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# CRISIS, FREE ECONOMY AND STRONG STATE: ON ORDOLIBERALISM

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**Abstract:** The ordoliberal conception that the strong but limited state is the fundamental precondition of a free society entails a negative judgement about the character of market competition. In opposition to the laissez-faire idea of market self-regulation, it rejects as dangerous to the constitution of liberty the idea that markets always know best. Competition does not unite society. Instead, it manifests freedom in the form of unsocial relationships between economic agents and social classes. Ordoliberalism posits the state as planner for competition and guardian of enterprise. In this context, the article explores the ordoliberal meaning of democracy and liberal interventionism. It concludes by arguing that in the ordoliberal view, economic crises manifest a failure of political interventionism.

**Key Words:** Ordoliberalism, free economy, strong state, economic crisis, democracy, political authority

Political Economy is “a branch of the science of the statesman or legislator”  
(Adam Smith).<sup>2</sup>

The liberal state “has to be as strong as possible within  
its own sphere, but outside its own sphere,  
in the economic sphere, it has to have as little power as possible”  
(Alfred Müller-Armack).<sup>3</sup>

“The formula ‘strong state’ was meant [by the ordoliberals, WB]  
as a shorthand for a state that is constrained by a political constitution  
that prevents government from becoming the target of special-interest rent seeking”  
(Viktor Vanberg).<sup>4</sup>

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2 Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indianapolis: Liberty Fund, 1981), p. 428.

3 Alfred Müller-Armack, *Genealogie der Sozialen Marktwirtschaft* (Stuttgart: Paul Haupt, 1981), p. 102. Müller-Armack is in fact paraphrasing Constant’s critique of democratic government. Benjamin Constant, *Political Writings* (Cambridge: Cambridge University Press, 1988). Translation from German into English by author.

4 Viktor Vanberg, ‘Ordnungspolitik, The Freiburg School and the Reason of Rules’, *Diskussionspapiere zur Ordnungsökonomie*, No. 1 (2014), p. 7.

## INTRODUCTION

The title of the article contains two seeming paradoxes. First, it contends that the liberal state is a strong state. This is not a common view. Not only the popular literature but also contemporary political philosophy view the neoliberal state as a weak state.<sup>5</sup> The second paradox derives from the connection between crisis, a strong state and a free economy. The contemporary view holds that economic crises herald the return of the state as an alternative source of social organisation, replacing the market as the predominant force.<sup>6</sup> For the ordoliberalists, however, the economy has no independent existence. Rather, economy is political economy. They thus conceive of a free economy as a practice of government.

The main body of the essay expounds the analytical meaning of the contention that a free economy amounts to a political practice of the strong state. The three quotations at the start of the essay frame the analytical focus and direction of the argument.<sup>7</sup> The conclusion explores the consequences of the contention about a free economy and a strong state for the understanding of economic crises.

## ON THE POLITICAL FORM OF LIBERTY

The view that neoliberalism calls for a weak state derives from its demand for a limited state. This notion is usually taken to mean that the state is literally 'limited', that is, disempowered and thus weak in relation to the logic of the market.<sup>8</sup> Yet, for

5 See for example, Jürgen Habermas, *The Crisis of the European Union* (Cambridge: Polity Press, 2012). The idea of the liberal state as a weak night-watchman state is entirely at odds with neoliberal doctrine, as was pointed out already by Gamble in the late 1970s. Andrew Gamble, 'The Free Economy and the Strong State', *Socialist Register* (London: Merlin Press, 1979), pp. 1–25. See also Simon Clarke, 'The Neoliberal Theory of Society', in Alfredo Saad-Filho and Deborah Johnston (eds.) *Neoliberalism: A Critical Reader* (London: Pluto, 2005), pp. 50–59.

6 See, for example, Elmar Altvater, *Die Rückkehr des Staates? Nach der Finanzkrise* (Hamburg: VSA, 2010). The circumstance that the 'return of the state' amounted to a politics of financial socialism – one that socialises the financial losses and balances the books by political austerity – is attributed to the entrenchment of neoliberal ideas in the corridors of power. See, for example, Mark Blyth, *Austerity: The History of a Dangerous Idea* (Oxford: Oxford University Press, 2013).

