nature of government. In a sense, economic progress is precisely what makes that exploitation nowadays more bearable, even though, measured in the percentage of GDP devoured by taxation, the exploitation is much greater than in the past.

The true problem lies elsewhere. Pareto's drastic realism is not incompatible with a classical-liberal *worldview*: it is incompatible with a classical-liberal *program*. In Pareto's times, that program consisted in seeking to obtain a constitution from the rulers and pursuing one kind of reform, in particular one aimed at widening the franchise. Was that sufficient to shackle political power? Hardly so, and 20th-century liberals (think of Hayek or even the

realists Buchanan and Tullock) tried to update and perfect that program, make it more resilient, figure out better constitutional restraints.

Political realism both teaches us the importance of institutions—and their limits. Digging deeper into the psychology of individuals to understand political action, Pareto focused on the latter element. A response to his lesson can certainly be political nihilism: nothing works, so anything works. But another response can also be a richer and deeper understanding of politics, as a matter of rules but also behaviors and prejudices, ideas and irrationality. This is a lesson that will not lead to enlarging the sphere of action of political power.

Endnotes

[1.] He later described his own views at this time: "Political economy, as it was established by the so-called classical economists, was a perfect, or almost-perfect, science; [what only remained was] to put into practice its principles. That required imitating Cobden's League, the most fruitful and loftiest example for mankind in centuries. In politics, the sovereignty of the people was an axiom, liberty a universal cure-all." (Pareto 1907, 809)

[2.] However, he never stopped writing short articles, including in the very last years of his life.

[3.] Somewhat understandably: Italy was unified *against* the Catholic Church and *by* liberals.

VILFREDO PARETO'S SCHOLARLY JOURNEY FROM ECONOMICS TO SOCIOLOGY

by Richard E. Wagner

Vilfredo Pareto graduated in civil engineering in 1869, having written a thesis titled "Principles of Equilibrium in Solid Bodies," which Pareto surely carried forward to some degree when he turned to economics in the mid-1880s. Even as an engineer, Pareto was an outspoken liberal in objecting to the regulations he encountered. After turning to economics, Pareto maintained his liberal

opposition to state regulation. Alberto Mingardi is surely right to assert that Pareto has a secure place within the pantheon of liberal political economists.

Pareto was a liberal for sure, but it was his interest in scientific explanation that animated his efforts. Pareto's political economy looks different from that of most of his contemporaries. It resembles engineering with such constructs as equations of forces and stresses. Pareto's interest in economics stemmed more from his scientific interests than from a desire to advocate for liberal values and practices. Sure, Pareto engaged in plenty of advocacy on behalf of liberalism. Still, Pareto was more a theorist than an advocate. For Pareto, advocacy must be reconciled with theory and not the other way around.



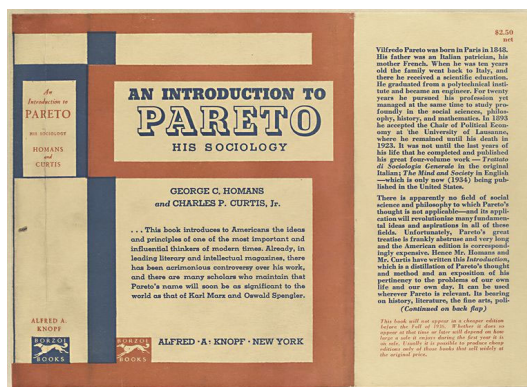
One can accept a claim on behalf of the social beneficence of free trade while at the same time recognizing that free trade is not the practice of the day. The posture of the activist, which was often the posture Pareto took in the earlier years, would be to engage in adventures in persuasion. All the same, the weakness of the support for free trade presents a scientific question for examination: if free trade is truly superior to restricted trade by some reasonable metric, how can the dominance of restricted trade be explained? This latter type of question came increasingly to engage Pareto's attention.

Indeed, Pareto turned his attention primarily in this direction when he embarked on his sociological studies. Pareto was convinced that a social system based on free and open competition was superior to any of the options where the few dominated the many. Yet free and open competition showed no signs of winning any kind of popularity contest. This situation led Pareto to wonder

how he could account for the ability of an inferior social system to dominate a superior system. Wearing his scientific hat while doing so, moreover, Pareto had to engage in explanation and not in exhortation.

In doing this, Pareto imported his understanding of science into his economics. Where economists had mostly started from utilitarian introspection, Pareto thought that economics should be purged of metaphysics. Rather than starting with some metaphysical vision of the human agent, economics for Pareto would start from observed human actions. One can observe what people do and also observe what rationalizations people might give for their actions, which Pareto described as derivations, but one cannot observe states of mind.

Starting economic theory from observations and not from introspection about marginal utilities was a difficult theoretical challenge, as Pareto recognized. Among other things, the observed space of actions is but a small part of the potential space, and generalization from observations is difficult without some way of filling the missing spaces. This is the problem of the integrability of demand functions. Regardless of the obstacles to starting from actions, Pareto thought that economic theory should recognize that actions but not motives are observable. Why people really do what they do is not observable, though people can be inventive in rationalizing their actions. Given our inability truly to know what animates us, we tell ourselves stories about these matters to enable us to feel good about ourselves. Pareto once remarked in this respect that derivations are huge in number while the residues that animate people are few.



Pareto turned increasingly to sociology after 1900, publishing his four-volume *Treatise on General Sociology* in 1912. Where his earlier books sought to explain how a social system grounded on freedom of exchange would enable exploitation of the gains from social interaction more fully than the socialist-style systems then in play, his sociological work began from the puzzle of explaining the weak popularity of social systems based on free exchange. Pareto was convinced of the superior merits of free exchange and turned to his sociological inquiries to better understand the limited hold that liberalism exercised over the moral imaginations of Italians despite what Pareto accepted as liberalism's beneficial social value.

Pareto distinguished between logical and non-logical action. This distinction does not mean that Pareto flirted with irrationality. It means simply that Pareto distinguished between the generic form of rational action and the substance of action. Pareto thought substance varied with the environment in which people acted, anticipating some of the work associated with Gerd Gigerenzer (2008) in the process. Market environments prompted logical action; political environments prompted non-logical action, which should not be confused with irrational action. Non-logical action has regularity about it; irrational action is chaotic, even in the subject's consideration.

In market environments people work with their own money, whether in their capacity as consumer or business owner. Action in this setting resembles the formation and testing of a scientific hypothesis. A person has money to spend, and several possibilities appear in the mind's eye. A person in this position faces the standard problem of rational action: images must be formed of the options and the one that is anticipated to provide the greatest satisfaction then selected. The chooser might later regret the choice. These things happen. Such happenings, moreover, encourage the formation of secondary markets in used merchandise.

People will doubtlessly differ among themselves in how much attention they pay to the choices they make. People take different approaches to exercising the cares associated with their daily lives. Whatever the associated

levels of care a person might take, it occurs within an environment where the chooser gains from wise choices and loses from foolish choices. This is the nature of logical action within market environments. In all environments Pareto regarded people as acting to attain what they viewed as the best among the attainable options. James Buchanan didn't cite Pareto when Buchanan wrote *Cost and Choice*, but he could have because both thought similarly about human action as seeking to select the best among *available* options, with *availability* stressed because political environments present different options for choice than do market environments.



James Buchanan

Political environments are different from market environments. People do not bear the value consequences of their political choices. Choosing between candidates is nothing like choosing between products or inputs. One might express a preference for one candidate over the other, but that expression does not yield the product or the input that might have been associated with that candidate. This situation does not mean that action is irrational. It means only that the rationality of action manifests differently in political environments. There can still be reasons for selecting one candidate over the other, only it has nothing to do with products or inputs. It has to do with images and the penumbra of associations those images carry in their wake.

In this respect, Pareto, and also his compatriot Gaetano Mosca, treated political competition as a process by which candidates sought to articulate ideological images that resonated more strongly with voters than the images set forth by other candidates. The result of this

competitive process was the possibility of inferior outcomes dominating superior outcomes. Along these lines, Jürgen Backhaus (1978) explained how importing some implications of Pareto's thought into public choice theory could lead to a sharper understanding of how acceptable political programs would have been rejected under market arrangements, with Patrick and Wagner (2015) amplifying Pareto's scheme of analysis.

Michael McLure (2007) provides a careful and masterful survey of Pareto's scheme of thought in relation to other Italian public-finance theorists of Pareto's time. The friendly debates among these thinkers concerned the extent to which the gulf between economic and political action could be bridged. Theorists like Pareto and Gino Borgatta thought the gulf unbridgeable. Theorists like Maffeo Pantaleoni, Antonio de Viti de Marco, and Luigi Einaudi labored under the belief that a bridge could be developed. All of these Italians contributed to the development of an explanatory treatment of public finance and anticipated public choice thinking, with Buchanan continuing that scheme of scholarship mostly in the vein of Pantaleoni, de Viti, and Einaudi.

To a passionate supporter of liberalism, Pareto must have seemed aloof and even cold. Yet that view is surely superficial. One of Pareto's most avid students, Mauro Fasiani, published a lengthy survey of Pareto's scholarship on the theory of public finance in the 1949 issue of *Giornale degli Economisti*. In closing his essay, Fasiani recalled Pareto being asked whether he thought society would be better if more people shared Pareto's belief in the value of scientific detachment. Pareto responded negatively, declaring that most people live on faith and need to believe in the goodness of their efforts at persuading one another. Societies need some people imbued with scientific spirit, but mostly they need people who have faith in their efforts at mutual persuasion.

PARETO'S DILEMMA: THE ALLOCATION OF LIBERTY BETWEEN RATIONALITY AND IRRATIONALITY

by Giandomenica Becchio

Alberto pointed out many aspects of Vilfredo Pareto's intellectual biography in order to question whether the Italian social scientist belongs to the tradition of classical liberalism, albeit he has been recognized as a major figure in the tradition of political realism. Alberto's answer is that Pareto belonged to the classical-liberal worldview but not to the classical-liberal program.

I second Alberto's analysis, and I would suggest consideration of another aspect of Pareto's vision, which was only mentioned: the role of human irrationality in Pareto's thought and how it became central to his intellectual transition from economics to sociology, which has to be seen as a natural development of his philosophical vision.^[4] As modern moralists have taught us, irrationality is linked with the power of persuasion, and persuasion can be fatal for individual freedom and for a free society as well.

Pareto as a Modern Moralist

Pareto has been always aware that individuals are not only rational (economic) agents, as described in his *Cours d'Économie Politique* (1896) and *Manuale di Economia Politica* (1906, English translation 2014); individuals are also ideological agents who use rationality not to discover the truth but to manipulate it. When constrained within social dynamics, individuals tend to act in a non-logical way by following non-logical actions because they are biased by subjective motives (residuals) such as sentiments, instincts, and so forth. Nevertheless, non-logical actions driven by non-logical causations might be extremely powerful: they give individuals the illusion of being able to rationalize ex-post (derivations) their choices.



