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## Abstract

In the context of the contemporary crisis of neoliberal political economy, the politics of austerity has reasserted the liberal utility of the state as the political authority of market freedom. The paper argues that economy has no independent existence, and that instead, economy is a political practice. It examines the political economy of Adam Smith and the German ordoliberal tradition to decipher the character of the political in political economy and its transformation from Smith's liberal theory into neoliberal theology. Ordoliberalism emerged in the late 1920s at a time of a manifest crisis of political economy, and its argument was fundamental for the development of the neoliberal conception that free economy is matter of strong state authority. The conclusion argues with Marx that the state is the concentrated force of free economy.

## Keywords:

Adam Smith, Ordoliberalism, Neoliberalism, Free Economy, Strong State, Crisis of Economy

## Title:

Adam Smith and Ordoliberalism: On the Political Form of Market Liberty

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## Introduction

As Chancellor of the Exchequer, Gordon Brown proclaimed to have found the real Smith, whom he sought to wrest from the clutches of the political right. According to Brown, the real Smith ‘counterposed the invisible hand of the market to the helping hand of government’. In Matthew Watson’s view, Brown got it wrong. He asserts that Smith was ‘suspicious of the interventions of a well-meaning government’ and argued that for Smith the ‘moral critique of excesses of market economy’ was not a matter of government. Instead Watson argues, Smith saw the moral sentiments as a ‘manifestation of the individual’s moral faculties’ and asserts that these are ‘self-tutored’.<sup>2</sup> Watson is right to argue that the Smithean state is not a countervailing power to the invisible hand and wrong to assert that Smith was suspicious of state intervention. I argue that for Smith, market freedom not only presupposes the political state. It is in fact premised on the state as its political authority. Adam Smith provided a political economy. The question of political economy is therefore not whether the state intervenes or not.<sup>3</sup> Rather the question is about the purpose and method of intervention. I argue that for Smith, the state is the political form of the invisible hand. That is, the economy has no independent existence. Rather, it is a practice of government. In distinction to Watson, this practice extends to the facilitation of the moral sentiments as the ethical framework that of a society governed by the free price mechanism, seeking to hold it together.<sup>4</sup>

The understanding of market liberty as a political practice is core to the ordoliberal tradition that emerged in the Germany of the late 1920s as a distinct account about how to reassert capitalist rationality in the face of a manifest crisis of a whole political economy. It was the first serious attempt at formulating a comprehensive market liberal response to the socialist challenges to free economy amidst the turmoil of the late 1920s. It saw itself as developing a new liberalism, which they called ‘neoliberalism’ in distinction to laissez faire liberalism and statist conceptions of political economy<sup>5</sup>. Their account became known later as the Freiburg

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<sup>2</sup> Gordon Brown, ‘State and Market: Towards a Public Interest Test’, *Political Quarterly*, 74:3 (2003), pp. 266-284, p. 267. Matthew Watson, ‘Socialised Sympathy?’ Paper presented at the Annual Conference of the Political Studies Association, Swansea (2008), pp. 3, 2, 2.

<sup>3</sup> Andrew Skinner’s introduction to the Penguin edition of the *Wealth of Nations* concludes on Smith’s theory of the state but does not expound on its indispensability as the executive power of liberty. Skinner, ‘Introduction to the Penguin edition of The Wealth of Nations’, in Adam Smith, *The Wealth of Nations* (London: Penguin, 1999). Simon Clarke’s account develops Smith’s state theory in an insightful manner arguing that ‘the purpose of Smith’s analysis of the economic system was to define the proper role of the state’. Clarke, *Keynesianism, Monetarism and the Crisis of the State* (Aldershot: Edward Elgar, 1988), p. 39. See also his *Marx, Marginalism and Modern Sociology* (London: Palgrave, 1992). The paper agrees with this up to a point. It argues that the political state is the historical and also analytical presupposition of the system of perfect liberty.

<sup>4</sup> See also Pierre Force, *Self-Interest Before Adam Smith* (Cambridge: CUP, 2003) and Yerry Evensky, *Adam Smith’s Moral Philosophy* (Cambridge: CUP, 2005), who argue akin to Watson for the independence of morality as a matter that belongs to individuals alone.