7 Ordoliberal thinking emerged in the context of the – ultimately mortal – crisis of the Weimar Republic. It asked what is necessary to rediscover and maintain a free economy at a time of a profound crisis of an entire political economy. For accounts that trace its historical context and theoretical trajectory see, Dieter Haselbach, *Autoritärer Liberalismus und Soziale Marktwirtschaft* (Baden-Baden: Nomos, 1991); Keith Tribe, *Strategies of Economic Order: German Economic Discourse, 1750–1950* (Cambridge: Cambridge University Press, 1995). Ralf Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft* (Berlin: Springer, 2013). Werner Bonefeld, 'Freedom and the Strong State: On German Ordoliberalism', *New Political Economy*, Vol. 17, No. 5, (2012), pp. 633–656. Anthony Nicholls' *Freedom with Responsibility* (Oxford: Oxford University Press, 1994) though remarkably uncritical in its interpretation of ordoliberal thought, offers nevertheless an insightful account of the emergence of ordoliberalism in the context of the Weimar Republic and its influence in post-war West-Germany.

8 The term 'neoliberalism' was coined by Alexander Rüstow in 1938 during discussions at the Colloque Walter Lippmann, which was transformed later into the Mont Pelerin Society – the apparent birthplace of neoliberalism. In Rüstow's definition of 'neo'-liberalism, a free economy amounts to a political practice of government. On Rüstow's elucidation of neoliberalism, see Philip Mirowski and Dieter Phlewe, 'The Road from Mont Pelerin – The Making of the Neoliberal Thought Collective', in Philip Mirowski and Dieter Phlewe eds., *The Road from Mont Pelerin* (Cambridge, MA: Harvard University Press, 2009), p. 13. See also Benjamin Jackson, 'At the Origins of Neo-Liberalism: The Free Economy and the Strong State, 1930–1947', *The Historical Journal*,

the ordoliberal argument, only a strong state is able to limit itself, and the strong state is therefore a limited state and, conversely, the limited state is the strong state. Its task is to enable and facilitate free economy as a rule-based system of non-coerced market exchanges between competing economic agents each seeking to maximise their utility in response to free price movements. For the sake of liberty the establishment of a rules-based system of law is an absolute requirement of economic order. The invisible hand that is said to coordinate the individual preferences in free market economies does not constitute an economic order – in fact, if left to its own devices, it is said to destroy the very preconditions upon which its magic of socio-economic regulation rests. Regulation by means of the invisible hand is premised on the existence of a comprehensive liberal order, comprising not only a socio-economic order but, also, a moral order that governs the mentality of society in the form of an enterprise society. Order is not an economic product. Rather, it is a political practice that encompasses both the force of law preserving violence and the rule of law that governs an established social order.<sup>9</sup>

The strong state is the political form of a free economy. In contrast, the weak state is the Achilles-heel of a free economy. It is unable to defend itself from the preying social interests and as a consequence loses its “independence” from society. It succumbs to the “attacks of pressure groups...monopolies and...unionised workers”.<sup>10</sup> Instead of governing over them, they govern through the state, and in this way tend to transform the state into a “self-serving unlimited-liability insurance company, in the business of insuring all social interests at all time against every conceivable risk”, from the cradle to the grave.<sup>11</sup> The weak state is unable to set limits to the contesting social forces and thus fails to depoliticise the socio-economic relations on the basis of a rule-based system of market interaction. Ultimately, the weak state is unable to distinguish itself from society, leading to the potentially ruinous politicisation and collapse of a free market society. Instead of governing over society to maintain and achieve the further progress of what Adam Smith called the system of perfect liberty, the state is “being pulled apart by greedy self-seekers. Each of them takes out a piece of the state’s power for himself and exploits it for its own purposes... This phenomenon can best be described by a term used by Carl Schmitt – ‘pluralism’. Indeed, it represents a pluralism of the worst possible kind. The motto for this mentality seems to be the ‘role of the state as a suitable prey’”.<sup>12</sup>

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vol. 53, no. 1 (2010), pp. 129–151.

- 9 For a discussion on the innate connection between the force of law and the rule of law, see Walter Benjamin, ‘Critique of Violence’, in *Reflections*, edited by Peter Demetz (New York: Schocken Books, 1986) and Carl Schmitt, *Concept of the Political* (Chicago: University of Chicago Press, 1996). The difference between Benjamin’s and Schmitt’s conception of the relationship between law and violence stems from their divergent approach to the existing social relations, the one critical in his conception of reality, the other analytical in his defence of the existent political reality. Schmitt’s was a regular point of reference for the emergent ordoliberal account of political economy in the late 1920s/early 1930s. See Haselbach, *op. cit.*; Renato Cristi, *Authoritarian Liberalism* (Cardiff: Wales University Press, 1998), and Lutz A. Benthin, *Johannes Popitz und Carl Schmitt* (München: Beck, 1972).
- 10 Alexander Rüstow, ‘General Social Laws of the Economic Disintegration and Possibilities of Reconstruction’, Afterword to Wilhelm Röpke, *International Economic Disintegration* (London: Hodge, 1942), p. 276.
- 11 The argument about the state as an insurance company quotes from King’s diagnosis of the 1970’s crisis of the (British) state as a crisis of ungovernability. Anthony King, ‘The Problem of Overload’, in Anthony King (ed.), *Why is Britain Harder to Govern* (London: BBC Books, 1976), p. 12.
- 12 Alexander Rüstow, ‘Die staatspolitischen Voraussetzungen des wirtschaftspolitischen Liberalismus’, in Alexander Rüstow, *Rede und Antwort* (Ludwigsburg: Hoch, 1932/1963), p. 255. Translation from German into English by author.