Michel de Montaigne

Pareto belonged not only to the two traditions mentioned by Alberto (classical liberalism and political realism) but also to the tradition of modern moralists (Montaigne, Bayle, Mandeville, Bentham) who focused on the analysis of human passions and irrational motivations of human behavior. In his *Les systèmes socialistes* (1902-03) as well as in his *Trattato di sociologia generale*, Pareto described the dynamic between conscious and unconscious motivations of human action; he attacked the distinction between public and private utility; and he strongly underlined the relevance of the role of persuasion among political competitors when getting political power. These three elements directly came from the tradition of modern moralism, albeit Pareto went deeper in scrutinizing the nature of residuals.

Pareto grounded the sociological dimension of political power on the dynamics between residuals and derivations. His elite theory explained the role of elites in governing complex political systems: in a truly dynamic society, the most virtuous individuals would be involved in elites; but in actual societies, individuals who belong to elites are those able to adopt force and persuasion as well as to strategically use their wealth and family connections, which are often far from virtuous.

The Role of Persuasion in the Emergence of Socialism

In *Les systèmes socialistes*, Pareto explained the origin and the nature of political ideology. The ideology behind socialism was the best example of human irrationality covered by rationality: grounded on feelings and faith, it pretended to be the rational development of history by following the well-known dynamic *à la* Hegel-Marx. Hence, according to Pareto, socialism is the ideology of the irrationality of human action based on residuals and justified by derivations.



Georg Wilhelm Friedrich Hegel

His book on socialism and its several forms (from utopian socialism to Marxism) became for Pareto a laboratory to test what would become the fundamental axiom of his *Trattato di sociologia generale*: "those who accept a proposition, too often accept it because it fits their feelings." (Pareto 1916, §78)

Pareto analyzed any form of ideology by considering its degree of persuasion and utility -- which led him to an inconvenient truth. On one side, a theory based on facts and logically described cannot be persuasive, and consequently, it is useless to describe social dynamics. On the other side, a non-logical theory based on irrational feelings and emotions can be very persuasive and useful to generate forms of social integration which seem to work in the short run, yet they are dangerous in the long run because they decrease economic development and

erode individual liberty. Both socialism and fascism are good examples of this mechanism which combines rationality and irrationality: in fact, Pareto interpreted political theories as ex-post ways of rationalization and camouflage.

Pareto used his theory of residuals and derivations to explain the psychology behind social equilibrium in the political realm too. In his analysis, Pareto anticipated the critique of constructivism developed later by Mises and Hayek, but also the critique of holism and organicism later developed by Popper and Kelsen: any form of social engineering which is aimed at modifying the complexity of a social system is bound to fail.

The Transformation of Liberal-democratic Systems and the Rise of Fascism

The fundamental role of irrationality in humans as individuals as well as in social groups made Pareto skeptical about the success of liberal-democratic systems, which he thought were doomed to a fatal transformation as a consequence of human irrationalism. Before Mannheim, Pareto recognized the transformation of liberalism from utopia to ideology; and he used his narrative of the political and social transformation of liberal democracy to elucidate the emergence of embryonic fascism. Pareto, who rejected the theory of class struggle, adopted the theory of spoliation to explain the emergence of any governing group that seizes power either in legal or illegal ways. His theory of elites is the broader application of this mechanism to politics. Elites can vary in their compositions, but they are all oligarchic. Influenced by the emergence of the phenomenon of "*trasformismo*," which specifically involved members of the two major political parties in the Italian parliament,^[5] Pareto introduced the notion of "bourgeois parliamentarism" as a form of degeneration of classical liberalism, which in Italy led to the rise of fascism.

Two articles by Pareto are useful to understand his attitude toward early fascism as a direct consequence of the degeneration of parliamentarism (Pareto 1966a; 1966b); they also show that his initial sympathy for early fascism has been overestimated and probably had been

manipulated by the regime. The first article was written in January 1922 (before the March on Rome, which occurred on October 28, 1922); the second was written after the March on Rome. In these writings, Pareto clarified the common traits between socialism and fascism: the use of extra-legal force and the ambiguous use of the term *liberty* in a nationalistic sense (fascism) or in an international sense (socialism). He also claimed that the success of both fascism and socialism was linked with the failure and weakness of parliaments: while fascism is a consequence of a logical mistake about nationalist sentiments in sociological terms, socialism is a consequence of a logical mistake about international feelings in sociological terms.

Pareto passed away in 1923 without having found a solution to his lifetime dilemma: if democracy is a continuous experiment to approach a political optimum, which is not possible to reach in a stable form because of the combination of rationality and irrationality, as it has been expressed in the dynamics of residuals and derivations, where is the place of freedom?

Endnotes

[4.] Pareto's *Trattato di sociologia generale* (1916), translated into English as *Mind and Society* (1935), is an enlargement of traditional sociology to include both logical and non-logical actions. (Zafirovski and Levine 1997) It represented the final stage of Pareto's thought, as rightly underlined by some recent literature (Aspers 2001; Dalziel and Higgins 2006), against Parsons's interpretation -- endorsed by Schumpeter (1949) -- of a separation between economics and sociology in Pareto's reasoning.

[5.] *Trasformismo* was the practice adopted in the Italian parliament during the late 18th century by the two major antagonist parties: they converged in approving or rejecting laws in order to isolate minority parties, especially on the left-wing of parliament, such as socialists, radicals, and republicans.

AN "IMPERFECT" INTERPRETATION OF VILFREDO PARETO'S CLASSICAL LIBERALISM

by Rosolino Candela

The title of my contribution to this conversation is not meant to suggest a flaw in Dr. Mingardi's fine and thought-provoking essay. Rather, the title is meant to point out an important and underemphasized understanding of Vilfredo Pareto as an "imperfect" classical liberal.

By this, I do not mean that Pareto was flawed in his analysis as a theorist or as a man. Rather, if we can trace the etymology of the word "imperfect" back to its Latin roots, we find that imperfect means "incomplete," or to be more precise, "not thoroughly done." I raise this point to suggest, in concord with Mingardi, that Pareto's understanding of social interaction is more akin to one of a *process towards completion* under a particular set of institutional arrangements, not as an equilibrium outcome, or state of affairs. The implications of Dr. Mingardi's essay are particularly important because, as he mentions, Pareto is better known as a Walrasian general-equilibrium theorist, whose association with the notion of "optimality" in economics is already well-known. Mingardi's essay introduces an important point in the political economy of Pareto, which I further extend here. In doing so, I wish to reinforce some important implications of Mingardi's thesis.



Joseph Schumpeter

The point of extension I raise here begins with a characterization of Pareto made by Joseph Schumpeter, which relates not only to Pareto's political realism but more broadly his theory of social interaction: "primarily and fundamentally his sociology was a *sociology of the political process*" (emphasis added). (Schumpeter 1949,168) This would seem to suggest that Pareto's economics and his broader social theory are separate rather than overlapping parts of a broader theory of human action. As he points out, in "political economy itself, theories of pure or mathematical economics have to be supplemented – *not replaced* – by the theories of applied economics." (Pareto 1916 [1963], 20) This "logico-experimental" method of social science, according to Pareto, applied not only to his understanding of economics but also applied no less to the other social sciences, particularly political science.

The logico-experimental method, according to Pareto, traces the unintended consequences of social interaction under alternative institutional arrangements (i.e., the realm of applied theory) back to the choices of individuals, who are attempting to fulfill their separate ends through the purposive applications of means to such ends (i.e., the realm of pure theory). Though Pareto distinguishes between logical action and non-logical action, the

distinction is not between rational action and irrational action. Rather, the terms describe the pure form of human action, the substance of which is manifested under different institutional contexts. Whereas logical action manifests itself in the realm of markets within a context of private property and price signals, non-logical action manifests itself in the realm of politics, which is outside the context of market exchange and price signals. Thus, the outcomes in Pareto's general theory of human action, or sociology as he refers to it, is not based upon an aggregation of atomistic individuals, maximizing given means to given ends in isolation. This would be the case if Pareto collapsed his understanding of "pure economics," or what Hayek refers to as the "pure logic of choice," onto the outcomes of social interaction. Yet no one-to-one relationship between rational action and outcomes exists in Pareto's sociology. The link between the two is bridged by an institutional analysis of time and circumstance. Therefore, to conclude that Pareto's general theory of human action was based upon the "perfection" of Walrasian general equilibrium only characterizes his understanding of pure theory and cannot be superimposed upon his broader understanding of political economy.

I raise this brief, and admittedly oversimplified, view of Pareto to reinforce the important connection Mingardi makes between Pareto and Bastiat. Though Mingardi refers to [Bastiat's *The Law*](#) (1850a [2012]) with regard to the Pareto's criticism of "liberal Utopians" and their neglect of Bastiat's theory of legal plunder, another important influence on Pareto's political realism can be drawn from [Bastiat's "What Is Seen and What Is Not Seen."](#) (Bastiat 1850b [2017]) In that essay, Bastiat argues that good economists take into account not only the intended consequences of public policy but also its unintended consequences. This lesson is also implied in Pareto, where he writes that "social enactments have, in general, some effects that are beneficial and others that are negative and harmful." (1916 [1963], 1299) Pareto's defense of classical liberalism is not a normative critique of the intentions of policymakers. Rather, Pareto's defense of classical liberalism is entirely consistent with his political realism, as Mingardi argues, because the

imperfections inherent to political decision-making that Pareto highlights are *analytic* in nature. That is, the process of political decision-making, however well-intended, will generate a set of unintended consequences that the policy-maker could never anticipate. If political or market processes were perfect, institutional contexts would be irrelevant as a guide to decision-making.

However, in an imperfect world, the "perfection" or "completion" of political processes will generate entirely different outcomes from market processes precisely because the differing institutional incentives in each context will generate different expectations regarding the costs and benefits of pursuing different forms of rational action. To illustrate this point, Pareto writes:

When the engineer has found the best machine, he has little difficulty in selling it, and even without dispensing with derivations altogether, he can for the most part utilize arguments that are logico-experimental. Not so for the statesman. For him that situation is precisely reversed. His main resort must be derivations, often times absurd ones. [Pareto 1916 [1963], 1299]

To quote Professor Richard Wagner, the reality of politics is that it is just a peculiar form of business. (Wagner 2016) In markets, producers are residual claimants of their decision-making; they absorb the profits and losses of responding correctly or incorrectly to consumer demand. If entrepreneurs in the marketplace fail to deliver a product consistent with the plans of consumers, appeals to derivations (i.e., justifications) inconsistent with consumer demand will only generate further losses in revenue directly and fully borne by the producer. The indirect, though beneficial effect will be for market processes to free up misallocated resources and reallocate them to more-valued uses. In politics, policymakers are just as entrepreneurial in that they are "selling" different policies that benefit their respective constituencies, but the costs of implementing a particular policy in terms of the unproductive rent-seeking activity that it generates are not directly concentrated on the political decision-maker. Thus, Bastiat's characterization

of legal plunder via the state is a normative critique that has an analytic grounding in Pareto's general sociology.

