

Justificatory Fables of Ordoliberalism: Laissez-faire and the “Third Way”

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Abstract

This article critically examines two conceptualisations of ordoliberalism. In one, it is defined, together with neoliberalism, against 19th-century liberalism (in its social liberal and laissez-faire variants). This reading was common among ordoliberals themselves, and early neoliberals such as Friedrich von Hayek, as well as among critics, notably Michel Foucault. In another, ordoliberalism is contrasted to neoliberalism, with the latter presumed to be a species of laissez-faire economics. This reading is commonly accompanied by the supposition that ordoliberalism represents a “Third Way” between capitalism and socialism, or between laissez-faire liberalism and state planning. The main body of this contribution presents a critical analysis of both positions, by way of analysis of ordoliberal texts and a history of the discourse of laissez-faire.

Keywords

Austrian School, laissez-faire, neoliberalism, ordoliberalism, Third Way

Introduction

Despite having lost status and definition as a current of economic thought since its heyday in the 1950s, the ordoliberal spirit has retained its presence within the German establishment and receives ritual obeisance still today, with ordoliberal incantations serving to signpost an assortment of liberal-conservative positions and mentalities (Hien and Joerges, 2018).¹ Its fortress has long been the Bundesbank. Its current president, Jens Weidmann, name-checked the ordoliberal guru Walter Eucken in no fewer than 33 of the 106 speeches he gave after his elevation to the post in 2011 (Hien and Joerges, 2018: 18–19). It permeates several ‘50s-era institutions such as the Federal Competition Authority and the Monopolies Commission, as well as in the Stability Council (Denord et al., 2015). And it is a presence in Angela Merkel’s cabinet. “The Ordoliberal principles of the Freiburg School,” Merkel pronounced in a 2016 address at the Walter Eucken Institute, “have lost nothing in currency and importance” (Kluth, 2018: n.p.). Her former finance minister, Wolfgang Schäuble, not only evoked *ad nauseam* his Freiburg upbringing but, in almost half of a series of 80 speeches

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and interviews that discussed Berlin's policy toward the Eurozone crisis, namechecks the distinctively ordoliberal concepts *Ordnungsrahmen* and *Ordnungspolitik* (Hien and Joerges, 2018: 18–19). Germany's Chancellor during that crisis, Angela Merkel, repeatedly invoked the "schwäbische Hausfrau," the thrifty housewife from Swabia (Freiburg's region), in support of her framing of the crisis as the responsibility not of financial markets but of Europe's poorer nations. They had lived beyond their means. Unlike frugal Swabians they had failed to count the pennies; they must now keep those budgets tight and tidy.

In referring to ordoliberalism as liturgy, I'm tacking toward the proposition that the ordoliberal rulebook functions more as an ideology of justification than a manual of operation. Following Peter Gowan's thesis that the "New Wall Street System" of the 1980s was legitimated by neoliberal ideas without these ever becoming "operative ideologies for its practitioners," Andy Storey (2017) has recommended that ordoliberalism be treated with the same scepticism. Its adherents, like the neoliberals, are committed not to "liberating markets" but to boosting corporate power. Their "fig-leaf of commitment to a rules-based, pro-competition approach" acts as a convenient cover for the underlying objectives "of preserving systemic stability and shovelling enormous sums of money to fractions of the corporate sector" (Storey, 2017: n.p.).

This position is a salutary corrective to idealist accounts of ordoliberalism/neoliberalism as economic philosophies mobilised through think tanks that captured the political class and state power, to the neglect of the broader social contradictions and forces that facilitated their rise. And yet, even if ordoliberalism functions principally as an ideology of justification, not operation, it is hard to see how the former doesn't leach into the latter. Ordoliberal positions were unmistakably influential in West Germany's early decades, particularly but not only the 1948 currency reform, and, arguably, their most lasting impact has not been in Bonn–Berlin but Brussels. If there was little identifiably ordoliberal about the early economic institutions of West European integration, such as the European Recovery Programme (ERP)² and the European Coal and Steel Community, that soon changed. German ordoliberals were influential in writing the Treaty of Rome, which established the European Economic Community (EEC). Two of them, Alfred Müller-Armack (chief of the planning section in Ludwig Erhard's Ministry) and Hans von der Groeben, co-authored key European and German policy papers (including the Spaak Report) that fed directly into the drafting of the Treaty. A third, Walter Hallstein, was the first President of the Commission of the EEC. Most, indeed, of the West German officials who helped to shape the EEC were ordoliberals, and the Maastricht Treaty, too, as Weidmann remarks, "exhibits central principles of ordoliberalism" (Denord et al., 2015; Kluth, 2018).

