**Stateless Money and State Power: Europe as ordoliberal *Ordnungsgefüge***

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**Introduction**

Alfred Müller-Armack introduced the term *Ordnungsgefüge* in 1932 (1932: 42). Against the background of the turmoil of the Weimar Republic he urged that we need to “invent [*erfinden*] an objective order constellation [*Ordnungsgefüge*]” to achieve and sustain the free economy. *Ordnungsgefüge* entails what Walter Eucken (2004) called a comprehensive decision (*Gesamtentscheidung*) about the economic constitution of the social relations of production. Its central institution is the state. *Ordnungsgefüge* entails a political practice of *Ordnungspolitik*. The role of state in *Ordnungspolitik* is that of “market police” (Rüstow 1942: 289; Röpke 2009: 52; Friedman 1951a: 11; Eucken 1932) that is a state which, in Hayek’s (1944: 31) phraseology, plans for competition. In the ordoliberal account, the free economy amounts to an “*eminently* political practice” (Böhm 1973: 39) and a “political event [*politische Veranstaltung*]” (Miksch 1947: 9; Böhm 1937: 101). *Ordnungsgefüge* is a practice of *Ordnungspolitik.* The premise of *Ordnungspolitik* is the independence of the state from the economic interests and the democratic majorities (Eucken 1932: 307-8).[[2]](#footnote-2)

Since the start of the Euro crisis in 2010 there has been an abundance of literature about an ordoliberal Europe (Biebricher 2014). Given the central role of the state in the ordoliberal argument, this literature is confronted by the paradox that European Union is not a political union. It is a monetary union and a market union, and it is also a legal union. It establishes the regulative media of the free economy at a supranational level beyond the direct control of its member states, who are however bound in their politics by supranational policy commitments and requirements. The Euro is the world’s only stateless currency and the European central bank is the world’s only stateless central bank. Nevertheless, as I set out to argue, the Euro is a politically constituted and sustained currency. Regarding the customs union of old, Walter Hallstein had already argued that what Europe is “integrating is the role of the state in establishing the framework within which economic activity takes place” (Hallstein 1972: 28). Indeed, and as Müller-Armack (1971: 162) put it, the member state are the “constitutive…entities” of European supranationalism. Regarding monetary union, I argue that its *Ordnungsgefüge* integrates the member states as federated executive states of a supranational community founded on market, law and money. Its *Ordnungsgefüge* is entirely dependent upon the capacity of the member states to bestow it with a political will and a consciousness, and to govern accordingly.

In the contemporary literature, the role of the member states as federated executive states is neither raised nor recognised. Instead, the argument is about the retreat of the national democratic state and German hegemony. Concerning the former, William Scheuerman (2016: 199) holds that Europe has “forced” the member states “to accept external management of their economic and financial affairs” and in this process made “mincemeat…of democracy” (see also Schmidt 2006). In this argument, the European institutions make monetary policy, set the framework conditions for the conduct of fiscal policy in the member states, austerity, and impose the requirement of enhanced market competition as the guiding principles of European public policy, which the member states implement as enfeebled agents of supranational requirements.

In the European *Ordnungsgefüge* it is indeed the case that the member states come, as Engel (2003: 431) put is, “under a regime of imposed liberty” (Engel 2003: 431). Christoph Engel welcomes this because “a market economy is not a vaccination against [the democratic] disease…Even if the [Member] States have not succeeded in setting up a proper economic constitution internally, one is imposed on them from the outside” (ibid.).[[3]](#footnote-3) What Engel speaks about in praise others reject as an “ordoliberal iron cage” (Ryner 2015). The argument about German hegemony is connected with this point about ordoliberalism (see, amongst others, Bulmer and Joseph 2016). Through its supposedly ordoliberal approach to European policy making Germany is said to govern the Eurozone at the expense of especially the Southern member states, Greece in particular (see Flassbeck and Lapavistas 2015; Stiglitz 2016; Stockhammer 2016). The basis of critique is not clear.[[4]](#footnote-4) For example, the President of Lithuania, Dalia Grybauskaite, rejected the anti-austerity demand for the Eurozone to discharge Greek debt not on ordoliberal economic principles. Instead, she argued that the “countries of Central and Eastern Europe were too poor to pay for the mistakes of the wealthier Greeks”. She said: “the feast time at the expense of others is over” (*The New York Times*, 8.7.2015). Furthermore some German ordoliberals rejected the German government’s approach to the Eurozone crisis for breaking core economic principles amongst them that the ECB is not to service sovereign debt. These ordoliberals not only took the German government to Court, allegedly for violating constitutional obligations towards its citizens. They also formed their own party, the *Alternative für Deutschland* (AFD), to put political pressure on the government. Yet some other ordoliberals argued that although “Germany may have followed ordoliberal thinking rather too little than too much”, they accepted nevertheless as “pragmatic” the German governments approach to the Euro-crisis (Feld, Köhler and Nientiedt 2015: 61). Indeed, as Victor Vanberg (2014: 14) explained, “prudence does indeed require us to acknowledge that there may be emergency situations in which we need to temporarily disband rules that in ordinary times we consider binding”. The disbanded rules are those that some other ordoliberals hold up as non-negotiable because, in their view, they comprise the principles of the economic constitution of the free economy in Europe.[[5]](#footnote-5)

Vanberg’s argument points towards the political character, not only of the attempted resolution to the Eurozone-crisis, but also of the Euro. Economic media neither constitute nor disband the rules of the game. Decisions about binding rules are quintessentially political in character. They are political decisions. The article explores ordoliberal political economy to uncover the crucial role of the member states in making the European economic order work.[[6]](#footnote-6) It argues, *pace* the idea of the retreat of the state, that in the European *Ordnungsgefüge* the democratically constituted member states assume the vital role of federated executive states. For the stability of monetary union their capacity and commitment to govern in line with supranational requirements is the most crucial. Indeed, and in distinction to arguments about German hegemony, it is the member states, individually and collectively, that sustain monetary union.