This brings me to another point, which is to engage Mingardi's claim that Pareto's political realism "is not incompatible with a classical liberal *worldview*: it is incompatible with a classical-liberal *program*." What's unclear, and I hope we take this up further in the discussion, is whether Mingardi equates the classical-liberal program held by Pareto with the vision of the classical-liberal program of his time.

Having said this, I would like to suggest that they are *both* compatible with Pareto once we interpret them through the "imperfect" lens I've suggested. Here I am on tenuous grounds of misinterpreting Mingardi's use of terminology, but if a classical-liberal worldview implies that individuals hold a set of diverse ends that must be realized through the self-directed application of means, this implies "imperfection" in the sense that the pursuit of one's human flourishing is a process towards completion that requires freedom to realize. However, human flourishing is not an activity pursued by isolated automatons; rather, it is the normative basis for realizing the gains from productive social cooperation under the division of labor.

From this perspective, Pareto's vision of a classical-liberal program was not imperfect because it was flawed but because it was incomplete. As Mingardi mentions, Pareto's alleged association with fascism was implied by his increasing interest in force. However, from a Paretian perspective, force is another set of means to compete for scarce resources that can be traced back to logical action. If Pareto's classical liberalism was inconsistent, it is only because it was imperfect in the sense of his failure to complete his positive analysis of human interaction by carrying it to its logical conclusion, which was to modify the political rules of the game in a way that minimizes the gains from rent-seeking.

I would like to conclude here with a statement by Frank Knight often quoted by Buchanan, which is the notion that a situation that is hopeless is a situation that is ideal. If there are any imperfections that Buchanan (and Tullock) updated and perfected in Pareto, as Mingardi

suggests, it would be because Pareto, ironically, failed to be Paretian. That is, precisely because political processes are not ideal, there is hope. And that hope for improvement has a non-normative basis, as Buchanan suggested in Paretian fashion: "the political economist's task is *completed* when he has shown the parties concerned that there exist mutual gains 'from trade'" (emphasis added). (Buchanan 1959, 129) Such mutual gains from trade can be achieved only when the political economist takes the political status quo as given and suggests Pareto-improving rule changes from that status quo as a point of analytical departure, as Pareto might suggest. This is consistent with the classical-liberal vision of expanding the scope of productive social cooperation under the division of labor.

PARETO AND THE DEATH OF LIBERAL EUROPE

by Alberto Mingardi

I've learnt a lot from the wonderful contributions of Giandomenica Becchio, Rosolino Candela, and Richard E. Wagner. One thing they all convey to the reader is that Pareto's work is a tremendously rich mine and that it can provide us with many takeaways, even when limiting the exploration to the seemingly narrow subject of Pareto and political realism.

In his beautiful essay, Professor Wagner argues that "Pareto was a liberal for sure, but it was his interest in scientific explanation that animated his efforts." In a sense, such a remark in part completes and in part defies my own portrait of Pareto's journey between classical liberalism and political realism.

Wagner points out that, ever since his youth, Pareto always strove to achieve the greatest scientific accuracy:

"Pareto's interest in economics stemmed more from his scientific interests than from a desire to advocate for liberal values and practices. Sure, Pareto engaged in plenty of advocacy on behalf

of liberalism. Still, Pareto was more a theorist than an advocate."



In a 1913 letter, Pareto himself says that "I set out with accepting the theories of the so-called classical economics, as they seemed—and still seem—to me more scientific than those of their rival schools." (Pareto 1913, 801) Recalling his youthful efforts "in defence of economic freedom," which he dismisses as "all wasted time," Pareto remarks that they were written when he still "did not understand the profound difference that exists between the operating [*operare*] and the knowing; a difference so profound in social sciences, that one thing is the often the opposite of the other." The ambition for scientific veracity produced very different approaches in Pareto as an economist (with his commitment to the idea of equilibrium)^[6] and as a social scientist at large (with his emphasis on the role of irrationality).

Giandomenica Becchio notes:

"Pareto belonged not only to the two traditions mentioned by Alberto (classical liberalism and political realism) but also to the tradition of modern moralists (Montaigne, Bayle, Mandeville, Bentham) who focused on the analysis of human passions and irrational motivations of human behavior."

Wagner and Becchio thus seem to call for very different readings of Pareto. Was he a scientist or a moralist? I think Wagner and Becchio are both right: he was both. Becchio reminds us of the role of irrationality in Pareto's sociological thinking; Wagner underlines how this happened at the times of his classical-liberal militancy: "Pareto was convinced that a social system based on free

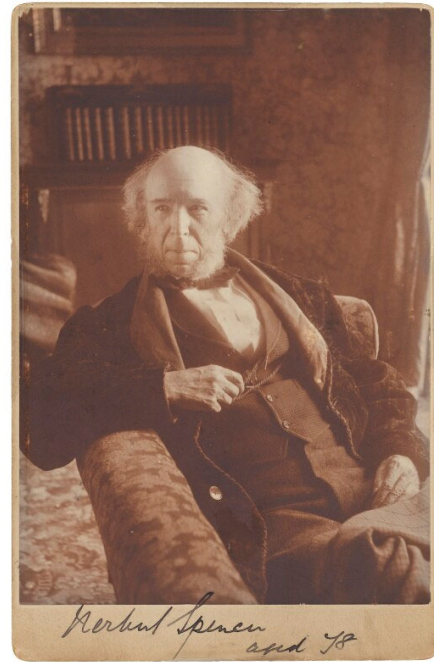
and open competition was superior to any of the options where the few dominated the many. Yet free and open competition showed no signs of winning any kind of popularity contest."

Could it anyway?

As we agree that there is—broadly speaking—no contradiction between Pareto's younger, committed liberalism and his later, more dispassionate look at political facts, I'd like to spend a few words on his relationship with, so to say, "official liberalism." This may also help in clarifying, as Rosolino Candela asked me to do in his generous and profound piece, what I meant by saying that Pareto's political realism is not incompatible with a classical-liberal worldview, but is so with a classical-liberal *program*.

Pareto's direct contacts with politics, and his following it closely in the context of his free-trade advocacy, clearly played a role in shaping his political realism. But in understanding how "free and open competition didn't win any popularity contest," the *performance* of self-described liberal parties may have played a crucial role.

I've already mentioned Pareto's stance on anti-clericalism. Fiorenzo Mornati speaks of Pareto's "religious liberalism." Pareto thought the separation of church and state meant that the state should ignore the church, leaving it alone, rather than actively meddling in religious matters. On the contrary, he saw freedom of religion being "under attack by 'materialists and idealists' in the name of the age-old doctrine of the all-powerful state." (Mornati 2018, 134) Hence Pareto, right from the beginning, was alert to the possible shortcomings of his fellow travellers.



Herbert Spencer (circa 1898)

Yet the situation got much worse. In a sense, Pareto's own trajectory parallels [Herbert Spencer's](#). Spencer entered adult life when classical liberalism was on the winning side: the Corn Laws had just been abolished; the spirit of the age was that of liberal reforms; more government retrenchment seemed possible if not likely. Spencer's understanding of social evolution as unfolding differentiation and increasing complexity did not necessarily *require* but went well with such attitudes.

An older man, in the 1880s, Spencer came to think that "[most of those who now pass as Liberals](#), are Tories of a new type." If liberalism used to be about freeing people from government intervention, later "liberalism has to an increasing extent adopted the policy of dictating the actions of citizens."

In "The New Toryism," the first of the essays that he put together in *The Man versus the State*, Spencer offers a charitable explanation of the phenomenon:

[For what, in the popular apprehension and in the apprehension of those who effected them](#), were the changes made by Liberals in the past? They were abolitions of grievances suffered by the people, or by portions of them: this was the common trait they had which most impressed

itself on men's minds. They were mitigations of evils which had directly or indirectly been felt by large classes of citizens, as causes to misery or as hindrances to happiness. And since, in the minds of most, a rectified evil is equivalent to an achieved good, these measures came to be thought of as so many positive benefits; and the welfare of the many came to be conceived alike by Liberal statesmen and Liberal voters as the aim of Liberalism. Hence the confusion. The gaining of a popular good, being the external conspicuous trait common to Liberal measures in earlier days (then in each case gained by a relaxation of restraints), it has happened that popular good has come to be sought by Liberals, not as an end to be indirectly gained by relaxations of restraints, but as the end to be directly gained. And seeking to gain it directly, they have used methods intrinsically opposed to those originally used.

Spencer considers this a confusion as being originated by the very successes of liberalism itself. He spots serious intellectual errors, like the idea that popular government changes the nature of government, so that a democracy's limitations of individual liberty are no longer considered akin to limitations, and points them out. He is certainly alert to the importance of special interests, and he certainly thinks of the importance of irrationality and pre-rational attitudes, but sees the fallacies of contemporary liberals as conceptual mistakes and therefore tries to correct them.

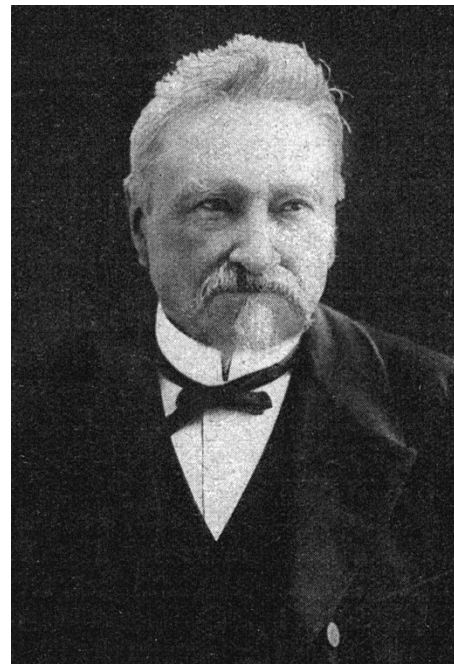
Pareto sensed continental Europe to be in the midst of a similar trend—and perhaps a stronger one, for Italy and Germany never had a [Richard Cobden](#). But he offered a slightly different explanation. Let me refer to a 1903 article, significantly entitled "The Eclipse of Freedom":

Liberal doctrine is optimistic, as it presupposed men can cease pillaging each other. Before experience decided the issue, this hope could appear something else than a chimerical one, but facts shew at an advantage that, at the very least, the times are not ripe for its being made a reality.

Thus, whoever cannot directly oppose being a victim of plunder, cannot but follow the example he is provided with and take after the dog that started with guarding his master's meal and then—realising he was too weak to do it—ended up with stealing his share. [Pareto 1903, 388-89]

So in a sense the problem lies with the very political game: if you take part in it, you can't but end up playing by the rules. And the rules entail a competition for other people's resources that liberalism should have limited but ultimately failed to curb.