For the sake of liberty, what is therefore needed is a state that “governs, that is, a strong state, a state standing where it belonged, above the economy and above the interest groups”.<sup>13</sup> Only a strong state can distinguish itself from society. It prevents government from becoming the ‘prey’ of the many contradictory rent-seeking social interests. Instead, by establishing itself as the independent power over society, it governs for the sake of a liberal economic constitution and the associated rules of social conduct, laws of economic engagement, and generalised forms of civility. The idea of a free economy entails that production and distribution are regulated through competitive exchanges, mediated by money. This regulation is achieved where there is ‘perfect liberty’; where, in other words, a free economy is not impeded by the assertion of private economic power and powerful social forces. The free economy does not create the conditions of liberty upon which it feasts with often destructive consequences. In the ordoliberal account, its constitution and maintenance is a matter of government. The strong state governs for a free economy whereas the weak state succumbs to competing social forces and is devoured by them, leading, they say, to economic chaos.

For the ordoliberals, liberalism has always to focus on the “whole”, and this whole “is the state”.<sup>14</sup> For the sake of a free economy, the distinction between society and state is not negotiable. On the threat of ‘ungovernability’, the liberal rule of law can therefore not be subjected to shifting democratic parliamentary majorities. Society is either governed by the liberal rule of law or it is governed by the democratic principle of majority rule.<sup>15</sup> If indeed there has to be democracy, it must therefore be “hedged in by such limitations and safeguards as will prevent liberalism being devoured by democracy. Mass man fights against liberal-democracy in order to replace it by illiberal democracy”, which is unlimited in its response to the competing social forces and contesting class interests, leading to the politicisation of the economy, if unchecked.<sup>16</sup> The ordoliberal state does not allow itself to become “the target of special-interests rent seeking” be it as a consequence of the unlimited character of democracy or political assertion of interests groups.<sup>17</sup> Rather, it establishes itself as the independent power of depoliticised socio-economic relations. The strong state therefore does not contradict the idea of a free economy. Rather, it is the political power of a free economy in which economic activity takes the form of voluntary exchanges between formally free and equal economic agents, each seeking to maximise their utility whatever their specific purposes might be – profit, rent, or wage-based access to the means of subsistence.

Ordoliberalism therefore does not define the state in relationship to the economic nor is the economic defined in relationship to the state, a view which implies a conception of market and state as two distinct modes of social organisation. The perennial question about such a conception is whether the market has autonomy

13 *Ibid.*, p. 258.

14 Wilhelm Röpke, *International Order and Economic Integration* (Dordrecht: Reidel, 1959), p. 45.

15 Friedrich Hayek explores this distinction with unrelenting passion, particularly in his *The Road to Serfdom* (London: Routledge, 1944). Hayek was a post-war addition to the ordoliberal Freiburg School. His *Road to Serfdom* is in parts a fine résumé of ordoliberal ideas. Herman Finer’s riposte to Hayek, *The Road to Reaction* (London: Little, Brown, 1945), is not only insightful in its judgment. It has also been long forgotten. For Hayek, democracy has to be tied to liberal state purposes to secure the constitution of liberty in the action of economic agents.