In the order of presentation exploration of economic constitution, *Ordnungsgefüge* and *Ordnungspolitik*, comes first. Then comes monetary union as an *Ordnungsgefüge* for the conduct of *Ordnungspolitik* in the member states.[[7]](#footnote-7) The conclusion highlights the role of the state in monetary union.

***Ordnungsgefüge* and *Ordnungspolitik* of the European Order**

*On the State of Economic Constitution*

Ordoliberalism identifies economic constitution as “an explicit and uncompromising decision” (Röpke 1982: 39) about the founding principles of an economic order. It determines the character of a definite economic community, its constitutive principles, basic regulatory rules, and fundamental values and commitments. Furthermore, it determines both the scope of legitimate parliamentary law making and “style” of political interventionism.[[8]](#footnote-8) The economic constitution of the free economy does not permit discretionary intervention into the economy and excludes “an economic policy that seeks to improve outcomes *directly*, by way of specific interventions in the economic process” (Vanberg 2015: 29). Instead, it requires that the conduct of policy is in line with basic principles. These principles determine that “all governmental decisions that might affect the economy should flow from the economic constitution” (Gerber 1994: 47). There is thus no scope for a mixed economy, in which the state intervenes both for the system of economic liberty and against its logic. Any such “intermingling” (42) is said to lead to social chaos and economic disorder.[[9]](#footnote-9)

Following Eucken (2004: 254-89) the economic constitution of the free economy comprises seven constituent principles and four regulative principles. The constituent principles are private property, a functioning price system, primacy of the monetary order, open markets, freedom of contract, legal liability, and constancy of economic policy. The four regulatory principles are anti-monopoly policy, income policy, correction of externalities, and correction of anomalous labour supply. They are to facilitate the economic constitution “in concrete historical situations” (Eucken 1959: 183). The constituent principles require conditions of sound money and fiscal tightness, and enshrine the inviolability of private property and freedom of contract. They also make clear that freedom entails responsibility, that is, the economic agents are liable for the consequences of their decisions. Freedom entails responsibility. The principle of liability may thus change the assessment of risk and restrain reckless risk-taking. Liability “surrenders each one to the control of the market, deprives him of power, forces him to increase his work, necessitates constant adaptations, and by the means of bankruptcy has unpleasant means of coercion” (Eucken 2004: 237). In the ordoliberal account, the state is not a public insurance company for the hazard of private risk taking through, say, state aid or bail-outs. Any such insurance, it is argued, is an incentive for irresponsible risk taking and encouragement for “rent seeking” by the powerful private actors (Eucken 2004: 282; Vanberg 2014).[[10]](#footnote-10)

The constitution of the free economy entails the state as an additional constitutive principle of economic liberty (Eucken 2004: 337). It has to have the strength to create and sustain the “conditions under which the ‘invisible hand’ that Adam Smith had described can be expected to do its work” (Vanberg 2015: 29). It has to hold out against monopolies, the economic power of cartels, politicised labour relations, party politics, lobby by powerful economic interests, and trade union power. In an economic order founded on freedom of contract there is always “a danger” that the state is “weakened or corrupted by economic power groups” (Eucken 1932: 307) who “elevate cheating to a legislative or governmental programme” (Böhm 2010: 183). In a mass democratic context there is the additional danger that the liberal state might fall prey to “mass opinion, mass claims, mass emotion, and mass passion” that are “directed…against property, law, social differentiation, tradition, continuity, and common interest” (Röpke 1998: 152). In this argument “nobody is authorized to abandon” (Eucken 2004: 178) the freedom to compete through market-distorting behaviours, such as protectionism, monopoly pricing of labour power and of other commodities. According to Franz Böhm (1937: 122) such behaviours amount to acts of “sabotage”. Since competition has no lobby, capitalist society “cannot function without authority [*Obrigkeit*]” (Böhm 2010: 167). In the ordoliberal account, the state is the institution of institutions – it is the concentrated power of the free economy.[[11]](#footnote-11) *Ordnungspolitik* is therefore not only “needed to establish and…maintain an appropriate *economic* constitution”. It is also needed “to establish and…maintain an appropriate *political* constitution” (Vanberg 2015: 31) to prevent the state from becoming a servant of the interest groups and unpredictable parliamentary majorities.

*Political Order and Money*

In the economic constitution of the free economy the “inviolability of money” (Röpke 1998: 220; Eucken 2004: 54, 256) has to be secured.[[12]](#footnote-12) It is the premise of “a functioning price system of complete competition” (Eucken 2004: 254). The free economy regulates economic behaviour by an impersonal “signalling system”, the free price mechanism. Regulation by the free price mechanism is premised on monetary stability to permit its effective operation as a “calculating machine” (Eucken 1989: 28) that informs consumers and producers, buyers of labour power and their employers, of the degree of scarcity in the whole economy.[[13]](#footnote-13) As such a “scarcity gauge” (29) it signals changes in “marginal” costs over time (Eucken 2004: 160-61, fn. 1).Indeed, in the free economy of seemingly automatic, non-coerced coordination and balancing of the interests of millions and millions of people, each supposedly partaking in a “continuous consumer plebiscite” (Röpke 1989: 76), prices are to “reflect and measure the factual scarcity of goods” (Eucken 1961: 205).[[14]](#footnote-14) Regulation of economic behaviour by the free price mechanism is founded on performance competition, in which the economic participants seek comparative advantage on the basis of enhanced labour productivity.[[15]](#footnote-15) Ordoliberalism rejects a politics of easy money as violating basic economic principles. It is therefore necessary to take money out of politics and indeed institutionalise its regulation in such a way that it set the framework conditions for the conduct of politics.