What underpins this view is a neatly classical-liberal conception of freedom. Pareto quotes [Gustave de Molinari](#), one of his favorite economists, pointing out that "as liberty decreases, so decreases the fraction of one's own goods that the individual can freely dispose of, and grows the fraction available to the government." (Pareto 1904, 399)



Gustave de Molinari

This view of liberty is basically the liberty of being left alone. And such liberty was challenged, as the century was turning, by those very parties that traditionally claimed to be its champions. One theme Pareto held dear, and this sounds truly prescient in times like ours, is that of freedom of expression being limited in the name of

freedom of expression. Advocates of secularism calling for government meddling with church activities; "free thinkers" calling for punishment of university professors who "dare challeng[e] the benefits of divorce" (Pareto 1904, 403), to Pareto, all of this sounded awfully similar to conservatives limiting freedom to buy alcohol or shopping on Sundays.

If I must find a point of disagreement with Professor Wagner, it is that I do not think that Pareto ever sounded "aloof and even cold." He was a student of political passions, and a passionate man too. He wanted to be "scientific" and cold in dissecting politics, but was also loyal to a concept of liberty that he thought was hopelessly out of fashion, as self-styled liberals do not believe in it anymore:

If we attempt to more or less roughly appraise how the notion of liberty changed in time, we'll see that in the times when they are in a state of subjection—and the countries where they currently are subjugated—popular parties call liberty the freedom of acting, as this freedom benefits their fellow subjects; whereas when they are the masters—and in the countries they rule—they call liberty the banning of action, as this prohibition benefits the rulers. [Pareto 1904, 406]

This seems to me to be a profound remark that considers the "statist" evolution of liberalism as a result of democratization and the enlargement of the franchise, causes that liberals of the old kind they themselves championed without foreseeing their ultimate, unintended consequences. It is in this context that "all past privileges are revived again" (Pareto 1904, 408): people considered entitlements of the sovereign arrogant and unbearable when such sovereign was clearly identifiable with a king or a small coterie of aristocrats. But when all people can somehow partake of those same entitlements, their judgment changes and the idea that we should do away with the entitlements fades.

The greatness of the Italian theory of the ruling class lies precisely here: in understanding the basic dynamics of politics as something which is not truly modified by

changes in the way in which politics seek legitimization. This was a bold idea, particularly when democracy was younger and perhaps more radiant and sincere.

A side note: on Facebook, Bill Evers reminded me of the following quote from Murray Rothbard: "Vilfredo Pareto was a militant laissez-faire liberal and battler for free trade, heavily influenced by the French anarcho-capitalist Gustave de Molinari. Despairing of freedom and the free market after the turn of the twentieth century, Pareto retreated into cynical critiques of political action, but he was never not interested in political economy." (Rothbard 1993) With this reference to "cynical critiques of political action," this quote seems quite apropos to our discussion -- it indeed evokes its very title. In his *History of Economic Thought*, Rothbard indeed calls Pareto a "pessimistic follower of Gustave De Molinari." (Rothbard 2006, 455) A realist is a pessimist in the eye of an optimist, I suppose. But no matter what you call it, a realist or pessimist is equipped with something an optimist often lacks: a tragic understanding of politics. This, I think, reinforces Giandomenica's suggestion to consider Pareto as a modern moralist.

Endnotes

[6.] Rosolino Candela rightly reminds us of Bastiat's "What Is Seen and What Is Unseen." That little essay lies deep at the heart of Pareto's own understanding of economics. Once Pareto claimed that "Bastiat's *Ce qu'on voit et ce qu'on ne voit pas* [what is seen and what is unseen] emerges from" Walras's formulas. (Pareto 1895, 424). I hope my economist friends and fellow discussants may pick up the point.

PARETO'S POLITICAL VIEW: ANTI-METAPHYSICS AND "IRRATIONALITY," A CLARIFICATION

by Giandomenica Becchio

Richard Wagner, who pointed out the crucial efforts made by Pareto in building economics as a science, reminded us that Pareto thought that economics urgently needed to be purged of metaphysics. This is true indeed, and *metaphysics* was the keyword for Pareto the economist. He described "pure economy" as human actions which follow some regular patterns "qui constituent des *lois naturelles*." (Pareto 1896, 397) Differently from Walras, who had adopted an exclusively deductive approach based on the internal coherence of the logical procedure without any concern about the realism of initial hypotheses, Pareto applied a combination of experimentalism and deductive method to build an economic theory free from any metaphysical residuals.^[7] The necessity of handling empirical material was fundamental to his move toward realism.



Benedetto Croce

Between 1900 and 1902 a well-known debate, hosted by the *Giornale degli Economisti*, occurred between Pareto and

Benedetto Croce^[8] around the scientific nature of economics and the urgency of purging it of any metaphysics. In a very peculiar Italian style, the philosopher Croce paradoxically attacked the economist Pareto of being metaphysical in reducing economic phenomena to physical facts. (Croce 1900; 1902) In his replies, Pareto claimed that any science, including economics, deals with functional relations, not with metaphysical causalities as implied by Croce. (Pareto 1901; 1902)

Nonetheless, Pareto took Croce's objection very seriously, and he admitted that "something else" can affect economic phenomena. To explain this "something else," in his following works Pareto presented the distinction between logical and non-logical actions. Candela rightly noted that this is not a distinction between rational and irrational actions, and Wagner stated that "this distinction does not mean that Pareto flirted with irrationality." I am not sure what "flirting with irrationality" means, but I must say that, on one side, Pareto gave a rational explanation of non-logical actions as derivations and residuals, and, on the other side, he regarded the residuals as bunches of irrationalities in human behavior which are rationally justified. In Pareto's time, irrationality meant instincts, sentiments, feelings, and anything else that is not measurable. This leads us to Pareto's liberalism. The act of starting any investigation with a critique of misunderstandings, irrationalities, and mistakes previously accepted belongs to the classical-liberal tradition. Think about Bacon's purge of *idola*, Bentham's fight against *fallacies*, Whately's battle against *failures*, and Mill's classification of *fallacies*. For those thinkers, the political arena is the best stage to see how human actors combine rationality and irrationality, residuals and derivations, driven by logical fallacies.

As Aron (1970) clearly claimed, Pareto did not speak for any particular group: he had enemies on both sides of the theoretical arena (philosophers in search of ultimate principles as well as scientists focused on science as an ultimate truth), as well as – I would add -- supporters on several sides of the political arena (fascists, classical liberals, revolutionists). Pareto was a liberal not only

because he had advocated a particular political or economic doctrine, but because he embraced the inner nature of liberalism, which is freedom of investigation within a rational framework. As Alberto Mingardi wrote in his rejoinder, Pareto's "view of liberty is basically the liberty of being left alone."

Endnotes

[7.] For example, between the publication of his *Cours* and his *Manuale*, he discarded the notion of *ophélimité* as the measure of pure economic satisfaction and he started to use indifference curves to represent ordinal preferences.

[8.] Croce has been depicted as the fiercest advocate of liberalism, at least within the Italian philosophical tradition, which, to be honest, seems to me quite problematic because the rationalist Pareto, is usually considered a proto-fascist while the classical liberal Croce was a Hegelian.

DEMOCRACY'S DECLINE: PARETO AND FASCISM

by Alberto Mingardi

A few words are perhaps due regarding what Rosolino Candela calls Pareto's "alleged" association with fascism. Giandomenica Becchio points out that "his initial sympathy for early fascism has been overestimated and probably had been manipulated by the regime."

Indeed, too much has been made of such sympathy, though it is a fact that Pareto supported the fledgling fascist movement.

For one thing, Pareto passed away a few months after the March on Rome and a few months before the assassination of the socialist MP Giacomo Matteotti, which showed the true color of fascism for all to see. So he can certainly be excused for not having predicted the evolution of the regime. In his essay "*Pochi punti di un futuro ordinamento costituzionale*," in which he reflects on the

sort of reforms the fascist government might undertake, he writes:

To only govern with the consent of a majority, however large, cannot be done.... To only govern with force, for any length of time, cannot be done. It is necessary to know whether the consent—at least implicit—of the larger number does exist. For this a House of Representatives is quite useful.... A broad freedom of the press is indispensable.... Care should be taken lest one yields to the temptation of strongly curbing it. [Pareto 1923, 797]

This sort of plea for freedom of expression is certainly in contrast with the ambitions, and the practice, of fascists.

Still, what is more interesting, as Giandomenica remarked, is that Pareto's interest in fascism was grounded in his understanding of the crisis of democracy. This was the crisis he styled as "demagogic plutocracy."

It may be worth quoting Pareto on how this particular political arrangement came to be (Pareto 1920, 83-83):

1. A very large increase of wealth, of savings, of "capital" directed to production.
2. Such a distribution of wealth that inequality persists. Some contend that [inequality] increased, others that it decreased; it is likely that the average distribution did not change.
3. The steadily increasing importance of two social classes, namely the wealthy speculators and the workers.... "Plutocracy" is seen to grow and prosper, when one looks at the first of these occurrences, "Democracy" is seen to increase when one focuses on the second....
4. A partial alliance between these two elements, which becomes particularly remarkable since the end of the 19th century. Despite speculators' and workers' interests being not entirely coincident, still part of the first and part of the second find working in the same direction to be profitable for both, with the goal of capturing the government and exploiting the remaining social

classes. It also follows that plutocrats achieve this alliance by cunning means, availing themselves of the sentiments (residues) which obtain in the common people...

5. While the power of these two classes grows, likewise declines the power of the remaining two, namely the wealthy or affluent owners which are not speculators, and the military; in fact, the power of these is by now quite negligible....
6. Slowly and steadily, the recourse to force passes from the superior to the inferior classes....
7. Parliaments turn out to be a very effective tool of demagogic plutocracy....

Notice that Pareto did not focus on the opposition between employers and employees: he saw an alliance between some of them, an alliance established on a common interest and kept alive by political myth-making.



World War I (Somme 1916)

He considered World War I a consequence of demagogic plutocracy, with profiteers benefiting from military spending and part of the working class cheering entry into the war, hoping for a better life afterward. The very triumph of demagogic plutocracy foreshadowed a crisis of this kind of regime. Plutocracy feeding demagoguery entails a dangerous equilibrium: it means feeding ever-bigger demands for new benefits and special privileges. For Pareto, when a ruling class weakens, it becomes at the same time less efficacious in defending its own power but also more greedy: "on the one hand its yoke gets heavier, on the other hand it has less strength to keep [the

yoke on society]." (Pareto 1900, 206; Zetterberg trans., p. 59)

The crisis of democracy in Italy was strongly felt during the so-called "*Biennio Rosso*," the "Red two years," with violence dominating the political scene. A Bolshevik-style revolution or a nationalist reaction was possible, but so was a continuous crisis in which the old ruling class tried to cope with ever-growing popular demands by multiplying giveaways in the hope of preserving its old interests.

One thing fascism certainly did was replace the old rulers with a new elite.

This—admittedly awfully simplified—summary may highlight a couple of things that are relevant for reading today's politics too. First, distributive coalitions underpin many political phenomena, but they are not necessarily the most obvious ones. Second, distributive coalitions need to be fed with both government giveaways and a comforting ideology: striking a balance between the two isn't easy. Third, we certainly like to talk about times changing, novelties in government, "the people" regaining center stage; but more often than not, what we are actually facing is a competition between wannabe masters. Pareto knew it well: "It is an illusion to believe that now stands, in front of the ruling class, the people; what stands in front of it is a new and future aristocracy, which leans on the people, and actually you can already see some marks of contrast between that new aristocracy and the rest of the people." (Pareto 1900, 218; Zetterberg trans., p. 72.)