My contention here is not that the economic institutions of Germany or the EU were 3D-printed from an ordoliberal textbook. Social structures are moulded by geopolitical conflict and alliances, capital accumulation and crises, social movements and so forth, none of which can be deleted by an economist's keystroke. And, as Eric Roll once put it (cited in Cahill, 2014: 52), policymakers make snap decisions in response to problems that never "present themselves as a choice between, say, Hayek or Keynes." However, the postwar geopolitical conjuncture and the globalising thrust that commenced in the 1950s, coupled with Western Europe's liberal traditions, did form a culture that was receptive to ordoliberal influence.

But where, nowadays, lie the differences between German ordoliberalism and "Austrian" and Anglosphere neoliberalism? Are they the same creature? Or sisters, cousins, even antagonists?

On a basic point, consensus obtains: ordoliberal thought exhibits commitments and emphases that are either absent or less forcefully present in Austria and Anglosphere neoliberalism. In some accounts, austerity is one such. One Obama-era American official, for example, recalled his bemusement on encountering his German counterparts. They assumed that "debts and imbalances are *prima facie* evidence of political virtue and vice" (Kluth, 2018: n.p.). His account echoes a

national stereotype: for Germans, saving is good, debt is bad, ergo “austerity” is nothing other than the common sense that is applied when the rolling of good times pauses. The “Swabian housewife” is another case in point. And yet, for British readers, the thrifty housewife persona may conjure a different conservative leader. Trading on her “grocer’s daughter” background (her father owned a couple of shops), Margaret Thatcher was second to none in her propensity to preach petit bourgeois penny-counting homilies. Spend only what you earn! A national budget, like a household kitty, must always be in balance.

If Merkel’s and Thatcher’s housewives incarnate an identical myth, it makes little sense to foreground austerity as the *differentia specificum* of ordoliberalism. More often, reference is made to the idea that states should adopt robust antitrust policies (to ensure competition), monetary policies that prioritise price stability, and measures, such as strict insolvency laws, that enforce *Haftung* (a term that conveys liability, responsibility, and accountability). Play up these differences, and ordoliberal fingerprints—for instance on German or EU policy—appear in relief. Play them down and the edges soften; ordoliberalism blurs into its neoliberal surrounds. Either way, we should bear in mind that apples and pears are not being compared, but apples and fruit. Or, to switch metaphor, ordoliberalism is best thought of as a sub-species. Approaching it through point-by-point comparisons with “neoliberalism” would be as productive as comparing hornets with wasps. Whereas ordoliberalism exists as an economic *doxa*, a set of commitments to policies that serve a particular type of market order and which draw upon a narrow-gauged, German-based set of ideological traditions, neoliberalism designates a looser policy palette that serves a wider array of market societies and draws on an eclectic mix of traditions—of which ordoliberalism is one. Given its lexical hegemony, moreover, “neoliberal” exists as the usual term for the current phase of capitalism, featuring market-emulating governance, financialisation, privatisation, the reduction of citizens to “human capital,” a profound antipathy to progressive redistribution, and (as a recent IMF paper demonstrates [Díez and Leigh, 2018]) strong monopolisation tendencies—a phase that commenced in the 1970s, making its mark in Chile, the US and Britain, before reaching German shores in the 1980s and onwards across all continents in subsequent decades.

The above discussion is taxonomical but it relates directly to political debates. One concerns ordoliberalism’s reputation as offering a “third way” between neoliberalism (or *laissez-faire*) and a planned economy. This accounts for its appeal to the German left, especially the Social Democratic Party of Germany (SPD) and Die Grünen, but also sections of Die Linke, whose most prominent figure, Sahra Wagenknecht (2012, 2016), has sung the praises of such ordoliberals as Walter Eucken and Alexander Rüstow. In the concluding section, I shall dismantle the “third way” claim.

Another set of questions concern the future of neoliberalism following the global financial crisis. A curious spin-off from that crisis was that it lifted ordoliberalism from its previous obscurity. This was in part thanks to the ordoliberal noises that accompanied the management of the Eurozone crisis by German and EU policymakers. In part, too, from a sense in some quarters that the crash had been precipitated by a libertarian form of neoliberal policy regime, one that has undermined the ability of states to further the interests of their “national capitals.”³ If so, some have wondered, might ordoliberalism represent a secure, rule-governed alternative? The answer to this is “no,” and for two reasons. One is empirical. The Eurozone crisis broke out and developed chaotically *despite* the influence of ordoliberals within EU institutions, in particular the European Monetary Union (EMU). A rules-heavy approach need not produce noticeably more stable outcomes. The other concerns the interpretive protocols of neoliberalism. It is thought by some that, in contrast to ordoliberalism, neoliberalism is a *laissez-faire* economics, disdainful of state power. In fact, as Phil Cerny (2016) argues,

both Ordoliberalism and Anglo-American neoliberalism in practice have involved extensive *ad hoc* re-regulation in response to complex, unforeseen events such as the global financial and Eurozone crises and other market failures and inefficiencies. They have become de facto more regulatory and interventionist.