In the ordoliberal account, the gold standard is endorsed as establishing an *Ordnungsgefüge* for a liberal *Ordnungspolitik* in the member states. It incorporated them into a market liberal currency system that excluded as incompatible with its principles the political manipulation of the money supply and government arbitrariness. The conditions that had to be fulfilled if the gold standard was to function properly included the elimination of independent political responses to business cycles, removal of protections from international trade, price flexibility, and confidence in the conduct of *Ordnungspolitik* on the part of the member states.[[16]](#footnote-16) In general terms, in an *Ordnungsgefüge* of sound money, “debt creation [is] not to be used as a regulative instrument of public finance, trade policy [is] not to be used to bring the current account of balance of payments into equilibrium, exchange rate [is] not to be maintained to improve national competitiveness, inflation [is] not a method of attaining full employment; competition policy [is] not to be used as a counter cyclical devise or as a way of protecting particular sectors and big business from modernisation, etc.” (Willgerodt and Peacock 1989: 9). Concerning the breakdown of the gold standard, it was due to weak national governments who, instead of following its rules and commitments, pursued independent monetary policy objectives, especially in support of full employment (see Bernholz 1989: 203). As Wilhelm Röpke (1959: 265) put it, in “false” internationalism “the sick…contaminate the sound” to the detriment of liberal economy. In other words, true “internationalism begins at home” (16). Indeed, since even the “slightest internal social dissolution would immediately shake the fragile edifice of international order and cause it to crumble” (Curzon 1989: 180), the *ordnungspolitical* power of the state is fundamental for the stability of international order. It is premised on the “real independence of state power” (Eucken 1932: 308) at home to uphold the inter-national fraternity of commerce, trade and exchange. In this fraternity price controls of any sort are not permitted so that the economic calculations express the scarcity of all goods in a clear manner, allowing market corrections in decentralised settings, “beginning with the individual, and including the family, our fellow workers, the local community and the whole nation” (Röpke 1959: 13).

*Ordnungsgefüge and federal Stabilitätsgemeinschaft[[17]](#footnote-17)*

The argument that “a certain stability of money” (Eucken 2004: 256) depends on a particular stability of political order entails a judgment about the scope of democratic government in the free economy. In the context of mass democracy and political assertiveness of private economic power, a “solution” must be “found to the problem of how the executive can gain in strength and independence” (Röpke 1998: 148) to secure its liberal utility as the “guardian of competitive order” (Vanberg 2001: 50). That is, mass democracy needs to be limited by the liberal principle. This attempt entails not only government by checks and balances. It entails also conduct of policy by independent technocratic institutions that operate at one remove from social-democratic pressures. Further, it entails administration of the affairs of state by competent elites that oversee the economic machinery on a quasi-judicial basis and in recognition of what is necessary for the safeguard of liberty.

Central bank independence from democratic pressures and political interference is one such institutional device.[[18]](#footnote-18) For Röpke (2009, 196) “independent central banks” are “*Bastilles* of liberty”.[[19]](#footnote-19) They must be populated and governed by technical experts who conduct monetary policy solely on the basis of economic insight and rule-based requirements. In this argument the balance between market economy and majority rule is struck inside the national state. However, since in mass democracy there is the risk of discretion towards, and potential comprise with, the so-called special interests, the establishment of binding international structures of market, law and money is a potentially better alternative to “prevent liberalism being devoured by democracy” (Röpke 1969: 97). In this context, Röpke, and Friedrich Hayek (1949) too, explores the market-liberating function of a federated system of inter-state relations that are devoid of political sovereignty at the international level.[[20]](#footnote-20) Röpke (1998: 8) sees (inter-state) federalism as a potentially powerful defence “against the flood of modern mass democracy”.[[21]](#footnote-21) It “diminishes national sovereignty” without transferring it to a higher authority (Röpke 1955: 250). Any such transfer is a danger to the free economy because it tends to create a “collectivist form of economic organisation (bloc economy)” (2002: 231).[[22]](#footnote-22) In these arrangements the potential for economic planning is “transferred from the national level to the international level. It would mean the yet stronger and more inescapable domination of the planners, statisticians, and econometricians, the centralising power of an international planning bureaucracy, international economic intervention, and all the rest of it..., creating a giant European organisation” (Röpke 1998: 243, 245).

Röpke rejects centralisation as non-European (1998: 244, 245) and argues that federalism and collectivism are incompatible (2000: 230).[[23]](#footnote-23) For him a “genuine federation” is a “community of price, market and settlement” without a controlling and directing centre (231). In contrast to a market-liberal Europe of nation states that govern their respective societies through a supranational framework of negative economic rights, competition law and sound money, political union brings to power an “*economocracy*”, that is, “domination” by a centralised “planning bureaucracy”. Röpke offers a stark choice: either political union or a federation of independent nation states (2002: 230). That is either a “bloc economy” or a community that facilitates decentralised decision-making (231). “Either it is right and desirable that money and credit policy should be operated like a switchboard by a government directly dependent upon a parliamentary majority or, worse still, upon some non-parliamentary group posing as the representative of public opinion. Or, conversely, it is right and desirable to counteract such dependency” (1998: 223) through a European *Stabilitätsgemeinschaft* committed to *Ordnungspolitik*.

“We are therefore of the view”, says Müller-Armack (1981: 103) - “probably the most influential German at Brussels” in the 1950s (Moss 2000: 258)[[24]](#footnote-24) - that European integration “is only possible on a market-economic basis”. The ordo of European integration does not permit a political union. Nor does it permit a mass democratic union, in which parliamentary majorities make law and hold government to account. In Röpke’s dramatic prose, “Europe is the unity of diversity and centralist organisation entails the treason and the rape of Europe, also in the economic field” (Röpke 2000: 12).[[25]](#footnote-25) Political union is contrary to the *Ordnungsgefüge* of a European market order. The European *Ordnungsgefüge* comprises supranational law, money, and market-forces with decentralised decision making by territorialised economic agents that compete with each other as self-responsible price-takers each endowed with “Europeanised” abstract economic rights which are not subject to democratic law-making by parliamentary assembly in member states. On the contrary these rights set the framework for permissible law making and politics in the member states who are bound by European agreements and subject to adjudication the European Court of Justice.