To be blunt, in this age of rampant populism (for lack of a better word), it is appalling to me how often opinion makers take the populists at face value, assuming they are something "new" on the basis of their rhetoric. More interesting would be to look at what interest they represent (not necessarily to what interest they *claim* to represent) and to what ideological chords they aim to strike.

REASON, SENTIMENT, AND THE RATIONAL- IRRATIONAL POLARITY

by Richard E. Wagner

In this post I focus on Giandomenica Becchio's treatment of what she describes as "Pareto's dilemma," which Alberto Mingardi raised in his original post; in my next post I will consider Rosolino Candela's distinction between classical liberalism as worldview and as research program, which Alberto raised in his original post. While I agree with Giandomenica's addition of Pareto as a modern moralist to Alberto's treatment of Pareto as a classical liberal and as a political realist, I am modestly uneasy with portraying Pareto as having an irrationalist side. Modern behavioral economics has advanced irrationality as a human proclivity in its effort to articulate new forms of market failure, and Pareto surely would not want to be enlisted in the service of such claims.

Sure, Pareto explored how people could use their faculties of reason "not to discover the truth but to manipulate it," as Giandomenica notes. Human passion is very much in the foreground of Pareto's thinking. All the same, I think we should distinguish reason as one of the human faculties from rationality as an ideological fiction that enables the closing of many economic models. One can appreciate that humans possess a faculty of reason without embracing rationality as ideology. In this regard, I think Thomas Szasz's (1961) articulation of the myth of mental illness has much value to add to the contemporary understanding of human conduct, and of Pareto.

Pareto's disjunction between logical and non-logical action only superficially maps onto a disjunction between rational and irrational action. I think Giandomenica's description of Pareto as having recognized an "inconvenient truth" is accurate, only I think the rational-irrational polarity miscasts a bit Pareto's scheme of thought.

If rationalism implies a belief in the human ability to use reason to order societies to good effect, Pareto was not a

rationalist. Yet Pareto believed strongly in the beneficial properties of free markets as the basis of economic organization. Here we must recognize with Pareto the simple fact that reason cannot select the objects on which it works. There must be something prior to reason that selects the material on which people apply their faculties of reason. This something Daniel Dennett (1978) characterized as a "consideration generator" to capture the idea that sentiment nominates material for reason to work on. In a similar vein, Martha Nussbaum (2001) explored the intelligence of emotions. Pareto's distinction between logical and non-logical action is surely compatible with the thinking of Dennett, Nussbaum, and Szasz as well as with Gerd Gigerenzer's treatment of rationality within an ecological framework.



Classical liberalism emerged with the disintegration of the feudal regimes in Europe, where economists sought to understand how good social order could arise without direction from what had been lords of the manor. Pareto's moralist side recognized this good result, and his scientific side sought to explain how this was possible without political direction. Pareto's scientific side also recognized that the spread of commercial relations was limited by the presence of the political in society and sought to understand why the political impeded the spread of liberty, all the while invoking ideological derivations that identified politics with liberty.

It is fully within the spirit of Pareto's analytical framework to recognize that people would act differently within market institutions than they would act within political institutions. I would not, though, attribute this difference to the presence of human irrationality but rather to the direction that different environments for human action give to the operation of human sentiments. For Pareto,

humans were rooted in sentiment. The spread of market interaction after the demise of feudalism led people to flourish within a liberal market order. Not to be ignored, though, is the ability of sentiment to lead people to support programs that restrict liberal market interaction.

To illustrate with a simple model, suppose five entrepreneurs open commercial enterprises. After some passing of time, three of those enterprises are liquidated because their owners decided they would never be able to cover their costs. By the logic of the market system, those entrepreneurs could either use their liquidated proceeds to start a new business or offer to work for one of the successful entrepreneurs. This kind of calculation would illustrate logical action. Yet sentiment is always in play. A politician might campaign on a platform of providing equal opportunity for all, which would entail subsidies for people who start new businesses financed by taxes on successful businesses. Pareto recognized that the world runs on sentiment, with reason operating in the service of sentiment.

A CONFLICT OF VISIONS IN VILFREDO PARETO'S CLASSICAL LIBERALISM?

by Rosolino Candela

At the risk of beating a dead horse in the conversation, I wish to further discuss the point that Dr. Mingardi has raised regarding Pareto's political realism and the notion that Pareto's political realism is not incompatible with a classical-liberal worldview but is incompatible with a classical-liberal program. This is neither to point out any ambiguity in Dr. Mingardi nor to suggest that he has avoided the issue in his clarifying response; it is rather to raise another issue that I hope Dr. Mingardi, as well as Professor Wagner and Professor Becchio, will take up in the conversation.

“THE POINT I WISH TO RAISE HERE COMES FROM ONE OF MY FAVORITE WORKS OF THOMAS SOWELL, *A CONFLICT OF VISIONS* (1987), IN WHICH SOWELL MAKES THE DISTINCTION BETWEEN "THE CONSTRAINED VISION" AND "THE UNCONSTRAINED VISION" IN ECONOMIC AND POLITICAL THEORIZING.”

The point I wish to raise here comes from one of my favorite works of Thomas Sowell, *A Conflict of Visions* (1987), in which Sowell makes the distinction between "the constrained vision" and "the unconstrained vision" in economic and political theorizing. As Mingardi pointed out in footnote 6 of his rejoinder, Bastiat's "What Is Seen and What Is Unseen" lies at the heart of Pareto's own understanding of economics. This would suggest that Pareto's economic theorizing was consistent with the constrained vision of human nature, one that views human beings as acting to advance their self-interest. Therefore, the outcome of different invisible-hand processes is not a function of "good" or "bad" intentions but of alternative institutional arrangements that channels self-interest unintendedly towards positive-sum or negative-sum outcomes in market processes and political processes respectively.

One way to understand the classical-liberal program, consistent with the constrained vision of human nature, and therefore political realism, is the following analytical exercise from David Hume: "[\[I\]n contriving any system of government](#), and fixing the several checks and controuls of the constitution, every man ought to be supposed a knave, and to have no other end, in all his actions, than private interest." (1777 [1987], 42)

Such an institutional framework is one in which, to quote Hayek, provides the conditions for "a social system which does not depend for its functioning on our finding good

men for running it, or on all men becoming better than they now are, but which makes use of men in all their given variety and complexity, sometimes good and sometimes bad, sometimes intelligent and more often stupid." (1948, 12) From this perspective, institutions must limit political discretion in promoting "good" intentions precisely because policymakers are unable to anticipate the harmful consequences of doing so.

However, Mingardi also mentions the following quote from Pareto: that the "liberal doctrine is optimistic, as it presupposed men can cease pillaging each other." (Pareto 1903, 388) This is a very interesting point and raises a *potential* tension in Pareto that can be interpreted in two ways.

One interpretation is that, for Pareto, a classical-liberal program requires a worldview in which human nature is characterized by an unconstrained vision of human nature. This would imply two things. First, human beings are motivated by "enlightened" self-interest and therefore would vote in the "public interest." Second, political officials would then implement such voter demands with disregard for their own self-interest. The problem with such a worldview is that it defines away the *institutional* nature of the classical-liberal program and assumes that classical liberalism exists only when people are classical liberal in the first place. Not only would it be unrealistic to assume such behavioral conditions; it would also be inconsistent with Pareto's understanding of political processes (and those of Bastiat). Simply stated, the institutional prerequisite required for a classical-liberal program (i.e., the rule of law) cannot be assumed away, and the outcomes that would emerge unintendedly from such an institutional setting cannot be deliberately constructed.

Therefore, perhaps a more appropriate interpretation would be that a classical-liberal program cannot be realized precisely because institutional processes are a result of spontaneous order and historical accident. This would seem to be more consistent with Pareto's constrained view of human nature. However, as Mingardi mentioned in his original essay, Pareto thought that there always existed tendencies toward both decentralization

and centralization of power. Where, then, do these tendencies come from?

Herein lies a tension in Pareto, since, as implied in Mingardi's rejoinder, the *ideas* that undergirded a classical-liberal program were being *institutionalized* during his youth. It would seem, then, there exists a bidirectionality in derivations from which the ideas of liberty became unintendedly embodied in institutions and which in turn create derivations that reinforce liberal institutions.

PARETO AS THEORIST OF OPEN SOCIAL EVOLUTION

by Richard E. Wagner

Alberto Mingardi claims that Pareto's political realism was compatible with a classical-liberal worldview but not with a classical-liberal program. Rosolino Candela claims that Pareto's realism was also compatible with a classical-liberal program. To do this, Rosolino recurs to the Latin treatment of "imperfect" as pertaining to a state of incompleteness and not one of disfigurement. While it seems unlikely that Pareto's "drastic realism," to use Alberto's description, would have encouraged pursuit of a program to promote liberalism, Rosolino's recognition that the future is open necessarily brings hope to efforts to promote liberalism.



Arthur Lovejoy

In his *The Great Chain of Being*, Arthur Lovejoy (1936) elaborated the thesis that our consciously held ideas rest upon a bedding ground of presuppositions of which we are only vaguely aware. Pareto's concept of residues bears a family resemblance to Lovejoy. Action is directly observable, as are the justifications which people give for those actions and which put them in a favorable light. Residues, however, are invisible. While Pareto identified several categories of residue, two are of especial significance for theorizing about political economy: combination and persistence.

Combination pertains to a predilection for adventure or exploration. Creativity, for instance, can be represented as a combinatorial activity where the creator combines n elements among m possible elements. When m is much larger than n , the number of possible combinations is staggeringly large. Combination maps onto entrepreneurial action and animal spirits. It is a residue, moreover, that a liberal order supports.

Persistence pertains to a predilection for stability or conservation. It is reflected in habit and leads to a preference for what is familiar over peering into what is unfamiliar.

Both types of residue can reside in the same person, for a residue is not some observable action but is some precognitive predisposition that is at work in generating the actions a person takes in a situation.

We may reasonably suppose that people vary in their residues. If so, it is reasonable to wonder whether occupations vary in the residues that are possessed by their practitioners. In particular, might people attracted to commerce be relatively heavily endowed with the residue of combination with its support for entrepreneurship, adventure, and experimentation, or generally being left alone from interference from other people? Alternatively, might people heavily endowed with persistence be attracted to what Jane Jacobs (1992) described as guardian-type activities, including politics, where people who want to be left alone can be anathema to people heavily endowed with persistence?

Would not the dialectical tension created by interaction among carriers of different residues create forms of societal tectonics and not equilibrium? To speak of equilibrium is to convey placidity. What is here today will be here tomorrow. To speak of tectonics is to speak of the societal equivalent of earthquakes. In the social world, the equivalent of earthquakes occurs when carriers of combination collide with carriers of persistence. Consider how the free-market institutions of private property and freedom of contract give vent to the residue of combination, which leads in turn to the experimental search for new products, new ideas, and new forms of business enterprise. This situation will not be comfortable for people filled with persistence, who in turn will have to invent good-sounding derivations to restrict other person's liberties.