16 Wilhelm Röpke, *Against the Tide* (Vienna: Ludwig von Mises Institute, 1969), p. 97.

17 Vanberg, *op. cit.*, p. 7.

vis-à-vis the state, or the state vis-à-vis the market, leading to arguments about the ‘retreat’ or the ‘return’ of the state as actor.<sup>18</sup> Rather, ordoliberalism conceives of the state as the concentrated force of a society, which in its concept contains both “greedy self-seekers” (Rüstow) and a “tendency towards proletarianisation” (Röpke).<sup>19</sup> In the first case, if unfettered by the restraining power of the state, the society of “greedy self-seekers” is said to destroy the “ethical and social forces of coherence” of a free economy.<sup>20</sup> In the second case, the class tied to work “might systematically do poorly”, and might therefore struggle for higher wages and full-employment at the expense of a free economy.<sup>21</sup> They dismiss the redistribution of wealth as violating the principle of a free economy and reject a policy of full-employment as contrary to its logic. Rather than solving the problem presented by quarrelsome workers, it would stall economic development, creating unemployment. The struggle between the traders in labour power, the one buying the other selling, is innate to the concept of a free labour economy. In the words of Adam Smith, “wages depend upon contract between two parties whose interests are not the same”. That is, the “workmen desire to get a lot, the master to give as little as possible. The former are disposed to combine to raise, the latter to lower the wages of labour”.<sup>22</sup> Within this zone of conflict, ordoliberalism declares for the strong state as “the guardian of enterprise”.<sup>23</sup> The moral basis of this argument is ‘humanity’, understood abstractly as ‘competition’. Without competition, “man [is] not a human being”.<sup>24</sup> Nevertheless, competition does “neither improve the morals of individuals nor assist social integration” and, if unrestrained, society will descend into “bloodshed and disorder”.<sup>25</sup> The ordoliberal theme of the strong state entails therefore more than just “policing the *market* order” by means of a “central authority strong enough to maintain formal exchange equality between all economic agents”.<sup>26</sup> It also means, and fundamentally so, the policing of the *social* order and establishment of a moral order that secures the “psychomoral forces” at the disposal of a capitalist society.<sup>27</sup> For the sake of ‘humanity’, society needs to be ordered so that its freedom is not misused, as prices can be fixed,

18 On the alleged retreat of the state in so-called neoliberal globalisation see, for example, Susan Strange, *The Retreat of the State* (Cambridge: Cambridge University Press, 1996). On the apparent return of the state in the context of the crisis of 2007 see, Altvater, *op. cit.* For a critique see, Werner Bonefeld, ‘Free Economy and Strong State’, *Capital & Class*, Vol. 34, No. 1 (2010), pp. 15–24; and Werner Bonefeld, ‘Global Capital, National State, and the International’, *Critique: Journal of Socialist Theory*, Vol. 36, No. 1 (2008), pp. 63–72.

19 Rüstow, *op. cit.*, p. 255; Wilhelm Röpke, *The Social Crisis of Our Time* (New Brunswick: Transaction Publishers, 2009), p. 218.

20 Rüstow, *op. cit.*, p. 255.

21 Victor Vanberg, “‘Ordnungstheorie’ as Constitutional Economics. The German Conception of a “Social Market Economy””, *Ordo*, Vol. 39 (1988), p. 26.

22 Smith, *Wealth of Nations...*, *op. cit.*, p. 83. On the connection between Smith’s classical political economy and ordoliberal thought see, Werner Bonefeld, ‘Adam Smith and Ordoliberalism’, *Review of International Studies*, vol. 39, no. 2 (2013), pp. 233–250.

23 Victor Vanberg, *The Constitution of Markets* (London: Routledge, 2001), p. 50.

24 Walter Eucken, ‘What kind of Economic and Social System?’ in Alan Peacock and Hans Willgerodt (eds.), *German Neo-Liberals and the Social Market Economy* (London: Macmillan, 1989), p. 34.

25 Adam Smith, *The Theory of Moral Sentiments* (Indianapolis: Liberty Trust, 1976), p. 340. Wilhelm Röpke, ‘The Guiding Principles of the Liberal Programme’, in Hans F. Wunsche (ed.), *Standard Texts on the Social Market Economy* (Stuttgart: Fischer, 1982), p. 188.

26 Andrew Gamble, *The Free Economy and the Strong State* (London: Palgrave, 1988), p. 37. Emphasis added by author.

27 Wilhelm Röpke, *International Economic Disintegration* (London: Hodge, 1942), p. 68. Müller-Armack speaks in this context of the need to incorporate competitiveness ‘into a total life-style’. Alfred Müller-Armack, ‘The Social Market Economy as an Economic and Social Order’, *Review of Social Economy*, Vol. 36, No. 3 (1978), p. 328.

markets carved up, competitive adjustment avoided by means of protectionism and manipulation of monetary policy, and money can beget more money by mortgaging future profits, and workers can strike, the masses can revolt, and a proletarianised society can force the state to concede welfare. Just as Hobbesian man requires the Leviathan to sustain her fundamental sociability, competitive humanity requires a strong state authority to assure its orderly conduct.