According to Müller-Armack (1971: 162) the European community established a *Stabilitätsgemeinschaft* that was founded “on law over and above its constitutive political entities”. The market liberal watchword for Europe as a *Stabilitätsgemeinschaft* is subsidiarity. Subsidiarity entails a system of relative sovereignty, in which the fundamentals of the free economy, including monetary conditions and “anti-trust rules and institutions for the supervision of state aid”, are regulated by law-governed and rule-based supranational institutions that are not “directly controlled by the electorate” (Engel 2003: 430). For Engel (430), the functioning system of supranational rule making and national implementation of the rules agreed upon make “Europe…the stronghold of the fight to save the Member States’ civil society” that in his view is one of sovereign consumers. Subsidiarity fetters democratic government to transcendent structures of law and money, and establishes the member states as executive states of supranational commitments. It is by virtue of this “denationalised” system of economic governance that they “come under a regime of imposed liberty” (431). Thus, the system of subsidiarity establishes a “law-based order committed to guaranteeing economic freedoms and protecting competition” (Jörges 2005: 461). By establishing individual economic rights over and above the member states, and by establishing stateless money, their parliamentary systems of democratic law-making operate within a supranational framework of stateless law and money, and (negative) economic Rights belonging to individuals (Everson 1995). The *Ordnungsgefüge* of the Union thus has the “negative power” that Hayek talks about in his account of the virtues of inter-state federalism. Negative power prevents “individual states from interfering with economic activity in certain ways, although it may not have the positive power of acting in their stead” (Hayek 1949: 267). Nevertheless, in the European *Ordnungsgefüge* the member states are the “constitutive political entities” of *Ordnungspolitik* (Müller-Armack 1971: 162). That is, its negative power depends on their power of government, individually and collectively, to translate and implement supranational rules and commitments into effective national politics, from fiscal retrenchment to removal of protectionist measures, and from the abandonment of state aid to the achievement of competitive labour markets and profitable labour relations.

According to Ernst-Joachim Mestmäcker (2003) and Hallstein (1972), Europe made good on Böhm’s observation that competition is without lobby. It institutionalises the freedom to compete as individual right, reinforces the role of the state as the concentrated power of the free economy, and removes monetary policy from the processes of parliamentary, political contestation, and ensures constancy of economic policy through supranational agreements. Furthermore Europe is not a fiscal union. Instead, it advocates the principle of (sovereign) liability.[[26]](#footnote-26) It has a currency union with no fiscal union and no political union. Mestmäcker thus characterised the emerging character of European integration as a comprehensive decision (*Gesamtentscheidung*) about the economic constitution of Europe. Its principal elements are the free movement of goods, capital, services and labour and competition law. Competition between territorialised labour markets now also includes the institutional systems, from taxation to social protection (see Dardot and Laval 2013: 208–12). The regulative institutions of the European Union are law, money and market. These institutions are removed from traditional democratic principles of parliamentary law making. In fact, the European *Ordnungsgefüge* forecloses traditional “route[s] of parliamentary, political contestation” (Wilkinson 2015: 323). In its stead it establishes a fraternity of trade, commerce and exchange and institutes a market liberal framework for the pursuit of individual economic rights in competing territorialised labour markets. Within this framework the member states act as executive states of a European economic constitution and they do so akin to the ordoliberal characterisation of the liberal state as the concentrated power of “liberal interventionism” (Rüstow 1963: 252). The formative power of European Union is market rule through the integration of the role of the state as market police.

**Stateless Money and the Principle of Subsidiarity**

Tomasso Padoa-Schioppa’s (1994: 191) characterisation of EMU is succinct: “subsidiarity, not the Leviathan, is the catchword for European political union”. He explains that EMU is based on a collective decision-making process that both undercuts national plurality of decision-making and encourages competition between territorially segmented labour markets. The institutional structure of EMU combines supranational conduct of monetary policy with national state responsibility for the achievement of competitive labour markets within balanced budgets.[[27]](#footnote-27) Padoa-Schioppa thus views EMU as a “collective prince” (151), one that encompasses the member states as the combined powers of a community of money. As Fabio Masini (2016: 206) points out, he understood that the success of monetary union rests on the pursuit of “rigorous economic policies at the national level”. Although EMU seems to reduce government to governance, to the sphere of technical control and implementation, which flows from a set of rules that are founded on supranational relations of law and money, the member states present the political power upon which the whole edifice of monetary union depends.[[28]](#footnote-28) The strength of their commitment to the bond that unites them is crucial for the stability of a community of stateless money.

According to the *Ordnungsgefüge* of monetary union, “false incomes and labour market policy” cease as government is no longer able to devalue its currency to achieve comparative advantage (Feld 2012: 412). Monetary union established a currency that no individual government can create or print, regulate or manipulate, deflate or inflate. For Feld, the Euro is the embodiment of *Ordnungspolitik*. It “guarantees Hayek’s demands for the denationalisation of money” by other means (411). Expanding on Padoa-Schioppa’s metaphor about EMU as a depersonalised prince, fiscal policy is its Court, and the territorialised European working classes its Fourth Estate. Fiscal policy is the forte of neither the national state nor the Union - it is located in the twilight zone between member states and Union. EMU excludes transfer of fiscal responsibility to the Union and the member states retain full fiscal sovereignty, at least formally. The Union has no positive fiscal powers. Monetary union is not a fiscal union. However, the Union sets the framework for the conduct of fiscal policy and polices observance of agreed fiscal conditions in member states. The fiscal power of the Union is negative. That is, fiscal policy remains a national responsibility, which is shared with the Union. Fiscal policy is to be conducted within limits of the Stability and Growth Pact (1996) and the Fiscal Compact (2013) that strengthened the Pact’s resolve in response to the Euro Crisis. The Compact did not in any way change the structure of subsidiarity nor did it change the position of fiscal policy within the governance structure of EMU. It hardened its structure and reinforced its resolve.