How this situation might play out is an open question. We know that humans have immense ability to convince themselves that they and their programs are socially beneficial. Joseph Stalin and Adolf Hitler most assuredly never thought of themselves as evil, as against promoting good in the world. Contestation is everywhere in society, as Carl Schmitt (1932 [1996]) illustrates lucidly. The human imagination, moreover, can be fertile in generating reasonable-sounding derivations in support of what the person is seeking to support.

Societal tectonics there will always be, for living in society is to live inside an earthquake zone where what has become familiar is not guaranteed to persist, nor is what appears to be a good idea sure to be accepted into society. It is the process of continual contestation and not some end state that resides in the foreground of our worlds of experience. For instance, one can easily imagine a constitutional amendment that read, "Congress shall pass no law in restraint of trade." On its face, this amendment would seem to preclude an Agency for Business Promotion. But would it? Supporters of the ABP would claim they are not seeking to restrain trade but are seeking to promote fairness and equal opportunity. In an open-ended and creative universe, constitutional provisions have little scope for bringing closure independently of the contested processes in play within a society. And those

processes surely respond more strongly to the resonance of sentiment than to the logic of reason, for reason can reinforce sentiment, but it can't set sentiment in motion.

PARETO AND CLASSICAL LIBERALISM

by Giandomenica Becchio

After having read the first round of comments by Mingardi, Wagner, and Candela, I would like to pick one point from each to briefly discuss further the relationship between Pareto's work and classical liberalism.

Alberto pointed out Pareto's relevance for reading today's "rampant populism," whose leaders blatantly proclaim themselves the new face of politics that speaks for the "people" against the professional politicians. Pareto knew very well this phenomenon, which has old roots, especially within Italian political tradition, starting from the *populares* party in the Roman Republic. The quotation in Alberto's comment ("It is an illusion to believe that now stands, in front of the ruling class, the people; what stands in front of it is a new and future aristocracy, which leans on the people, and actually you can already see some marks of contrast between that new aristocracy and the rest of the people." [Pareto 1900, 218]) reveals that Pareto considered elitism as a general political principle able to explain the emergence of new groups of power. From Athens to Rome, within the French Jacobites as well as the Russian Bolsheviks and so forth, new elites get power when they manage to persuade the "people" to be their own natural leaders. According to Pareto, that persuasion is made possible by ideological justification when (political) passions take priority over rationality. (The same mechanism operates in religious belief.) Beliefs generate faith and illusions which generate fanaticism: this is roughly what Pareto meant when he wrote that "it is not the function of theory to create beliefs." (Pareto 1916, §365)

How did Pareto combine this extreme form of political realism, often labeled cynicism, with classical liberalism? As Femia (2013) wrote, realism did not prevent Pareto

from offering a basis for systemic change. Pareto insisted on two fundamental tools against pseudo-explanations: education and rationality. Which kind of education and which kind of rationality did he have in mind?

Pareto was not only a fervent liberal in economic matters; he was also a promoter of the importance of education on economic matters. This is an element of his thought that we haven't well highlighted yet. According to Pareto, a lack of education on economic matters leads to a huge empowerment of the political class and therefore to the decline of the nation, the elites being bound to fail at modernization.

This leads me to Rosolino's mention of a possible bi-directionality in Pareto's notion of derivation, which converges in a notion of liberty as "unintendedly embodied in liberal institutions, which in turn create derivations that reinforce liberal institutions." I must confess that this idea fascinates me, but I do not think that Pareto went in that direction. His political realism prevented him from being too optimistic about the destiny of liberalism and democracy. I think Pareto's liberalism goes much more in the direction explained by Dick: given that people would act differently in different environments, Pareto recognized that a free market is a better environment than a political arena because in market dynamics there is room for reasonable thinking. It is worth remembering what Pareto wrote to the well-known Italian mathematician Federigo Enriques: "sciences have not, and they must not have, any [political] party, they do not provide norms; they simply try to find uniformity of facts." (Pareto 1906)

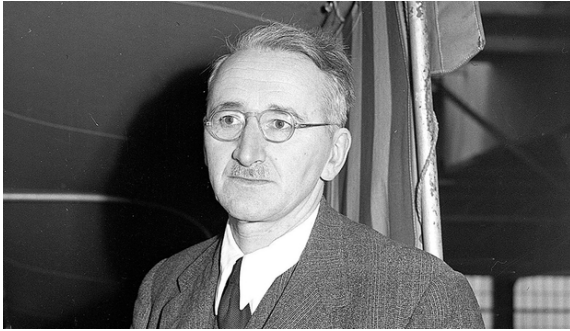
This prompts a few words about the kind of rationality Pareto had in mind. I believe that his emphasis on the necessity to build up a model of human behavior that is able to include non-logical dynamics was his way of applying the notion of rationality that belonged to modern philosophy and upon which classical liberalism is grounded. Hence, while I second Dick Wagner's general interpretation, I find it hard to consider Pareto's notion of rationality compatible with Gigerenzer's notion of ecological rationality, unless we agree to consider ecological rationality, which is grounded in the complex

interaction between "thinking" and "feeling," as the last development of modern rationality.

IN THE END, WHAT CAN WE LEARN FROM PARETO?

by Rosolino Candela

Given the direction in which this conversation has been going, I wish to return a point that I made at the end of my initial post, which suggested a "Paretian solution" to a problem of liberalism. As Mingardi has clearly discussed throughout the conversation, Pareto was, at best, pessimistic about the future of classical liberalism, given the emergence of "demagogic plutocracy."



F. A. Hayek

The tragedy of democracy, from Pareto's perspective (as described by Mingardi), is that the very institutional conditions that liberated the poorest and least advantaged in society later became undermined by political competition among the working classes seeking political enfranchisement. Such competition would later manifest unintentionally as demagogic plutocracy as a result of the elites allying themselves with the working classes in an effort to maintain power through force. This story bears a striking similarity to Hayek's *The Road to Serfdom* (1944) in explaining the tragedy of how the worst got on top in politics in Germany, Italy, and the Soviet Russia from the good intentions of prior generations of socialists. This is ultimately a tragedy because it is an unintended societal outcome that emerges from good intentions.

Is such an outcome "efficient"? Not for Pareto, for if this were the case, it would not be a tragedy. As Becchio

discussed previously, Pareto differed from Walras with respect to social theorizing in that Pareto was a social theorist who employed invisible-hand theorizing. Though all human action is rational in that the outcomes of individual action are a result of reason, societal outcomes, both economic and political, only emerge *indirectly* from reason and intentions. Therefore, individual intentions cannot be inferred from social outcomes.

However, is such a tragedy "Pareto-optimal"? This is indeed the case if, and only if, we restrict our analysis to the interaction that plays out within a set of rules. As Tollison and Wagner (1991) suggest, economic reform that takes place within a set of rules would require an expenditure of resources that is not a Pareto improvement. This is because the resources that would be expended to eliminate existing interest groups from preventing reform would exceed the total economic benefits of the reform itself, resulting in a "transitional gains trap." (Tullock 1975)

Though the political tragedy to which Pareto was referring applied to Europe, what can we learn from Pareto today in order to prevent this tragedy from reemerging, particularly given our current age of populism, to which Mingardi referred? The advancement of classical liberalism can only proceed from a realistic understanding of the margins on which reform can be *suggested*.

To the extent that such populism can be traced to the perception of rising inequality, one remedy to combat such inequality, consistent with classical liberalism, is the elimination of corporate welfare and other legal privileges that benefit the politically connected at the expense of the rest of society.

However, if economic reform cannot achieve Pareto improvements within a set of rules, what Pareto's analysis suggests is that the role of the political economist is to be realistic about the present by taking the existing political status quo as a given. From this status quo, the *realistic* basis for optimism is not only in the political economist's ability as a scientist to illustrate the seen and unseen effects of alternative public policies. It is also in

the political economist's ability as a reformer to suggest changes in rules that are *potential* Pareto improvements to society over time.

The prevention of Pareto's tragedy cannot come from an abandonment of democracy. Rather, it requires an embracing of democratic deliberation, but deliberation within rules that conform to an ideal of unanimity, as Buchanan and Tullock (1962) suggest. To the extent that competition in the political sphere cannot be eliminated, our only hope is to channel such competitive behavior in a way that concentrates not only the costs but also the benefits of political action on the decision-maker in order for political processes to parallel, as closely as possible, the beneficial outcomes of market processes.

CAN REALISM AND LIBERALISM BE RECONCILED

by Alberto Mingardi

What does political realism tell us about liberalism? Rosolino Candela and Richard Wagner, with their recent posts, brought us back to this question. With splendid eloquence, they are somewhat restating a point that was first made in *Federalist 51*: "[If men were angels, no government would be necessary](#). If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself".^[9] This is a succinct and clear statement of a classical liberal program as any.

In what sense does a politically realist perspective undermine such program? Pareto maintained that "among the forces that drive human will, theories and homilies are the lesser, whereas interests and sentiments are the stronger, and become absolutely preponderant in the case of great changes."^[10]

How can sentiments and interests help in framing a classical liberal political order? It seems to me that we (as I place myself in the classical liberals' basket too) are very good in being realist on what government can achieve - and we rightly see that grand legitimising formulas are very often fig leaves for special interests. We know that protectionism claims to defend national business, but in fact awards privileges to cronies. We know that the laudable intention of fighting poverty is often used to feed an ever growing bureaucracy, with political intermediation taking the lion's share of whatever redistribution scheme. We know that in foreign policy (perhaps, especially in foreign policy) well-sounding statements are more often than not fraudulent.

Now, are we sure we do take account of all this when we draw up programs for a change in the direction of freedom, as the classical liberal understands it?

Quoting Sowell and Hayek, Rosolino mentions that we often stumbled upon institutions that were compatible with a "constrained" vision of human nature, and therefore successful. These institutions can be seen as the building blocs of a classical liberal vision: I say building blocs because, although they would fit well together, they did not necessarily present themselves all at the same time.

Contrary to other sets of political ideas, one peculiarity of free societies is that more often than not they do not come with all the building blocs properly set in place. You may have, for example, a high degree of respect for property rights and yet economic protection; or you can have strong constitutional guarantees for privacy and free speech and yet a government that continuously practices foreign policy aggression, under the mantle of the pursuit of the greater good for all. Another peculiarity of free societies seems to me to be that their economic success sometimes eats up their very freedom. Pareto makes the point of aggressive wars (imperialism) being more easily sustained after periods of strong economic growth: in part this is due to sentiments, in part this is due to the fact that a healthier economy allows for more credible promises of new redistributive schemes, which are needed to boost consensus for foreign adventures. A

commonplace argument is that prosperity is the mother of regulations: economic growth makes it possible to reduce working hours, to decide not to engage in highly polluting industrial production, et cetera. Sometimes supply and demand adjust, for example, to the environmental sensibilities of the public, which would be consistent with whatever classical liberal view one holds. Most of the time government steps in and regulates, which is not. In any case, it is not easy to disentangle genuine changes of the public's sensibilities from those which are driven by special interest lobbying.