I have thus far presented the ordoliberal argument that in a free labour economy the pursuit of liberty presumes government to “prevent coercion of one individual by another”, enforce contracts that have been “voluntary entered into”, define “the meaning of property rights”, and interpret and enforce these “rights”. In addition, ordoliberalism argues that a free labour economy presumes the state to be an independent power of society that “promotes competition” in the face of quarrelsome workers and reluctant captains of industry who might be inclined to secure their interests by, say, monopoly pricing or other means of protection from the “heavy artillery of world market price”, avoiding competitive adjustment by improving the “cheapness of provision” by means of higher labour productivity. The economic activity in the form of voluntary exchanges presumes also that the state provides for the market what the market “cannot do for itself”. The state, then, is “essential both as a forum for determining the ‘rules of the game’ and as an umpire to interpret and enforce the rules decided upon”, and enforcement is necessary “on the part of those few who would otherwise not play the game”.<sup>28</sup> That is, the political state does not compete with the invisible hand of the market. Rather, it depoliticises the social relations to achieve a law governed exchange society and in this manner it facilitates the operation of the invisible hand, which depends for its magic on unimpeded, entirely non-coerced and non-contested socio-economic relations, comprising social individuals as self-responsible entrepreneurs who more than just complying with the rules of the game do so willingly on the basis of their own initiative.

Laissez-faire is a category of economic order, one in which the economic agents compete with others on the basis of rule-governed exchange relations. It is therefore not a political category that applies to the character of the state and the conduct of public policy. Indeed, laissez-faire is not only “a highly ambiguous and misleading description of the principles on which a liberal policy is based”.<sup>29</sup> It is also a dangerous idea if it is allowed to organise society as a whole. Competition is “not a principle on which the whole society can be built. From the sociological and moral point of view, it is even dangerous because it tends more to dissolve than to unite. If competition is not to have the effect of a social explosive and is at the same time not to degenerate, its premise will be a correspondingly sound political and moral framework”.<sup>30</sup> For

28 With the exception of the ‘heavy artillery of world market price’ and ‘cheapness of provision’, all quotations are from Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 27, 34, 15, 25. Friedman’s liberalism commits to the ordoliberal principle of a rule-based system of economic freedom. For the sake of that freedom, he supported and advised the Pinochet dictatorship, which in the words of Hayek was ‘genuinely anxious to restore’ free economy. Hayek, quoted in Cristi, *op. cit.*, p. 168. The reference to ‘heavy artillery...’ is Marx’s, Karl Marx and Friedrich Engels, *The Communist Manifesto* (Oxford: Oxford University Press, 2008), p. 7. The phrase ‘cheapness of provision’ was coined by Adam Smith. In his view, the necessity of its achievement ‘produces what we call police’. Adam Smith, *Lectures of Jurisprudence* (Oxford: Oxford University Press, 1978), pp. 5, 6. On the meaning of a free labour economy see, Werner Bonefeld, ‘Primitive Accumulation and Capitalist Accumulation’, *Science and Society*, Vol. 75, No. 3 (2011), pp. 379–399.

29 Hayek, *Road to Serfdom*, *op. cit.*, p. 84.

30 Röpke, *The Social Crisis...*, *op. cit.*, p. 181.

the sake of laissez faire as the principle of economic freedom, it can therefore not be a principle of political organisation and policy-making. Laissez faire is no “answer to riots”.<sup>31</sup> It is neither an answer “to the hungry hordes of vested interests”<sup>32</sup> nor to an unlimited mass democracy that does not know how to limit itself to the pursuit of a free economy.<sup>33</sup> The viability of a free labour economy is a political matter. That is, and as Martin Wolf argued in a different context, a free economy cannot be built on “pious aspirations”. It rests on “organized coercive force”.<sup>34</sup>

Liberalism does therefore not demand “weakness from the state, but only freedom for economic development under state protection”, to prevent “coercion and violence”.<sup>35</sup> What is protected by the state is not independent of the state. On the contrary, its independence is an eminently political practice of government that is charged with achieving the “complete eradication of all orderlessness [Ordnungslosigkeit] from markets and the elimination of private power from the economy”.<sup>36</sup> The economic order of freedom is a depoliticised order, that is, it is a state-less sphere under state protection. Paraphrasing Franz Böhm, the state-less sphere of the free economy amounts to a political practice of ‘eradicating disorder’ from the economy. Order is a political category of economic constitution. The state therefore really is “the mistress of the economy in its totality as in its parts...and the state must master the whole of economic development both intellectually and materially”.<sup>37</sup> The political state of free economy does not therefore tolerate private political power, which impedes the operation of the free price mechanism and thus prevents the magic of the invisible hand from taking hold. Anticipating the concluding argument, economic crisis is a consequence of such disorder to the operation of the free price mechanism, for which the invisible hand cannot be blamed. Its efficacy of economic regulation was in disarray because of weak government. The state, then, must plan for liberty and competition. In Thomas Balogh’s succinct characterisation of ordoliberalism, it amounts to an attempt at planning “by the free mechanism”.<sup>38</sup> The meaning of the ordoliberal conception of the strong state lies in this construction of a ruled-based system of economic freedom.