In this contribution I explore a central aspect of this question, via a historical survey of *laissez-faire* economics.

The Problem Framed

As a first carve into the taxonomical undergrowth, let's consider some attempts to demarcate the terrain. Michel Foucault made a seminal move, in sketching distinctions between ordoliberalism (or "German neo-liberalism") and both earlier liberal and the later "Chicago-neoliberal" canons. Unlike the right-wing liberals of the 18th and 19th centuries, the ordoliberals did not face the challenge of freeing space for markets within an already given political society, but of how to fashion a state from the competitive principles of the market order. Unlike the later Chicago-neoliberals, ordoliberals conceived of the economy in institutionalist terms: states are not merely there to "correct" and secure the market order but to construct and continually support it, as well as to oversee a range of social interventions (housing policy, unemployment benefits, health insurance, etc.) (Foucault, 2008; Lemke, 1997: 247). Neoliberalism, for Foucault (2008), and in particular the ordoliberal brand, differed from *laissez-faire* liberalism in that it advocates "permanent vigilance, activity, and intervention." The aim is not to shrink the state but to develop a new governance of the self, spreading market techniques into ever further reaches of social life, with market norms of individual competition and rationality erected as exemplary for society as a whole (Møller Stahl, 2017). A quote by Wilhelm Röpke, an advisor to Germany's Chancellor, Konrad Adenauer, and to Adenauer's Minister of Economic Affairs, Erhard, sums it up for Foucault: "The freedom of the market requires extremely vigilant and active economic policymaking."⁴

For Foucault (2008), ordoliberalism represented a sharp break from 19th-century economic liberalism. Whereas the latter rested on the assumption that market relations evolve *naturally*, such that the task for states was essentially to open terrain in which market relations would spontaneously flourish, and with markets understood essentially as mechanisms of economic *exchange*, in the ordoliberal perspective markets are understood as spaces of *competition* that must be constructed and vigilantly maintained by muscular states—which must themselves be subjected to those same competitive logics.

In this light it appears that ordoliberalism, and early neoliberalism generally, were defined frontally against 19th century liberalism in both its social liberal and its *laissez-faire* variants. The latter, Rune Møller Stahl (2018a: 3) observes in an insightful essay, is commonly but misleadingly "portrayed as everything neoliberalism is not: dogmatically hostile to government regulation, keen on a simple minimisation of state power, and with no understanding of the active role of the state in constructing opportunities for new markets." Such portrayals commonly draw on readings of Foucault, but they also chime with the self-representations of their project by Austrians (e.g. Friedrich von Hayek), by early US neoliberals (including Walter Lippmann and the young Milton Friedman), and, on the whole, by arguably the most important current of neoliberal thought in the 1930s and 1940s: the ordoliberals (Innset, 2017).

This framing is most visible in Hayek. In seeking to reinvent liberalism as an anti-collectivist and anti-corporatist creed in the 1930s, he had first to tackle a problem. Liberal capitalism was near-ubiquitously blamed for the Great Depression. It had acquired connotations of anarchy, planlessness, and lack of control—associations that the advocates of planning encouraged. While *laissez-faire* and the free market were increasingly perceived to bring chaos and irrationality, "planning"

was enjoying implications of rationality and order (Spieker, 2014). For Hayek, then, the imperative was to rescue economic liberalism from the disreputable associations of laissez-faire and anarchy, and to reinstate the role of the strong state and the rule of law as prerequisites of the “competitive order.” “Probably nothing has done so much harm to the liberal cause,” Hayek polemicises in *The Road to Serfdom* (2001/1944: 18), “as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of laissez-faire.” Lippmann too (1943/1937: 191–206) criticised his laissez-faire liberal predecessors for their assumption that the realms of the market and the state operate independently from one another, and for a series of errors that flow from that: advocacy of an extreme, unalloyed version of laissez-faire economics, the pretence that economic behaviour could be modelled strictly along the lines of the natural sciences, and the assumption that competition is free and perfect, undistorted by monopolies or legal privileges. The young Milton Friedman thought similarly. Nineteenth century liberalism, he believed (cited in Peck, 2010: 3), had given states “hardly any other task other than to maintain peace, and to foresee that contracts were kept.” This was “a naïve ideology.” It held that “the state could only do harm” and that “laissez-faire must be the rule.”