Deirdre McCloskey

How these "building blocs" come about, is per se a different matter. We stumble upon them, as Rosolino reminded us. Deirdre McCloskey has provided us with a persuasive historical narrative of how a liberal set of values came to prevail, and hence allowed for widespread innovation. For McCloskey at a certain point the "bourgeois deal" replaced the "aristocratic deal". So goes the "bourgeois deal": "You accord to me, a bourgeois projector, the liberty and dignity to try out my schemes in voluntary trade, and let me keep the profits, if I get any, in the first act—though I accept, reluctantly, that others will compete with me in the second act. In exchange, in the third act of a new, positive-sum drama, the bourgeois

betterment provided by me (and by those pesky, low-quality, price-spoiling competitors) will make you all rich."^[11] Before that, honour was given to land-lords and priests, and economic activity was not considered that respectful.

Yet the two attitudes coexisted. The "aristocratic deal" is more than just convenient for those who benefit from it: it is well entrenched in our psychology, the bourgeoisie included. Attitudes and instincts (as Pareto would say) or virtues (as McCloskey would say) are there well before the emergence of industrial, complex societies of the kind we live in: the challenge is to understand how to cope with this new setting. If a wider recognition of dignity to traders and businessmen put society on the path "from status to contract", other forces push and pull the other way. So, those "building blocs" of a more classical liberal society are sometimes there, but we can say that they are seldom accepted with general enthusiasm, and very rarely are considered part of a consistent program of betterment and progress.

The future is open, and society is indeed a perpetual earthquake, as Professor Wagner suggests.

But identifying interests and sentiments that may bring us in a more classical liberal direction ain't easy. On the interest side, one may think about businesses that are new entrants in a particular market: of course, they are inherently weaker actors than established ones, in the political process. As soon as they are stronger, they may be driven to seek protection rather than allow free entry, as businesses most often do. When it comes to sentiments and instincts, Pareto's remarkable ambivalence about combination and persistence suggest we should abstain from mythologizing entrepreneurs. The instinct of combinations is prevalent in businessmen and speculators, and is necessary for innovation in society, and yet it fosters the expansion of government, as innovators happily exploit it. I don't want to mean that the bourgeoisie are very eager to trade the "bourgeois deal" with power or status, though sometimes they are. It is simply that government is so pervasive, and potentially ever more so, that naturally entrepreneurs see it as an opportunity. This doesn't mean they are "worse"

businessmen. Many people on the right love to vilify Elon Musk, for his business ventures have greatly benefited from government subsidies. But this fact doesn't necessarily challenge Musk's entrepreneurial genius, for a good entrepreneur takes advantage of any opportunity, public funding included.^[12]

Sometimes combination and change lead to government growth, sometimes persistence and attachment to somebody's roots stop it. Most assuredly we can't stop this dialectic, neither should we. But how can a classical liberal program be worked out, knowing that interests and sentiments (think about the new rise of nationalism) tend to go in the other direction? Is the belief in individual liberty bound to be a value that only a handful of people share? How can we reconcile our realism in looking at politics, and perhaps human nature too, with hope—however dim—that the bad guys won't prevail, at the very end?

Endnotes

[9.] George W. Carey, *The Federalist (The Gideon Edition), Edited with an Introduction, Reader's Guide, Constitutional Cross-reference, Index, and Glossary by George W. Carey and James McClellan* (Indianapolis: Liberty Fund, 2001). <https://oll.libertyfund.org/titles/788#Hamilton_0084_925>.

[10.] Pareto V. (1918), "Il futuro delle finanze di Stato", *L'economista*, 13 ottobre.

[11.] McCloskey D. (2016), *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World*, Chicago, University of Chicago Press.

[12.] Jared Whitley, "Elon Musk Wants to End Government Subsidies," *The Weekly Standard*, July 27, 2017. <<https://www.weeklystandard.com/jared-whitley/elon-musk-wants-to-end-government-subsidies>>.

IS A "LIBERAL ELITISM" POSSIBLE?

by Giandomenica Becchio

Inspired by Alberto's reference to Deirdre McCloskey's analysis of bourgeois virtues, I would like to add a final consideration about the possibility for a "liberal elitism" to emerge within a realistic framework. We all agree that Pareto belonged to two traditions (liberalism and realism), though it is wrong to consider these in opposition to each other. Pareto himself is a great example of how they can be combined.

Pareto praised economic liberalism, promoted education in economic matters, founded economics as a science, and supported individual freedom as well as free exchange. He spent his whole life showing the utopian side of socialism and the religious dimension of Marxism. It is true that he acknowledged a utopian dimension in the liberal system too. Nonetheless, his critique was against a form of naïve liberalism based on a fictitious social contract which did not take enough account of the real nature of human beings. Pareto fought against Rousseau's benign anthropological nature of humans, but he never criticized Hobbes's *homo homini lupus* (man is wolf to man) within a natural context of *bellum omnium contra omnes* (the war of all against all). Hence Pareto introduced the concept of *élite* to better describe the nature of power in realistic terms and to replace a naïve notion of liberalism with a much more realistic one.

We mentioned several times that Pareto used the term *élite* in his sociological writings (*Les systèmes socialistes* and *Trattato di sociologia generale*). The term comes from the Latin "*eligere*," which means not simply "to choose" but "to make the best choice possible." Slightly different from Gaetano Mosca's notion of "ruling class," Pareto's notion of *élite* has a qualitative connotation in the end, although neutral from a moral perspective. This way of thinking precisely followed Machiavelli's realism: according to the Florentine secretary, a Prince might be the best politician even though his behavior could be particularly (if temporarily) heinous. In Machiavelli's

terms, the *élite* can be "foxes" (more innovative and cunning) or "lions" (more conservative and stronger). The powerful *élite* which governs a country reflects its own society as a whole. It is not static, though; quite the contrary, its dynamics are well-known: it is bound to decline in favor of new ones (Pareto's well-known concept of the "circulation of elites").^[13] To describe Italy in the early 1920s, Pareto defined the system as a "demagogic plutocracy," i.e., a combination of the two worst forms of government in the classic tradition since Plato and Aristotle: demagoguery, which would have likely led to tyranny, was in fact the aberration from democracy, while plutocracy can be assimilated to "oligarchy" (the government of the wealthier), i.e., the degeneration of aristocracy (the government of *aristos*, the best ones).



Niccolò Machiavelli

Machiavelli suggested the Prince as a balance of the lion's side and the fox's side in order to achieve a stable and peaceful kingdom. Pareto suggested that a liberal society must emerge in the circulation of *élites* by adopting a kind of liberal elitism against any form of degeneration of society, which includes today's most virulent forms of populism. According to Pareto, the capable *élite* would be able to continuously renew and promote an open social order, which reminds one of Popper's notion of the "open society" against any form of social planning. Quoting Pareto: "all true liberals ... should devote

themselves to educating the lower classes, since it is because of their ignorance that we do not have good governance and only through education and teaching we will one day be able to improve this state of affairs."^[14] (Pareto 2016) This is a very hard task, but maybe it is the only one we have, as history sometimes has shown us.

Endnotes

^[13.] New elites arise either by assimilation or by revolution. See his "Un'applicazione di teorie sociologiche," In *Scritti sociologici minori*, Giovanni Busino, ed. Torino: Utet, 1966, pp. 178-238; which has been translated as *The Rise and Fall of the Elites: An Application of Theoretical Sociology. Introduction by Hans L. Zetterberg* (Totowa, New Jersey: The Bedminster Press, 1968).

^[14.] Pareto's Letters to Benjamin Tucker's *Liberty*.

PARETO'S VALUE TO CONTEMPORARY POLITICAL ECONOMY

by Richard E. Wagner

What might Pareto offer for carrying forward a liberal orientation toward political economy? In this my final post to this series, I shall mention six themes within the spirit of Pareto that I believe have value going forward.

(1) *Societies are open-ended and tectonic.* While Pareto followed Walras at Lausanne, he did not continue Walras's style of theorizing. Pareto used equilibrium concepts, but these pertained to the *form* of his theorizing and not the substance, which was emergent and evolutionary. In no way would Pareto reduce a society to the representative agent that equilibrium theory enables.

Nicholas Vriend (2002) argues that Friedrich Hayek would have used agent-based computational models to illustrate his themes about incomplete and distributed knowledge if only that analytical platform had been available. The same can be said about Pareto. Agent-

based modeling offers a platform that has potential for working with Pareto's distinction between logical and non-logical action, which can lead easily into a conception of society as open-ended and evolving, with a locus of tectonic disturbances set in motion by clashes between sentiments grounded in persistence and in combination.

(2) *The emergence of classes is significant.* Classical liberalism has tended to theorize in terms of a classless society, or at least it has regarded class as insignificant. Sure, there have been tendencies to theorize about entrepreneurship, which allows some semblance of class to appear. But even here, it is often noted that entrepreneurship is ubiquitous and potentially open to everyone.

Yet societies are not undifferentiated masses of humanity. Joseph Schumpeter (1934) described entrepreneurship as the locus of leadership in capitalist societies. Modern societies are no longer capitalist in Schumpeter's sense, but leadership persists to give direction to society all the same. That direction, however, is polycentric and not monocentric. There is no lord of the manor to whom subjects must look. There are competing lords, as it were. Leadership creates classes within society, which is a reality with which our theories should seek accommodation.

(3) *Leadership is a source of power.* Economists treat exchange as mutually beneficial, as illustrated by the [Edgeworth box](#).^[16] Behind that box, however, lies a process of leadership and followership. Strangers don't just suddenly trade. Behind any trade rests a relationship between a proposer and a responder. Someone must propose a trade to someone else. If that trade works to the responder's satisfaction, it is surely plausible that the proposer receives some modicum of deference from the responder. An accumulation of such instances, moreover, surely leads to the emergence of the general template leadership-followership.

Within a purely market setting, followership is voluntary as leaders can lead only so long as followers follow. Hence, firms grow only so long as they accord with their follower's judgments. But leaders need not limit themselves to the voluntary judgments of followers. They can turn to politics. Just how they do this depends on the

form of political organization. Monarchies differ from democracies. Here again, we come up against Pareto's recognition of the distinction between the generic form of a theory and the specific form that is useful for concrete historical situations.



Carl Schmitt

(4) *Pareto and Carl Schmitt are kindred spirits.* While much classical liberalism seeks to abolish the political by reducing politics to some combination of ethics and economics, Pareto would surely have accepted Schmitt's (1932) assertion of the autonomy of the political. Where Schmitt asserted that autonomy, Pareto would have sought to explain the processes at work in creating that autonomy.