For its proponents, EMU establishes a “framework of incentives and constraints” that will “condition national budgetary policies, for which the keywords will be autonomy (to respond to country specific problems), discipline (to avoid excessive deficits), and coordination (to assure an appropriate overall policy-mix in the Community)” (Emerson 1992: 11). The positioning of fiscal policy, which combines national fiscal sovereignty with supranational fiscal rules, is a response to the risk of fiscal profligacy in member states and a rejection of a centralised responsibility for fiscal policy. The latter would have reasserted the prospects of Keynesian deficit spending and interventionism at the supranational level. The former was seen to pose “a major threat to the overall monetary stability” of the Union (Emerson 1992: 100). As Padoa-Schioppa (1994: 127) put it, the question was “whether monetary union runs a serious risk of being undermined by independent and possibly uncoordinated budgetary policies by member states”. The transition arrangement to EMU, that is the convergence criteria, and the Stability Pact, are geared against what is called “unsustainable budgetary policies in a member state”. Michael Emerson (1992: 107) defined “fiscal discipline…as the avoidance of an unsustainable build-up of public debt”. Further, the transition to EMU “amplifies the domestic effectiveness of national fiscal policy for stabilization purposes” (115), requiring a tight control of member states “if fiscal expansion were systematically beggar-thy-neighbour in character” (119). In short, “surveillance will have to correct possible tendencies for budget deficits to become too large” and EMU relies on “fiscal policy to reduce budget deficits” (100). Its *Ordnungsgefüge* demands that fiscal policy is in effect pro-cyclical. It rejects deficit financing and requires fiscal discipline instead, which is most difficult to come by at times of economic recession as tax income declines and demands on expenditure increases. For member states in difficulties the requirement of balanced budgets is punishing. It entails a robust government response to achieve savings and enhance competitiveness on labour markets, and other commodity markets.

During the Euro crisis, the Heads of the Euro club governments reasserted the *Ordnungsgefüge* of monetary union and confirmed their commitment to fiscal discipline by strengthening the rules of fiscal governance. The Union gained stronger power of coordination and surveillance, and the ability to recommend modifications of fiscal policy and apply sanctions against member states that breach agreed rules. They also decided to implement “a catalogue of economic, social and wage policy measures in their respective countries which are in actuality matters for the national parliaments” (Habermas 2012: 129). Furthermore, ever vigilant and distrustful about the willingness and capacity of its constituent members, they also decided to meet every year for the specific purpose to determine whether their colleagues in government have “brought debt levels, the retirement age and labour market deregulation, the social benefits and health care system, public sector wages, the wage ratio, corporation tax, and much else besides into conformity with the guidelines of the European Council” (130). In this context, deliberation in member state parliaments of Council decisions amounts essentially to a legitimising exercise. A parliamentary vote against Council decisions not only denies legitimation. It also stalls the actions agreed upon in Council. However, it does not amount to a vote of no-confidence in the collective wisdom of a conclave of European executives. Rather, it casts in doubt the capacity of the member state to act as a reliable European partner.

In sum, according to its *Ordnungsgefüge*, European monetary union has neither fiscal nor monetary flexibility. Fiscal policy is to support sound monetary conditions. It is not to weaken the Euro through the so-called fiscal expansionism that is associated with Keynesianism or simply beggar-my-neighbour fiscal profligacy associated with free-riding. In either case, fiscal expansionism and free-riding involve the risk of moral hazard that might well endanger the *Ordnungspolitik* of the union as a whole. As an institution of market liberal *Ordnungspolitik*, monetary union is not about risk sharing, fiscal transfers, and joint-liability. It was envisaged as neither a fiscal union nor a transfer union, in which the economically stronger member states support the weaker member states through fiscal redistribution. In monetary union each member is bound to the *Ordnungsgefüge* of the Euro and discharges its responsibilities through the achievement of sound fiscal conditions and competitive labour relations.

EMU places the responsibility of economic adjustment squarely on competitive labour markets and the achievement of competitive labour unit costs. With national currency devaluations eliminated, monetary policy removed from the purview of the member state governments, and with fiscal policy disciplined by monetary union, economic adjustment is to be achieved by “labour movement from states in recession to states in high growth, or through labour market flexibility, with a reduction of wage and labour costs in states in recession to attract capital investment” (Hix 1999: 299-300; Emerson 1992: 102). Indeed, EMU comprises two principle means of economic adjustment: “a) workers can move; b) wages can change” (Currie 2000: 124).

The responsibility of labour market adjustment is the preserve of the member states. The single market comprises territorialised labour markets and stimulates competition between them. Each labour market is governed by supranational law, money, market-forces, and binding commitments to fiscal discipline. The European system of market competition is expected to “result in an increased responsiveness of wages to unemployment”, with “labour market flexibility, and most importantly wage flexibility…the most important adjustment instrument” (Emerson 1992: 149). Lower unit labour costs are “a condition to the relative price decrease needed to restore the competitive position of [member states] and to bring output and employment back into equilibrium, and “factor mobility, in particular labour mobility, may solve the problem through migration” (147). That is, “wage bargainers will be affected by a credible monetary union” as they will realise that excessive wage rises will not be underwritten by devaluations (24). In other words, the cost in terms of output and employment might not be high for as long as workers respond flexibly to market pressures and requirements, pricing themselves into employment. In the absence of competitive labour market adjustments, unemployment might result and the need to migrate might arise. That is, an unemployed worker is in fact a worker in transit, up and down the wage-scale, from this activity to that activity, from this labour market to that labour market. Employment and unemployment converge in the form of the employable worker as embodiment of, and investor in, human capital.