With this framing of the problem, the ordoliberalists largely concurred—and they were able to draw on a potent myth in German liberal economics, which ever since List and the Historical School had defined itself against “Manchester” laissez-faire liberalism, with the perceived contrast exaggerated.⁵ They rejected its supposition that the market mechanism is self-regulating, and its demand that the state refrain from any significant market regulation. For them, as Werner Bonefeld (2013) describes, laissez-faire liberalism was “indefensible,” and they developed their position explicitly in opposition to it. Walter Eucken, an advisor to the US and French occupying forces, warned that the competitive arena created by a laissez-faire regime “by no means results in perfect competition but in monopolies, partial monopolies, oligopolies, etc.” (1992/1950: 335). Alexander Rüstow, asking what “distinguishes our neoliberalism from the long vanquished paleo-liberalism of ... laissez faire,” answered:

The distinction is this: we do not expel the state from the economy only for a much weakened state to come back through the backdoors of interventionism, economic subsidies, and protectionism. Right from the start, we assign to the strong and independent state the foundational task of market-police to secure economic freedom and complete competition. (Rüstow, quoted in Bonefeld, 2017: 3)

Similarly, at the Lippmann colloquium, Rüstow (cited in Reinhoudt and Audier, 2017: 160) argued that for the early liberalism of Enlightenment Europe, because the laws of the market were considered “natural and divine laws, on which the same dignity and even the same universality as those of mathematics were conferred,” all that was required was to “remove artificial obstacles that the silliness and the stupidity of men had put up against their beneficial functioning.” Against this, he countered, the market economy rests “on entirely precise institutional conditions, created and maintained voluntarily by men”; it is a system that can only endure “if a strong and independent state ensures the precise observation of these conditions.”

In Bonefeld’s reading of the ordoliberal canon, the most trenchant critique of laissez-faire liberalism is found, alongside Rüstow, in the work of Röpke. According to Röpke (cited in Bonefeld, 2013), “classical economic science had gone astray in conceiving competitive economy as autonomous.” He held that this stance was based on a “disastrous belief in the sociological autonomy of competitive economy, a belief that represents “the cardinal error of the laissez-faire philosophers.” The idea that economic liberty is akin to a system in which “self-dependent processes [are] whirling away automatically” amounts, they say, to a “deistic philosophy that is not only blind to the sociological, ethical and political preconditions of market liberty.”

But this gives a one-sided impression. The most powerful ordoliberal politician, Ludwig Erhard (1964/1957: 168), held it to be an “indisputable fact that under the reign of liberal economics humanity took a giant stride forwards.” After the rigid old guild order “had become a fetter on economic progress, unheard of economic powers were able to unfold, *thanks to the principle of ‘laissez faire’*” (emphasis added). And even Röpke was not unambiguous in his condemnation of laissez-faire. He regarded the years from the Congress of Vienna until August 1914 as “the long and glorious sunny day of the western world” (Slobodian, 2014) and he was a champion of the British imperialism of that century. He admired its racism, its free trade regime (a “tremendous achievement”), the gold standard (it “preserves the management of money from political direction”), and indeed its laissez-faire instincts too (Röpke, 1959/1945: 17, 75–78, 122–23, 157). All ordoliberals—some with eyes wide, others narrowed—viewed favourably the British imperial free-trade regime, a regime that combined ideological commitments to laissez-faire with actual muscular and systematic state intervention, at home and especially abroad.

A Brief History of Laissez-Faire

If ambiguity exists as to the relationship of ordoliberalism to its laissez-faire predecessor, this is due in part to the slipperiness of the concept of laissez-faire itself. In a simple sense, it is the preference for markets over state intervention. In the age of mercantilism laissez-faire demands could carry an emancipatory charge, but over the centuries they tended towards what J. K. Galbraith (1987: 51) terms “theological” laissez-faire: “the rallying cry against government intervention in any form for any social purpose.”

But laissez-faire cannot simply be understood as a political programme or a trader’s reflex. It came into the world with philosophical baggage. This included a vision of the market economy as an autonomous system, one that is by nature self-regulating, is therefore best left alone to find its own equilibrium, and tends to harmonise individual and social interests. This conception, in 17th-century England and France, took inspiration from the natural sciences, above all the Newtonian model of a physical order regulated by its own laws. It began to take shape in the writings of post-mercantilist economic theorists such as John Locke (1632–1704), Dudley North (1641–1691), Pierre le Pesant, alias Boisguilbert (1646–1714), Bernard Mandeville (1670–1733) and Richard Cantillon (1680s–1734).