Ordoliberalism thus recognises the primacy of economic freedom as a political responsibility. The economic sphere and the political sphere need to be conceived together interdependently and have to operate interdependently to maintain the

31 Hans Willgerod and Alan Peacock (1989), ‘German Liberalism and Economic Revival’, in Alan Peacock and Hans Willgerodt, *op. cit.*, p. 6.

32 Röpke, *op. cit.*, p. 181.

33 Hayek, cited in Cristi, *op. cit.*, p. 168.

34 Martin Wolf, ‘The need for a new imperialism’, *Financial Times*, 10 October 2001.

35 Friedrich Hayek, *A Tiger by the Tail* (London: London Institute of Economic Affairs, 1972), p. 66.

36 Franz Böhm, *Ordnung der Wirtschaft* (Berlin: Kohlhammer, 1937), p. 150. Translation from German into English by author.

37 *Ibid.*, p. 10. In a later publication Böhm makes the same point when he argued that free economy required the ‘etatisation of society’ to secure the responsible pursuit of freedom on the part of the economic agents, preventing the illiberal misuse of freedom by social forces. Böhm contrasts ‘etatisation’ as a force of freedom with the ‘socialisation’ of the state by the preying social forces, which in the form of the Keynesian welfare state, institutionalises ‘special interest rent seeking’ (Vanberg) as the *raison d’être* of the weak state. Franz Böhm, *Reden und Schriften* (Karlsruhe: C.F. Müller, 1969), p. 171. Translation from German into English by author.

38 Thomas Balogh, *An Experiment in ‘Planning’ by the ‘Free’ Price Mechanism* (Oxford: Basil Blackwell), 1950. Balogh was an important Keynesian economist and advisor to the British Labour Party during the 1950s and 1960s. Cerny’s definition of the liberal state as a ‘competition state’ captures the meaning of this conception well. Phil Cerny, *The Changing Architecture of Politics* (London: Sage, 1990).



system of liberty as a whole.<sup>39</sup> There is thus need for coordinating the economic, social, moral and political spheres, to achieve and maintain systemic cohesion. The organisational centre of a free labour economy is the state; it is the power of interdependence and the force of liberal coherence. The economic constitution of liberty amounts therefore not only to “an *eminently political decision*” but, also, to a constant political practice of government.<sup>40</sup> Its success appears in the form of a functioning market system in which the economic agents respond to price signals in the civilised and entirely self-responsible manner of the entrepreneur who adjusts his or her utility calculations to the signals of the free price mechanism.

The price mechanism operates akin to a “calculating machine”. It informs consumers and producers alike of the degree of scarcity in the whole economy. As such a “scarcity gauge”, it sustains the “automatic”, that is, non-coerced coordination and balancing of the interests of millions and millions of people.<sup>41</sup> Ostensibly each individual partakes in a continuous consumer plebiscite that manifests the veritable democracy of supply and demand. Nevertheless, this rule-based system of economic regulation does not enact itself by force of its own innate automaticity. It depends in its entirety on “the will of the participants” to follow the movement of prices and not “to rebel against that movement” as self-seeking profiteers or welfare seeking proletarians.<sup>42</sup> For the ordoliberals, then, the strong state is the limited state. It secures “the possibility of spontaneous action” in the behaviour of the economic agents by limiting itself to “the organisation of the market” as the sphere of a state-less freedom, which, unimpeded by powerful socio-economic interests, is solely regulated by the preference calculations of the free price mechanism.<sup>43</sup> Ordoliberal political economy proclaims thus for the establishment of an economic constitution in which the acting economic agents “come under a regime of imposed liberty”.<sup>44</sup> That is, the viability of an economy that is governed by supply and demands derives from a practice of power that is ‘beyond supply and demand’.<sup>45</sup> Indeed, the attainment of the moral sentiments of enterprise and the achievement of a free-market order are more important than GDP inasmuch as GDP neither breeds the moral sentiments nor provides for liberty for that that socio-economic order, upon which it feeds. Laissez-faire is a function of a well-ordered commonwealth and as such it amounts to a political practice of empowered liberty. For the ordoliberals, the strong state is the political form of the economic principle of laissez-faire. Eucken therefore argues for an interdependency of orders, that is, the logic of the strong liberal state is the interdependent condition and premise of the logic of the free market.<sup>46</sup>

39 Interdependency is Eucken’s term. Walter Eucken, *Grundsätze der Wirtschaftspolitik*, 7<sup>th</sup> edition (Tübingen: Mohr Siebert, 2004).

40 Franz Böhm, ‘Die Kampfansage an Ordnungstheorie und Ordnungspolitik. Zu einem Aufstaz im Kyklos’, *Ordo*, vol. 24 (1973), p. 39. Böhm’s essay is a reply to a Hajo Riese’s ‘Ordnungsidee und Ordnungspolitik: Kritik einer wirtschaftspolitischen Konzeption’, *Kyklos* vol. 25, no. 1 (1972). Riese is a prominent Keynesian thinker, specialising in Keynesian monetary policy. Translation from German into English by author.