As for being kindred spirits, Pareto was wrongly tarred with being a Fascist, and Schmitt was similarly wrongly tarred with being a Nazi. Sure, Schmitt was a Nazi for two years and Pareto was never a Fascist. This difference between the two is not minor, but it is pretty much erased by Schmitt's larger biography. (Mehring 2009) A decade before joining the Nazi party, Schmitt implored Chancellor Hindenburg to eject the Nazis and Communists from parliament, which Hindenburg refused to do. It is eminently plausible to think that Schmitt believed he could more effectively civilize the Nazis from within the party than by remaining outside it. He was wrong.

(5) *Political power is a Faustian bargain, as Vincent Ostrom (1996) notes.* Government entails the use of evil, force over other people, to secure the good of peace. The late 18th-century debates between Federalists and Antifederalists (Storing 1981), shows that the protagonists shared the Faust-like presuppositions, and differed only in empirical presumptions about virtue in relation to the size of government and the ability of individual states to fend off predation from the British, French, and Spaniards.

As a piece of conjecture, it would be interesting to know the outcome of a Gallup poll from around 1780 to determine what share of the population agreed that government entailed a Faustian bargain. My guess is that this share would be well in excess of 90 percent. Should that question be asked today, however, I would guess that number to be under 30 percent. This difference would surely provide useful information for the situation we face.

(6) *Eternal vigilance is the price of liberty, and preaching won't reduce it.* Pareto recognized that strongly felt desires trumped constitutional parchment, which Schmitt also recognized in explaining that politics thrives on the exceptions that are always present in any situation. We might have gotten the institutions about right in 1789, but Pareto also recognized that all social processes operate under entropy. History has no end. All the same, theorizing about such an end might soothe a theorist's troubled mind, a sentiment that Mauro Fasiani (1949) attributed to Pareto at the close of Fasiani's paper on Pareto's contributions to public finance.

Endnotes

[15.] Editor's note: On the longstanding tradition of classical liberal class analysis see the Liberty Matters discussion led by David M. Hart, "Classical Liberalism and the Problem of Class" (Nov. 2016) <<https://oll.libertyfund.org/pages/lm-class>> and the anthology of writings *Social Class and State Power: Exploring an Alternative Radical Tradition*, ed. David M. Hart, Gary Chartier, Ross Miller Kenyon, and Roderick T. Long (Palgrave Macmillan, 2018).

[16.] "Edgeworth Box," Wikipedia <https://en.wikipedia.org/wiki/Edgeworth_box>.

CAN WE BE "PESSIMISTICALLY OPTIMISTIC" ABOUT THE FUTURE?

by Rosolino Candela

I have enjoyed this conversation immensely, and I have learned tremendously not only from our discussion leader, Alberto Mingardi, but also from Giandomenica Becchio and Richard Wagner. Given the emphases by Mingardi on Pareto's political realism, Becchio on non-logical dynamics in the political setting, and Wagner on the open-endedness of Pareto's social theorizing, I wish to ask if there is any scope for hope *implicit* in Pareto? Drawing from Peter Boettke's article "[Pessimistically Optimistic about the Future](#)" (2016), I say there is indeed scope for pessimistic optimism in Pareto himself.

What do I mean by this? We have every reason to be pessimistic about the prospects for government growth in both scale and scope beyond the confines of what a classical-liberal vision of society would prescribe. As Mingardi argued in his last post, "[A] peculiarity of free societies seems to me to be that their economic success sometimes eats up their very freedom." Businesses that have succeeded in the private sector often then utilize sentiments to justify protection from the competitors to protect their existing rents. And, indeed, as Becchio eloquently stated, "a non-logical theory based on irrational feelings and emotions can be very persuasive and useful to generate forms of social integration which seem to work in the short run, yet they are dangerous in the long run because they decrease economic development and erode individual liberty." Non-logical dynamics in the political arena do bias expediency over principle, and for these reasons we must be realistic that economic reform rarely emerges from within the political setting itself.

Yet, given this underlying pessimism, can this also be the basis for optimism? This may seem odd at first, but taking our cue from Wagner that Pareto is an open-ended social theorist, we must remind ourselves that Pareto understood that political decision-making will always fail to fully anticipate the set of unintended consequences that emanate from policies that stifle the market process. This does not imply that entrepreneurs in the marketplace are better because they are perfect. Rather, there is scope for optimism if we realize what the implications of non-logical action in the political process and logical action in the market process are. From a process perspective, imperfections introduced into the marketplace by government regulation unintentionally introduce profit opportunities for entrepreneurs to capture what would have otherwise not existed. The ATM was an entrepreneurial response to circumvent bank anti-branching laws in the United States; the container ship emerged out of a profit opportunity to circumvent labor protection of the longshoremen; and Uber and Lyft, more recently, are now challenging the monopoly privileges held by taxicab companies in cities across the U.S. and Europe.

Therefore, while Pareto's own political realism would not have led him to the conclusion I am drawing here, Pareto's own general sociology does leave scope for optimism, I believe, and is evidenced by the robustness of the market process. Regulators are precluded from an institutional context of private property, and therefore residual claimancy, over the profit opportunities they unintentionally generate, and the entrepreneurial incentive and economic knowledge embodied in such profit opportunities will therefore be absent to regulators. This explains the appeal to derivations by regulators to justify the existence of regulation based on the residues of its beneficiaries. Therefore, proponents of intervention can only acquire and identify knowledge that is available to them in the political setting. That is, they will be alert to political knowledge that is consistent with preserving their rents, lobbying for new interventions to correct for the failure to foresee the undesirable consequences of prior interventions, namely, consequences that threaten the benefits derived from regulation. (See Wagner 1989:

51–57.) This indeed characterizes the non-logical dynamics of the political processes.

Market processes "fail" to achieve perfection, and government processes fail to mimic perfection. The absolute size and scale of government may inevitably grow, as Pareto realistically predicted. But given that individuals are residual claimants of their decision-making, both correct *and* incorrect, in the market process, such robustness in the market process implies that there is scope for growth and development to "outrun" the expansion of government itself. Entrepreneurs not only profit from correcting errors introduced by other market participants, but *more importantly*, they also profit from circumventing regulations that stifle the market process, and therefore they erode the rents accrued through government privilege. The non-logical dynamics of rent-seeking and regulatory capture cannot exist without fueling a logical, entrepreneurial response in the market process to whittle down the benefits accrued from government intervention.

Pareto may have been politically realistic about the political process itself, but that doesn't imply we should be cynical about the hope that markets can redeem us from the fate of socialism itself.

FINAL WORD

by Alberto Mingardi

It is a hard task to write a few words to conclude this discussion on Vilfredo Pareto. I've learnt a lot from my discussants, Giandomenica Becchio, Rosolino Candela, and Richard Wagner, to whom I'm thankful. Likewise, I thank David M. Hart and Sheldon Richman, who run the show.

For my last contribution I want to let a more interesting voice than mine speak. What follows is a translation of bits of a short piece by Italian economist Sergio Ricossa on Pareto. Ricossa (1927-2016) taught at the University of Turin and was for many years a lonely voice for free markets in Italy.^[17] Ricossa, who later came closer to Austrian economics, matured scientifically as a

neoclassical economist imbued with the teachings of Pareto. Ricossa authored some works regarding the history of ideas, including a book aimed at the popular reader, *One Hundred Plots of Classics of Economics*. In the 1970s, he also edited a collection of abstracts from Pareto's buddy Maffeo Pantaleoni's works.



Sergio Ricossa

The following words come from a couple of pages written in 1973 on the occasion of the 50th anniversary of Pareto's death. The Pareto quote is from *Les systèmes socialistes*. The piece is written for the layman and paints a vivid picture of Pareto the man, which I think nicely complements our discussion.

The great Pareto was always really an amateur: a magnificent amateur, a "Renaissance" amateur, who contrasts with the highly specialized professional economists, such as those who in our day are teeming up in universities and planning offices.

An engineer by background, as a general manager of the Railway Company of San Giovanni Valdarno, he was immediately uncomfortable in such a practical activity. "Damn the day I got there!", he wrote, and soon he left the company to devote himself to a little bit of everything. He tried politics, but Montevarchi's voters wisely did not elect him: he would disgust them and he would end up disgusting himself.

Economics began to interest him because it allowed him to argue as a free hitter in the polemics of the time: but philology, history, sociology interested him too. Once he got the chair of economics in Lausanne, he paid the debt of gratitude to those who had granted him trust by writing the Course, one of his major works. Then he took any attempt to stop teaching, and he eventually succeeded. For him, teaching was "time lost for science". He inherited from an uncle, and then he allowed himself the luxury of only satisfying his ingenious cultural caprices.

A prodigious mind, he mingled mathematics and philosophy, literature and statistics as a virtuoso practice. It is astonishing to browse the index of the names mentioned in his books. See the Course, for example: Adam Smith is cited less than Aristotle, and Demosthenes beats Cournot, Edgeworth, and other economists.

... Whatever the subject matter, he found a way to illustrate it with some event from a day before or ten centuries before. One of the main results is that the reader keenly feels the impression that everything has already happened and humanity keeps repeating the same nonsense.

Hence the lesson of total skepticism to which Pareto's thought can be essentially reduced. Hence also the aversion that he manifested for "practice": practical endeavours appear to him to entail unnecessary trouble about worldly things that invariably mock the man's attempts to change them. But he was even more annoyed by the optimism of the theoreticians, who, running after their dreams, deluded themselves to possess a magic wand to untie at a stroke the most intricate knots.

... Pareto was strongly interested in the phenomenon of socialism and the bourgeoisie's reactions. He thoroughly criticized its scientific basis, but did not make the mistake of underestimating its passionate, almost religious power.

... So Pareto ended up being disagreeable both to the socialists and to the bourgeois, as he described the hypocrisies, the subsidence, the baseness of both. He did so without any moralistic intent, as a pure scientist, but often with an ironic tone, which obviously multiplied his enemies. Having noted that in times of decadence "there is an acrid voluptuousness in wallowing in self-abasement and self-degradation, in mocking the class to which one belongs, in ridiculing all that previously was believed respectable", he came to compare a part of the upper bourgeoisie to those Roman matrons that, according to Tacitus, enrolled among the prostitutes. On the same subject, he wrote: "The rich who, in our day, help with their money institutions in which it is taught that the goods of the bourgeois are the result of theft and that they need to be stripped of them are at least inconsistent. If they really think that these goods are taken away from the community, they must return them entirely and not just a small part. Is it not pleasant to hear people who live exclusively on the incomes of capital declaim against that very capital? Most of those who pontificate on the workers' right to the integral product of their labor not only are not workers, they are people who can do nothing useful with their ten fingers. Quis tulerit Gracchos de seditione querentes?"

Pareto ended up being isolated from everyone: this is not very surprising, as he was a man inconvenient to everyone. He chose Céligny, a village on Lake Geneva, as his place of exile, and stayed there until his death, reserving most of his love for his cats Timoteo and Myrrhine.

Endnotes

[17.] Alberto Mingardi, "RIP Sergio Ricossa, lonely voice for freedom in Italian academia," *Econlib* (March 9, 2016) <https://www.econlib.org/archives/2016/03/rip_sergio_rico.html>.

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