The vision centred on the natural laws of self-regulating markets. For Boisguilbert, nature and Providence are seen as the sources of harmony and justice. Therefore, “one must *laisser faire la nature*”—nature has the capacity to maintain and regulate itself to restore the balance when it is disturbed—and, translated into the sphere of political economy: mutual need ensures that all maintain an equal interest in buying and selling; thus the market establishes “an equilibrium through which revenue would be distributed proportionally to the value of goods” (Christensen, 2003: 115; McNally, 1988: 82). The natural equilibrium of markets is easily upset due to human interference, but permit them to function unfettered and the resulting natural order will distribute justice to all, through the mechanism of proportional prices (Tieben, 2012: 110). North, similarly but with money his topic, identified a self-adjusting mechanism at the heart of market exchange. It maintains the money supply within the required limits, in a homeostatic process with which political regulation would interfere (Brown, 1984: 60). He propounded an “equilibrium vision”—a supply and demand theory of price formation—and theorised the emergence of a self-regulating order from the processes of exchange between profit-driven individuals (Tieben, 2012: 107). His arguments for *laissez-faire* policies, including towards the labour market, invoked self-regulating mechanisms (Finkelstein, 2000: 194).

In contrast to traditional autocratic justifications of social order, North, Boisguilbert, et al. laid the foundations for a model of social order as arising unintentionally and automatically from the aggregate actions of myriad individuals seeking to improve their lives, which underpin the forces of supply and demand, and with the tendency of some to gain at the expense of others being checked not by absolute rule but by market competition (Tieben, 2012: 101). This model was further refined by the Physiocrats and the Scottish Enlightenment economists. It was Quesnay (1694–1774) who popularised the phrase “laissez faire, laissez passer,” and in his *Tableau* he presented the economy as a *self-reproducing system*, one that embodies a providential telos (McNally, 1988: 110). Agriculture, industry, commerce, prices, and so on, insisted Guillaume Le Trosne, “must not be objects of administration and should be left to the free interaction of particular interests,” while Turgot declared that “in all respects in which commerce may interest the State, unrestrained individual interest will always produce the public welfare more surely than the operations of the government” (cited in McNally, 1988: 123).

With Adam Smith, laissez-faire and its philosophical exoskeleton underwent a further transformation. Like the Physiocrats, Smith was influenced by natural theology and Newtonian science, and held that economic behaviour assumes a “natural order”: it is self-regulating in much the same way as the physical world (Schabas, 2003: 278). This contributed to a distinctively liberal view of society as divided between an economic realm of individual economic acts ruled by impersonal laws that bend acts of self-interest toward the greater good, and the rest of social life, governed by personal laws and concerns (Foley, 2008). Smith applauds physiocracy, too, for its advocacy of a system of “perfect liberty” of trade—the key, he thought, to maximising economic growth and ensuring a supply of cheap and abundant food. Somewhat more insistently than the Physiocrats, the author of *The Wealth of Nations* (Smith, 1993/1776: 292) emphasised competition as the source of order, and advocated laissez-faire: the “statesman or lawgiver” should not dictate to individuals how they should employ their capital. However, neither the Physiocrats nor Smith were libertarians, or *enemies* of the state. Smith identified states as the co-creators of markets, and, his free-trade inclinations notwithstanding, he supported some protectionist measures, notably the Navigation Acts, on the grounds that defence “is of much more importance than opulence.” (McNally, 1988: 253). The scale and scope of state power, he speculated, would develop in tandem with the rise of commercial society due to the need to provide security of property, administration of justice, and infrastructure (Muller, 2002: 76). It was a development he envisaged without apprehension.

After Smith, our journey takes a critical zag. The 1790s was a watershed decade, defined by the French Revolution and the post-revolutionary settlement. It was then, argues Emma Rothschild, that the “the coalition of laissez-faire economic policy and political conservatism” was consolidated, in opposition to the radicalism of that decade (and, in Britain, to the parish relief system known as “Speenhamland”). This was the coalition that “came to dominate nineteenth-century political institutions” and continues to define our world today (Rothschild, 2001: 5–6). Its pivotal theorist was Edmund Burke. His *Thoughts and Details on Scarcity*, written in response to Speenhamland, argued that because the natural order is harmonious, the state should not “tamper” with markets (Burke, 1800/1795: 1; Macpherson, 2009). “The laws of commerce,” Burke (1800/1795: 1) sermonised, “are the laws of nature, and consequently the laws of God.” He proposed an extreme form of laissez-faire economics, dismissing as counterproductive any form of state-sponsored welfare or labour-market intervention. “The moment that Government appears at market,” he counsels (1800/1795: 29), “all the principles of market will be subverted.” The state should confine itself strictly to matters of “religion; its magistracy; its revenue; its military force by sea and land; [and] the corporations that owe their existence to its fiat” (1800/1795: 45).