41 Eucken, ‘What kind...’, *op. cit.*, pp. 28, 29.

42 Böhm, *Ordnung...*, *op. cit.*, p. 11.

43 Eucken, *Ibid.*, pp. 34, 45 fn 1, 34.

44 Christoph Engel, ‘Imposed Liberty and its Limits’, in Talia Einhorn, ed., *Spontaneous Order; Organization and the Law* (The Hague: Asser Press, 2003), p. 431.

45 Wilhelm Röpke, *A Human Economy*, 3<sup>rd</sup> ed. (Wilmington Delaware: ISI Books, 1998). The German title of his book is *Jenseits von Angebot und Nachfrage* (Zürich: Rentsch, 1958), that is, *Beyond Supply and Demand*. The German title focuses the locus of market integration on its political form, the form of the state, whereas the English title, *A Humane Economy*, focuses the liberal objective of state intervention.

46 Michel Foucault, *Biopower* (London: Palgrave, 2008) disagrees. He views the logic of the state as a logic

## CONCLUSION: ECONOMIC CRISIS AND POLITICAL INTERVENTION

The article started with the observation that its title contains two paradoxes, one of which I have set out above. The second paradox derives from the political character of the system of liberty. In the ordoliberal account, a free economy and a strong state constitute an interdependent relationship, in which the state is the concentrated force of the system of liberty. Since economy has no independent existence, there can thus not be an economic crisis. Crises are crises of political economy. That is, the state really is the “planner for competition”, and an economic crisis therefore manifests a failure of economic planning. The state seemingly failed in its role as “market police”.<sup>47</sup> For the ordoliberals, competition is thus a limited concept – its efficacy does not manifest itself by force of its own logic. In fact, left to its own devices competition is not a creative force; it is entirely destructive of its socio-economic preconditions. Competition and therewith regulation by the invisible hand, is the indispensable instrument of freedom - in the economic sphere. Competition “appeals...solely to selfishness” and selfishness greases the machinery of a free economy, in which labour is neither enslaved nor coerced but free.<sup>48</sup> However, it neither integrates society nor creates a system of rules that recognise property rights, nor does it define the common attitudes, beliefs, and values that render society civil, nor does it know how to restrain and limit itself to the pursuit of liberty. The natural tendency of competition is towards either cut-throat competition or monopoly. Its liberal efficacy is therefore a function of careful political planning to restrain its nature on the basis of enabling rules. The sociability of the unsocial character of competition depends thus on the provision of a “robust political-legal-ethical-institutional framework”, which on the pain of ruin cannot be subject to unpredictable democratic majorities.<sup>49</sup>

The veracity of the free economy is thus premised on the capacity of government to secure the appropriate order of freedom. The issue is not whether the state should or should not intervene. Rather, the issue is the purpose and method, the objective and aim of state intervention. The ordoliberal state ‘intervenes’ not for specific social ends. It ‘intervenes’ into the “economic sphere” and the “non-economic spheres” to secure the economic, social and ethical conditions upon which “efficiency competition” rests.<sup>50</sup> Free markets thus become ‘inefficient’ and crisis-ridden not because of some innate economic logic. Rather, an economic crisis expresses a failure of political intervention, which either failed to curb the concentration of economic power or restrain excess competition, or failed to prevent proletarianisation or

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against the market. In contrast to Foucault, the logic of the market and the logic of the state are not opposed to each other. They are interdependent, and their interaction determines the functionality of the entire system of a political economy based on free labour. See also Keith Tribe, ‘The Political Economy of Modernity: Foucault’s Collège de France Lectures of 1978 and 1979’, *Economy and Society*, Vol. 38, No. 4 (2009), pp. 679–698.

47 On the state as ‘police’, see Adam Smith, *Lectures...*, *op. cit.*, p. 5. On ‘market police’, see Rüstow, ‘General Social Laws...’ *op. cit.*, p. 289. The definition of the state as a ‘planner for competition’ is Hayek’s. Hayek, *Road...*, *op. cit.*, p. 31.

48 Rüstow, ‘General Social Laws...’ *op. cit.*, p. 272.

49 Wilhelm Röpke, *Mass und Mitte* (Zürich: Rentsch, 1950), p. 143. Translation from German into English by author.

50 Alfred Müller-Armack, ‘Thirty Years of Social Market Economy’, in Josef Thesing (ed.), *Economy and Development* (Mainz: Hase und Köhler, 1979), p. 147. Röpke, *International...*, *op. cit.*, p. 68, speaks in this context about the responsibility of the state to secure the ‘psycho-moral’ forces of enterprise.