The architecture of monetary union, its *Ordnungsgefüge*, suggests the elimination of politics in favour of rule-based decision-making by unaccountable experts and subsequent action by the member states as agents of implementation. It seems to govern through the formalism of law and statutory requirements, which are administered by technical experts that conduct policy according to established rules. Indeed, the economic constitution of Europe seemed to some as infallible as an automatic mechanism of market adjustment, as argued, for example, by Sievert (1993). It narrows the policy options available to the democratically constituted member states and establishes a clear boundary between market and state. The democratic member states operate within a framework of supranational rules and surveillance. They retain formal responsibility for the conduct of fiscal policy and enhanced labour productivity. Any form of transfer payment in aid of less competitive labour markets is ruled out. In the case of sovereign debt exposure, it is to be discharged by the respected member states through savings and productivity gains.

The structure of monetary union appears strong. Yet, and as the Eurozone crisis has shown, its seam is weak. The seam is all-important. The European union of stateless money made clear that its *Ordnungsgefüge* depends in its entirety on the capacity of its federated member states to pursue *Ordnungspolitik* and “impose liberty” (Engel 2003). The strength of its structure depends on the *ordnungspolitical* capacity of the member states to enforce the conditions of monetary union domestically and, if need be, in opposition to democratic majorities. In EMU, the member states not only compete with each other for competitive advantage. They also depend on each other for sustaining the European *Stabilitätsgemeinschaft*. That is, the European *Stabilitätsgemeinschaft* is founded on the role of the state as a liberal interventionist state, a planner for competition. The failure of one member state to govern for the Euro impacts on the seam of its *Ordnungsgefüge* with explosive effect, as the Euro-crisis showed. Without sustained and concerted political support the Euro is a powerless currency that is at the mercy of its weakest link.[[29]](#footnote-29) The *Ordnungsgefüge* of the Euro amounts to a concerted practice of government. As the late President of the German Bundesbank, Hans Tietmeyer, put it, “sustaining the monetary union might need perhaps more solidarity than beginning it” (cited in Eltis 2000, 146). The solidarity that Tietmeyer had in mind is the solidarity of a union of Eurozone executive states, each governing their democracies as federated powers of the bound that unites them.

**Conclusion**

During the Eurozone crisis the solidarity shown by member states to prevent the collapse of monetary union has been immense. In the case of Greece, the commitment to Europe that was finally extracted under threat of expulsion in July 2015 put a whole political economy on the brink and led to the restructuring of its social contract. In the case of Italy (2011-2013) it led to the appointment of a technocratic government and *de facto* or formal governments of national unity in Spain and Portugal (2011-2014). The Euro crisis exposed the European Council comprising the Heads of government of the Euro club European Council as the political executive committee for managing the common affairs of the Eurozone. It is the membership organisation of national executives, which is supported by various ministerial Councils. The Council has overseen the strengthening of fiscal rules and hardening of the entire system of fiscal governance, which now requires the achievement of balanced budgets and includes the requirement that member states submit their budgets to European assessors before they are presented to the national parliaments. It is the institution of “executive federalism” (Habermas 2012), “managerial decisionism” (Everson and Jörges 2013; Jörges and Weimer 2014), “emergency politics” (White 2015), executive solidarity and mutual vigilance. In European Union it is the institution of institutions. In Europe political sovereignty is both federated to democratically accountable executive-governments and centralised in the form of a decision-making executive council as the political decision-maker to the ECB as the technocratic decision-maker of monetary policy.

Ordoliberalism is not unique in requiring sound money, fiscal discipline, predictability in the conduct of public policy, security of private property, freedom of contract, constancy of economic policy, market competition, acceptance of at least limited liability, and avoidance of moral hazard, etc. Austerity is neither a German idea nor a German ideology. Nor is ordoliberalism an argument about administrative processes, monetary technique, or particular policy-preferences, as contemporary accounts of an ordoliberal Europe argue. Its distinctiveness has to do with the recognition that the free economy amounts to an “*eminently* political decision” (Boehm 1973: 34), a “political event” (Miksch 1947: 7), and a political practice of “independent” decision making by governing executives. It emphasises the liberal utility of the member states as “market police” (Rüstow 1942: 289; Röpke 2009: 52). In the ordoliberal argument the notion of “independence” entails a state that is not bound by public opinion, subject to mass democratic aspirations, and paralysed by pluralist demands for special treatment and protection from competitive pressures. Rather, it entails the “independence of political will” (Eucken 1932: 307-8). I have argued that monetary union establishes a supranational framework for the conduct of executive government and decision-making.

In distinction to the literature about ordoliberalism as an imposition of market rule in Europe, it is not its ordoliberal *Ordnungsgefüge* that limits the member states to the pursuit of the free economy. Rather, world market competition compels each nation state to achieve competitive labour markets, which are the condition for achieving a measure of social integration. The requirements of competitiveness, sound money, fiscal prudence, enhanced labour productivity, etc., are not peculiar to ordoliberal thought. They belong to a system of wealth that sustains the employment and the welfare of workers on the condition that their labour yields a profit (Bonefeld 2000; Burnham 1995; Radice 2015). What makes ordoliberalism peculiar is its understanding of the free economy as a sustained practice of government.

By exploring the ordoliberal account, the article emphasised the political foundation of monetary union, established the decisive role of the member states in monetary union, and expounded monetary union as a political practice of federated executive states. What monetary union integrates is the role of the state as the political power of a definite monetary constitution of the free economy. It is not the monetary union that imposes a certain political order, *Ordnungspolitik*, on reluctant member states. Rather, the member states established the *Ordnungsgefüge* of monetary union and govern their national economies through it. Its establishment is entirely dependent upon the practice of government in the member states whose creation it remains.