From *Thoughts and Details on Scarcity* up to around 1870, laissez-faire enjoyed its heyday, at least in Britain. It became a well-known catch phrase, expressing approval for a policy of free trade

and for government intervention to be kept to a minimum. It was popularised by sociologists (Harriet Martineau and Herbert Spencer [1969/1884, esp. p. 134]), by the “Manchester” liberals (Richard Cobden, John Bright, et al.), as well as by economists, notably the Benthamite utilitarians and John Stuart Mill. His socialist predilections notwithstanding, Mill gave unqualified support to *laissez-faire* and free trade. Every restriction upon market competition “is an evil” (Mill, 1970/1848: 142), he preached, and “every extension of it, even if for the time injuriously affecting some class of labourers, is always an ultimate good.” Mill, however, had no truck with natural theology. In Margaret Schabas’s reading, he helped lever the conceptual structures of economics out of their embeddedness in the natural world, and thereby contributed to a shift in perceptions, whereby “the *laissez-faire* stance of the Enlightenment” (Schabas, 2005: 158) gave way to a vocabulary of human *control* of the economy, of *engineering*.⁶

Schabas may be right, but “nature” did then, in the guise of Social Darwinism, barge its way back into economic discourse. In the closing decades of the 19th century, in response to the threat of socialism, *laissez-faire* found itself ballooning into a general theory of non-intervention, which posited market economy as the system through which actors prove themselves—“survive”—as the “fittest” specimens of economic man (Francis, 1978). But by this stage, the close of the century, many economists were wary of the phrase, and when in 1926 Keynes, in *The End of Laissez-faire* (1926), surveyed the previous century, he included Martineau, Claude-Frédéric Bastiat and Richard Whately as its ideologues while noting that for the last 50 years or so, *all* leading economists had been critical.

Let us step back and summarise the argument. Ordoliberalism is commonly represented as anti-thetical to *laissez-faire* liberalism but this portrayal is problematic. This is so in part because ordoliberal attitudes to *laissez-faire* liberalism were not clear-cut, and in part because *laissez-faire* liberalism is itself not a tightly defined ideology. Certainly, all its advocates were sceptical of overweening state power, but some were supporters of strong and “where-necessary-interventionist” states. Its best-known theorists included Smith and Mill, but for the former, the invisible hand of the market is attached to the state, with all its arms, while the latter called on the state to fashion the necessary political and moral ecologies for free markets to thrive. *Laissez-faire*, all along, was not simply a policy programme but also an intellectual tradition. Actually existing regimes, including those whose leaders regarded themselves as its supporters, rarely followed its prescriptions, at least not systematically. British *laissez-faire* liberalism *always* relied on highly coercive state power, at home but especially in the colonies. The critics of *laissez-faire* could see this. They called into question its image as a state-phobic creed. *Laissez-faire*, wrote Antonio Gramsci (1971: 160), “is a form of state ‘regulation’, introduced and maintained by legislative and coercive means.” It is

a deliberate policy, conscious of its own ends, and not the spontaneous, automatic expression of economic facts. Consequently, *laissez-faire* liberalism is a political programme designed to change ... a state’s ruling personnel, and to change the economic program of the state itself—in other words the distribution of the national income. (Gramsci, 1971: 160)

The “*laissez-faire* economy,” argued Karl Polanyi likewise, was “the product of deliberate state action” (2001/1944: 141).

Laissez-faire liberalism, in short, was *not* characterised by any consensus on the need to roll back state power. Instead, there existed a wide range of positions on the role of the state, just as there was in the 20th century among neoliberals. Ambivalence has *always* characterised the relationship between economic liberals and the state. On one hand, the state guarantees the preconditions for market activity; on the other, its interventions threaten to restrict the freedoms of market actors. Rune Møller Stahl (2018a: 2) has put the point well: “the flexible and active use of the state

to promote the goal of market regulation is not a specific ideological innovation by neoliberalism but rather something that can also be found in classic *laissez-faire* liberalism.” Likewise, the tension

between a utopian vision of the market as a space of freedom without the politics and coercion of the state and the practical need for state power has existed in liberal political economy since its inception ... [It] must be seen as an unsolved and unsolvable tension inside the very core of the liberal economic project. (Møller Stahl, 2018b: 102)

When the architects of 1930s ordoliberalism (and neoliberalism), therefore, are described as having been “denied the spontaneous utopia of *laissez-faire*” (Peck, 2010: 65), we should remember that the architects of *laissez-faire* were denied that utopia too.