“special interest rent-seeking”. “The problem”, says Eucken, “of economic power can never be solved by further concentration of power, in the form of cartels or monopolies”, including trades union monopoly power on labour markets. This form of private power prevents competition and destroys the freedom of enterprise. The solution to the problem of economic power can therefore not be found in “a policy of laissez-faire which permits misuse of the freedom of contract to destroy freedom”. Therefore, the “problem of economic power can only be solved by an intelligent co-ordination of all economic and legal policy... Any single measure of economic policy should, if it is to be successful, be regarded as part of a policy designed and to establish and maintain economic order as a whole”.<sup>51</sup> Economic experts, rather than democratic parliamentary majorities, are therefore said to be best placed to safeguard efficiency competition either by advising government on the conduct of policy or, one might add, by assuming direct responsibility for the making of economic policy, especially monetary policy by an independent central bank.<sup>52</sup>

Since efficacy of free economy depends on a policy of laissez-faire, one should therefore “not speak of a ‘crisis of capitalism’ but of a ‘crisis of interventionism’”.<sup>53</sup> Government turned a blind eye to the problems of economy, society, morality, and democracy. It failed either in removing impediments to market freedom or in restraining the passions of competition or greed, or it failed in securing the ‘cheapness of provision’ by means of increased labour productivity, or it failed in embedding the spirit of enterprise into society at large, or it compounded a poverty of aspirations by a permissive welfare state, or it turned a blind eye to the rapacity of the poor, or it failed in the provision of sound monetary conditions, or it failed in the enforcement of antitrust and anti-monopoly legislation, etc.<sup>54</sup> The ‘failure’ of the state is a failure of the independent power of a free economy. Government is not supposed to yield to demands that seek ‘freedom from want’ or ‘value for nothing’. It is not meant to turn a blind eye to the assertion of private power in the form of monopolies or cartels, nor is it meant to let itself be bullied by the private interests that seek either protection from market pressures or unrestrained market opportunities, nor is it meant to abandon liberal principles of economic constitution to mass democratic demands and aspiration, and trade union power.

The notion that economic crises are in fact crises of political intervention elucidates the liberal paradox that the state always governs too much and too little, regulates too much and too little, restrains competition too much and too little. The market liberal idea that uninhibited market forces are the only remedy to resolving

51 Walter Eucken, *This Unsuccessful Age* (London: Hodge, 1951), pp. 37, 36, 54.

52 That is, ‘economic constitution must be understood as a general political decision as to how the economic life of the nations is to be structured’, and ‘[m]en of science by virtue of their profession and position being independent of economic interests, are the only objective, independent advisers capable of providing true insight into the intricate interrelations of economic activity and therefore also providing the basis upon which economic judgements can be made’. Franz Böhm, Walter Eucken, and Hans Grossmann-Doerth, ‘The Ordo Manifesto of 1936’, in Peacock and Willgerodt, *op. cit.*, pp. 24, 15. On central bank independence, see Werner Bonefeld and Peter Burnham, ‘The politics of counter-inflationary credibility in Britain, 1990–1994’, *Review of Radical Political Economics*, Vol. 30, No. 1 (1998), pp. 30–52. Eucken, *Grundsätze ...*, *op. cit.*, provides an exhaustive discussion of economic policy instruments, from antitrust regulation to contract law, and rules of liability etc. Werner Bonefeld, ‘Human economy and social policy’, *History of Human Sciences*, vol. 26, no. 2 (2013), pp. 106–125, explores the social policy instruments.

53 Wilhelm Röpke, *Crisis and Cycles* (London: Hodge, 1936), p. 160.

54 For a more detailed exposition, see Werner Bonefeld, *Critical Theory and the Critique of Political Economy* (London: Bloomsbury, 2014), chaps. 7 and 8. In the context of the crisis of 2008, see also Greig Charnock, Thomas Purcell, and Ramon Ribera-Fuma, *The Limits to Capital in Spain* (London: Palgrave, 2014).

economic crisis is thus deceitful. Uninhibited markets describe a political practice of eliminating impediments to free economy. Similarly, the idea that market failure is a consequence of too little or too much regulation is deceitful in that it identifies the cause of crises in the adopted means of political regulation, as if a free labour economy is susceptible to crisis only when the state falls short in its role as market police. A free economy is not a system of political engineering. Nevertheless, in either case, the state is endorsed as the indispensable power and crucial force of a free labour economy.

I have argued that ordoliberalism amounts to a statement about the political character of a free labour economy. For the sake of economic liberty, it recognises that the state cannot have enough power. The demand for the strong state is a demand for an effective market police.