The populist backlash against the Europe Union proclaims, ostensibly, for the assertion of a national legislative state (*nationaler* *Gesetzgebungsstaat*) as the institution of a democratically sovereign nation. It entails demands for the protection of the national economy from the vagaries of global competitive pressures. Fundamentally, this reaction against European Union posits what European integration was meant to overcome, from national economic planning via national protectionism to belligerent national states. The nationalist critique of Europe is all persuasive – because it comprehends nothing.

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Young B. (2017b). Is Germany’s and Europe’s Crisis Politics Ordoliberal and/or Neoliberal?. In Biebricher T. and F. Vogelmann (eds.) *The Birth of Austerity*: forthcoming, London: Rowman & Littlefield.

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2. Ordoliberalism is often seen as comprising two distinct versions. One is the Freiburg-school, which focuses on economic-legal argument, and the other the Cologne-school of Müller-Armack’s so-called social market economy. See Streit and Wohlgemuth (2000). Others differentiate between the Freiburg school and the sociological liberalism of Wilhelm Röpke and Alexander Rüstow (Köhler and Nientied, forthcoming). I agree with Ludwig von Mises (1985: 19) that “the program of liberalism, summed up in a single word, should read: *property*, that is, private ownership of the means of production . . . All the other demands of liberalism derive from this fundamental demand”. The different versions represent distinctions in emphasis, not substance (see Müller-Armack 1956: 390; Rüstow 1953: 101; also Bonefeld 2017; Haselbach 1991). In the words of Eucken, “social policy should not be regarded as an appendage of economic policy but should rather be seen as the essence of economic policy”. Indeed, it is “identical with the politics of economic order or the politics of economic constitutionalism (*Wirtschaftsverfassungspolitik*)” (Eucken 2004: 313). In defence of in particular Eucken’s work, one referee objected that von Mises point about private property amounts to primitive Marxism. However, Eucken (2004: 271), too, holds that the private ownership of the means of production is constitutive of what he calls the *Wettbewerbsordnung* of the free economy. Rather than rejecting their stance as “primitive” it would be desirable to think through its implications for the entire system of social reproduction. The referee also objected that the article depends on the Weimar writings of the ordoliberals at the expense of their later work, which in his or her view underwent revision during the 1940s. The significance of this point is not at all clear to me. Nevertheless, just to make sure, the great majority of the founding ordoliberal argument cited here belongs to the period of writing favoured by the referee, see bibliography. [↑](#footnote-ref-2)
3. On relationship between the democracy and liberty in the liberal-democratic state, see Agnoli (1990); and in neoliberal and ordoliberal argument see Biebricher (2015) and Bonefeld (2016). [↑](#footnote-ref-3)
4. According to Brigitte Young (2015; 2017a) the critique of an ordoliberal Europe amount to “German-bashing”. Although in her view (2017b), the German political class has to be criticised for the management of the Eurozone crisis, rather than blaming ordoliberalism for European austerity, it should be endorsed as a viable theoretical resource against the deregulatory neoliberalism of the Anglo-Saxon variety of capitalist organisation. In her view, an ordoliberal Europe would be a social Europe of the kind endorsed by Jürgen Habermas (Young 2017a: 81). In contrast, Habermas (2012) associates a social Europe with social-democracy and criticises contemporary Europe as ordoliberal in its construction and policy-preferences. [↑](#footnote-ref-4)
5. See, for example, Bernholz (2013) and Sinn (2014). On the AFD and its transformation from an anti-Euro party into a nationalist one, see Schmitt-Beck (2016). The ordoliberal Jürgen Stark resigned from the ECB in protest, and Axel Weber from the Bundesbank, both in 2011. Whereas the critics see the German Finance Minister Wolfgang Schäuble as the villain of the piece, some ordoliberals criticise him as too moderate by half. On these points, see Jacoby (2014). [↑](#footnote-ref-5)
6. Magnus Ryner (2015) says that states and inter-state relations continue to play a crucial role in monetary union but does not explore their roles in the “ordoliberal iron cage”. Fabio Masini (2015) holds that liberalism is indifferent to the state. At its emergence, ordoliberalism rejected laissez-faire liberalism for its alleged indifference to the state and dismissed it as a theology of market freedom (see Rüstow 1942: 270-72; Röpke 1942: 6; also Eucken 2004: 360). For discussion, see Bonefeld (2012), Haselbach (1991), and Jackson (2010). Writing in 1932, Hermann Heller (2015) defined the then emerging new liberalism as an authoritarian liberalism. For assessments, see Streek (2015); Tribe (1995); Wilkinson (2013) and Bonefeld (2018). [↑](#footnote-ref-6)
7. In answer to a point made by one referee, the argument is not that ordoliberalism secured its influence through the operative theories of key policy makers at key points in the institutional design of EMU like, for example, the Stability and Growth Pact. Ordoliberalism neither invented the free economy nor constructed monetary union. Rather, it articulates the requirements of the free economy. There is no un-theoretical reality since it does not speak to us directly without cognitive mediation. That is, reality requires thought for its comprehension. The critique of reality is critique of its theoretical expressions. Assessment of ordoliberal political economy is helpful to uncover the political foundation of monetary union. It opens the door to the understanding of the political character of monetary union, and in particular the executive federalism that the system of EMU exhibits. [↑](#footnote-ref-7)
8. The idea of an economic “style” is Müller-Armack’s. For an account, see Bonefeld (2017). [↑](#footnote-ref-8)
9. Concerning the free economy as an international system, it “does not function if it is handled according to the methods of a nationally planned economy” (Bernholz 1989: 196). [↑](#footnote-ref-9)
10. Indeed it is also a fundamental principle of European Monetary Union. As the former Greek Finance Minister, Yanis Varoufakis (2013), found out, sovereign debt is not to be discharged by the Union. It may only be discharged by the respective member states. [↑](#footnote-ref-10)
11. On the state as the political form of the system of private property, see Bonefeld (2013). [↑](#footnote-ref-11)