Ordoliberalism as “Third Way”

In the above, I argued that ordoliberalism was not defined as starkly against *laissez-faire* liberalism as is commonly supposed. This thesis also has implications for the notion that ordoliberals sought a “third way.” It is a case that comes in various shades. I shall present a sample, beginning with the ordoliberals themselves, before dismantling it.

Röpke, in an autobiographical preface to *International Order and Economic Integration*, portrays his political formation in the following way:

We agreed with the Socialists in rejecting Capitalism and with the followers of Capitalism in rejecting Socialism. We began with the first rejection in the trenches, where we learnt to hate every form of repression, abasement and exploitation of mankind; we learnt the second form of rejection later, when experience and reflection taught us the true nature of Socialism. It seemed to us that Capitalism and Socialism were each right in a certain way and wrong in another way. Everything depended upon discovering in what way to achieve the best combination of what was right on both sides. The natural result was that we continually sought for the solution which came to be known as “the third way” or “economic humanism.” (Röpke, 1959/1945: 9)

Let’s not get distracted by Röpke’s crocodile tears over oppressed and exploited people(s). He, a zealous enthusiast for the apartheid system in South Africa, sang hymns to “the extraordinary qualities of its white population, who [...] possess a pioneering spirit that can be compared only with that found in the United States,” and sputtered that “to call for ‘equality’ of the blacks in South Africa is a call for suicide” (Röpke, cited in Slobodian, 2014: 83). What I’d like to highlight instead is the aspiration to a “third way.” In this, Röpke was joined by many others. Take, for example, Rüstow. His 1932 speech in favour of the “strong state” is related by Anthony Nicholls thus: the state must

be prepared to intervene decisively [...] to protect competition and help the economy to adapt itself to changed market conditions. In this respect the speech heralded the concept of the “third way” which was to become the goal of many younger liberal economists. [...] Rüstow’s words certainly made a great impression on his listeners, among whom was at least one future Minister of economics in the Federal Republic of Germany. (Nicholls, 2000: 48)

The ordoliberals Röpke and Müller-Armack have been described by Keith Tribe (2007: 214) as aspiring to a “Third Way” which “reserved space between capitalism and socialism.” For Brigitte Young (2018: 184), similarly, the ordoliberals, in seeking to combine “economic efficiency with

human decency to achieve a just and stable social order, [...] favoured a third way [between] *laissez-faire* liberalism and *étatiste* planning”—in contrast to Mises, Hayek and the Anglo-neoliberals who have more in common with *laissez-faire* liberalism. Cornel Ban (2016: 108) follows suit: “Ordoliberalism sought a middle path between socialism and *laissez-faire* liberalism.” So too William Davies (2018: 275), in his description of the ordoliberals as navigating “a path between socialism and *laissez-faire*, that would harness the capabilities of the growing welfare state towards the promotion of enterprise.”

We can readily agree with the proposition that ordoliberals favoured a third way between extreme (“*laissez-faire*”) liberalism and communist planning, but if those two highways are the alternatives, it tells us very little. Almost all traffic was jammed in the third lane. In the 1930s and 1940s *laissez-faire* advocates were a beleaguered minority. Even in liberal Britain, all major political parties had executed a corporatist turn. Former *laissez-faire* evangelists such as Keynes had repudiated their past positions and were calling for Britain to leave the gold standard and for government to embrace the rise of cartels, trade associations and forms of monopoly organisation. The “third” space in these decades was cavernous. It arced from Hayek and Lionel Robbins to Keynes, for example, and from Walter Lippmann all the way to his sworn enemy Karl Polanyi—in whose words a *via media* “between a *laissez-faire* and a totally planned economy” was indispensable.⁷

Strictly speaking, it is not outlandish to associate ordoliberalism with “third way” aspirations, but it imparts ordoliberalism with a maverick or social-democratic veneer that ill suits it. It relies on crass misreadings of the liberal and ordoliberal traditions—for example, when Wagenknecht (2016) aligns Rüstow with J. S. Mill, oblivious to the fact that ordoliberals, Rüstow included, were committed *opponents* of Millian social liberalism. I am suggesting instead that it be understood as an update of the liberal-conservative mainstream—the Burkean fusion, described above, of economic liberalism and political conservatism. Its conservatism is exemplified in an intolerance of any popular influence over political decision making and in commitments to hierarchy, nation, Christian supremacy, European identity, and anti-Communism. It is deep-dyed, and draws in part on German romantic traditions. For example, the ordoliberal quest to create a society of market-ready entrepreneurial individuals was—ironically—justified for Rüstow through a romantic vocabulary of “vital integration” (Rüstow, cited in Reinhoudt and Audier, 2017). (Or *Vitalpolitik*, from which Foucault spun his concept of *biopolitics*.) Consider, too, the fundamental ordoliberal foreign policy stance. When Europe in the 1940s and 1950s divided three ways—NATO, Warsaw Pact, and Non-Aligned—they were vocal and prominent *not* in the “third” camp but at the Atlanticist extreme.⁸ As regards the “liberal” element, ordoliberalism is not *identical* with “*laissez-faire*”—whether the variants preached by Quesnay, Smith, Burke, Mill or Cobden. It insists that efficient markets are not natural but constructed. It sets great store by monetary stability and *Haftung*, and, at least in theory, it emphasises competition law and antitrust regulation, all to be insulated from “political” influence. Together with neoliberalism more broadly, it is an ideology adapted to the intrusive states of the 20th century, and, relatedly, to the age of mass politics. In a sharper and more emphatic way than Smith or Burke, therefore, it urges the design of political mechanisms productive of market-conforming subjectivities. But this is a question of emphasis. The distinctions are not as stark as is widely supposed. For example, the ordoliberals’ understanding of the purposes and limits of government intervention, and their concept of competition, are, *pace* Foucault, in central respects similar to Smith’s.⁹

From the above argument I conclude that the fact that ordoliberalism is ubiquitously referred to under the heading “third way” is a sign of successful *triangulation*. Its flexibility was evident early on, in its successful integration of supporters and critics of Nazism. Despite its conservatism, the ordoliberals’ brand of “social market economy,” with its attention to social policy as a means of reconciling market forces with social cohesion, was able to exercise some pull, too, on the right

wing of the SPD. In the immediate postwar years, anti-capitalist sentiment was in the air. Even within Christian Democracy, a vigorous “social” wing arose, and the Bizone was shaken by strikes involving over nine million workers. In this context ordoliberalists elaborated a programme and a discourse that appealed to liberals and conservatives as core constituencies but could reach, and find areas of compromise with, social democrats too. A resonant ordoliberal-coined phrase, the “social market economy,” denoted, in Erhard’s words (cited in Ptak, 2009: 107), “that the market economy as such is social,” *as opposed to* the supposition “that it needs to be made social,” but it was able, with some dilution of meaning, to become a standard epithet for the *Modell Deutschland*. In short, the ordoliberal economists and politicians played a pivotal role in constituting a new ruling bloc in the FRG, one that, following the Nazi irruption, restored and redrew the traditional matrix of bourgeois order: politically conservative and economically liberal.


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Notes

1. I am grateful to Cornel Ban and Ola Morris Innset for incisive comments on an early draft of this essay. The usual caveat applies.
2. On ordoliberal influences within the ERP, see Ito (2011).
3. On the latter, see Davidson (2017: 615–34).
4. My revised translation of the Röpke quote, in Foucault (2008: 133). Cf. Röpke (1979: 365).
5. Some commentators posit a sharp difference between Hayek and the ordoliberalists on the question of the state, with Hayek seeing government “as the greatest potential threat to freedom, and therefore [he] wanted to keep it out of the economy” (Kluth, 2018) while the ordoliberalists replied that “capitalism requires a strong government to create a framework of rules which provide the order that free markets need to function” (The Economist, 2015). This is at best an exaggeration. Hayek was not only close to the ordoliberalists—he held a chair at Freiburg for several years, was a contributing editor to *Ordo*, and wrote the introduction to Röpke’s *The German Question*—but his position on the relation of states and markets was cut from the same cloth as theirs (The Economist, 2015; Gook, 2018; Kluth, 2018). See https://archive.org/stream/WilhelmRoepkeTheGermanQuestion/Wilhelm%20Roepke%20The%20German%20Question_djvu.txt.
6. See also Gammon (2010), and Mill’s (1904/1874) own thoughts on nature.
7. Karl Polanyi Archive, box 17 file 10, Karl Polanyi (1942) to Misi, 26 October.
8. Atlanticism duly triumphed in the Federal Republic of Germany (FRG), but in the process of immersion in the US-led global political-economic order, the connections—already strong—of West German economists with their US and UK fellows deepened, and, following the Keynesian interlude, Anglo-neoliberalism gained sway in the economics departments, often at the expense of ordoliberalism.
9. Vatiello (2010: 692) describes: “The ordoliberal idea of competition is closer to the Smithian concept than to the neoclassical one for at least three reasons. Unlike neoclassical perfect competition, indeed, for OL the idea of competition is related to the context where ‘the individual unit is almost powerless, but not completely so’. In other words, OL argued that effective competition may still exist with small power positions but without any relevant concentration of power and any economic dependence. Moreover, OL focuses on the conduct of rival agents as in Smithian competition, rather than on price-taking atomised participants as in perfect competition.”

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