12. According to Eucken, Lenin recognized what is at stake: “’In order to destroy bourgeois society, one has to devastate its finance’” (quoted in Eucken 2004: 255). [↑](#footnote-ref-12)
13. As Marcelo Resico and Stefano Solari (2016: 38) explain with reference to Röpke, the stability of money “means no inflation and no deflation”. [↑](#footnote-ref-13)
14. Alec Nove’s (1983) empirical study of the Soviet economy showed that the planners could not follow the changes in marginal cost over time, leading to first faltering then deteriorating economic conditions. The idea of a market socialism falls within this context. See Roemer (1996). [↑](#footnote-ref-14)
15. On this point see especially Lutz (1949) and Eucken (1961). [↑](#footnote-ref-15)
16. For accounts of the gold standard as the currency system of economic liberalism, see Röpke (1959), Bernholz (1989), Curzon (1989) and Lutz (1989). Eucken (2004: 168-69) does not argue for a return to the gold standard after liberation from Nazism because it had not been robust enough to prevent both deflation and inflation. In his view, a revised international currency system had to eliminate these possibilities for good. [↑](#footnote-ref-16)
17. The term *Stabilitätsgemeinschaft* is Müller-Armack’s (1971). [↑](#footnote-ref-17)
18. For the wider significance of this point in contemporary political economy and public policy, see Burnham (2014). [↑](#footnote-ref-18)
19. In distinction, and as Gerald Braunberger (2013) recently pointed out, Eucken did not endorse central bank independence “because he feared that the monetary policymakers could commit serious errors”. To avoid errors, he advocated the determination of the value of money by the market forces on the basis of commodity prices. Eucken’s so-called commodity reserve currency was meant to eliminate any discretionary policy responses to market conditions (see Issing 2000). Friedman (1951b) recognized the market liberal foundation of the idea and rejected it as unworkable. On Eucken’s argument for a system of money that does not allow for inflation and deflation, see footnote 15, see also footnote 12. [↑](#footnote-ref-19)
20. On Hayek’s inter-state federalism, see Bonefeld (2005). [↑](#footnote-ref-20)
21. On the wider literature about this point, see Riker (1987) and Masini (2015; 2017). Masini distinguishes between neoliberal federalism and constitutional federalism, with the former defining the contemporary European order and the latter the aspiration of a social Europe that he associates with the political project of, amongst others, Delors and Padoa-Schioppa. For a critique of Delors’ conception of a social Europe, see Moss (2001). [↑](#footnote-ref-21)
22. In this context Röpke refers to the Nazi idea of a *Großraumwirtschaft* and the Japanese idea of a “co-prosperity sphere” as violations of liberal federalism (2002: 231). In a later work, he also refers to the European Coal and Steel Community, which was formally established by the Treaty of Paris in 1951, and to the European Common Market, which was created by the Treaty of Rome in 1957. In his view these Treaties point towards the establishment of an “international welfare state” (Röpke 1998: 243). [↑](#footnote-ref-22)
23. One referee objected that ordoliberalism means Freiburg School and that Röpke plays no role in today’s Freiburg School thinking. See however Feld (2012) for a recent tribute of Röpke. Feld elaborates on Röpke’s notion of European order to delimitate the ordo of monetary union. [↑](#footnote-ref-23)
24. In the 1950s Müller-Armack worked for the German Economic Ministry under Ludwig Erhard and was a leading member of the German Delegation to the Intergovernmental Conference on the Common Market and Euratom (Treaty of Rome). [↑](#footnote-ref-24)
25. The German original reads: Europe has to be an “Einheit in der Vielfalt..., weshalb dann alles Zentristische Verrat und Vergewaltigung Europas ist, auch im wirtschaftlichen Bereich”. [↑](#footnote-ref-25)
26. As the president of the German Bundesbank, Jens Weidmann, put it in 2014: “Just as the market economy can only function when employers take responsibility for the consequences of their decisions a currency union with sovereign states can only function when the states…take responsibility for their decisions”. I am grateful to the referee who pointed me towards this quotation. [↑](#footnote-ref-26)
27. According to Kevin M. O’Rourke and Alan M. Taylor (2013: 169) it combines a currency union similar to the US currency union (one national economy, one currency) with the political void of the gold standard (no fiscal union, no welfare union, no political union, etc.). However, the fact that European monetary union proceeded without and has not been followed by political union does not diminish, in fact it emphasises, the executive role of the member states in monetary union. I am grateful to the referee who directed my attention to this reference and also to the importance of the gold standard in ordoliberal thought. [↑](#footnote-ref-27)
28. On Padoa-Schioppa’s contributions to European integration, including monetary union, see Masini (2016). Padoa-Schioppa was a firm supporter of a social Europe and advocate of European political union, which he saw to emerge from the contradictory dynamic of European integration. Simply put, in the early 1980s he regarded the combination of the free movements of production factors (labour and capital), of outputs (goods and services), fixed exchange rates, and autonomous national monetary policies as an inconsistent quartet, which called for monetary union as a next step – one market, one money. He argued further that there can be no monetary union without political union; supranational monetary policy and national economy policy entailed a contradiction in the structure of monetary union, which called for political union as a next step. In the early studies of European integration, the functionalist approach associated with Haas (1958) envisaged a similar process of integration through the effect of “spill-over”. See Ben Rosamund (2006) for an assessment of “spill-over” as a dynamic of European integration. The prospects of fiscal union and indeed political union are anathema to the ordoliberal approach to European Union because of the damage it would inflict on its liberal *Ordnungsgefüge*. As Lars Feld (2012: 404) put it, “European unification has its limitations”. [↑](#footnote-ref-28)
29. Bernholz (2013) and Sinn (2014) argued that the debtor crisis enabled Greece to hold the Eurozone to ransom, to the detriment of sound economy. Their assessment echoes Röpke’s (1959: 265) characterisation of false internationalism as one that allows the “sick [to contaminate] the sound”. [↑](#footnote-ref-29)