<sup>5</sup> The term ‘neoliberalism’ was coined by Alexander Rüstow in 1938. Rüstow was a founding ordoliberal thinker. See Ralf Ptak, ‘Neoliberalism in Germany’, in Philip Mirowski and Dieter Plehwe, *The Road from Mont Pelerin* (Cambridge: Harvard University Press, 2009).

school of neoliberalism, which in its Anglo-Saxon reception is almost exclusively associated with the work of Friedrich Hayek who joined up with Freiburg after the second world-war and, although most important for disseminating its stance, was not central to its original conception. Ordoliberalism rejects the statist tradition of German economic thought,<sup>6</sup> argued for economic regulation by the free price mechanism,<sup>7</sup> conceived of national economy as a global economy,<sup>8</sup> recognised that free economy presupposes the existence not only of a firm legal framework but also of a robust social and ethical framework,<sup>9</sup> and demanded the strong state as the means of restoring and sustaining free economy<sup>10</sup>. During the second world-war, the ordoliberal founders of Freiburg neoliberalism planned for the liberal re-organising the post-war German economy,<sup>11</sup> and during the 1950s their input into the neoliberal construction of Europe proved decisive.<sup>12</sup> In the late 1970s, Andrew Gamble aptly captured the first wave of neoliberal transformation as a project of free economy and strong state, and with this phrase he traced the political stance of the incoming Thatcher government back to this defining ordoliberal idea.<sup>13</sup> However, ordoliberalism is more than just about the liberal utility of the state as a facilitator of market freedom. It is also an argument about the incorporation of the moral sentiments into the social fabric. This insight was well recognised by Foucault who in his lectures on neoliberal reason in the late 1970s argued, firstly, that Chicago neoliberalism derives from German ordoliberalism<sup>14</sup> and, secondly, that neoliberal reason includes at its core the production of market-conforming personalities by means of what he calls a biopolitics, the modernity of which he developed from the ordoliberal conception of a Vitalpolitik – a politics to secure the vitality of workers as self-responsible entrepreneurs of labour power.<sup>15</sup>

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<sup>6</sup> Keith Tribe, Strategies of Economic Order: German Economic Discourse, 1750-1950 (Cambridge: CUP, 1995).

<sup>7</sup> Thomas Balogh, An Experiment in 'Planning' by the 'Free' Price Mechanism (Oxford: Basil Blackwell, 1950).

<sup>8</sup> Dieter Haselbach, Autoritärer Liberalismus und Soziale Marktwirtschaft (Baden-Baden: Nomos, 1991).

<sup>9</sup> Werner Bonefeld, 'Crisis, Freedom and the Strong State', BISA (2011) annual Conference, Manchester.

<sup>10</sup> Ben Jackson, 'At the Origins of Neo-Liberalism: The Free Economy and the Strong State, 1930-1947'. The Historical Journal, 53:1 (2010), pp. 129-151.

<sup>11</sup> See Anthony Nicholls, Freedom with Responsibility (Oxford: OUP, 1994).

<sup>12</sup> Perry Anderson, 'The Europe to Come', in Peter Gowan and Perry Anderson (eds.), The Question of Europe (London: Verso, 1988), Bernie Moss, 'The European Community as Monetarist Construction', Journal of European Area Studies, 8:2, 2000, pp. 247-265, Werner Bonefeld, 'Europe, The Market and the Transformation of Democracy', Journal of European Area Studies, 13:1, 2005, pp. 93-106.

<sup>13</sup> Andrew Gamble, 'The Free Economy and the Strong State' Socialist Register 1979 (London: Merlin Press). See also Sir Keith Joseph's Freedom and Order (London: Centre for Policy Studies, 1975), which endorses German neoliberalism as the model of market liberal government.

<sup>14</sup> Michel Foucault, Biopolitics (London: Palgrave, 2008). Jamie Peck, Constructions of Neoliberal Reason (Oxford: OUP, 2010) doubts Foucault's claim that Chicago neo-liberalism derives from German ordoliberalism. According to Foucault, Chicago neo-liberalism developed core ordoliberal ideas in its own distinctive deregulatory manner. Friedman's support of, and indeed advisory role in, the Pinochet dictatorship is well known, and does not contradict his market-liberal stance. On this see, Werner Bonefeld, 'Democracy and Dictatorship'. Critique, 34:3 (2006), pp. 237-252.

<sup>15</sup> The publication of Foucault's Biopolitics brought the ordoliberal tradition to wider attention - more often than not as a matter of Foucault studies. For example, Michael Behrent, 'Liberalism without Humanism', Modern Intellectual History 6:3 (2009), pp. 539-568, reports on Foucault's fascination with neoliberalism, arguing that his lectures entail a strategic reorientation from intellectual rebellion to endorsement of economic liberalism. The

Conventionally, contemporary neoliberalism is associated with an unfettered economic system, particularly finance, and it is seen as a political economy of free economy and weak state.<sup>16</sup> This conception of the neoliberal state is held up even when it is argued that it is a powerful enforcer of particularly deregulated and flexible labour markets. Nevertheless, the crisis of 2008 is said to have brought the state back in as the decisive actor, placing regulatory restraints on the economy to resolve economic crisis and restore economy.<sup>17</sup> The resurgence of the state is said to have led ‘a more orderly, restrained form of market rule’,<sup>18</sup> in which the economy is ‘subject to controls’,<sup>19</sup> and it is argued that this reassertion of state power is a clear indication that ordoliberalism is now be ‘back in favour’ as political means of crisis resolution,<sup>20</sup> one that socialises the losses by means of ‘financial socialism’, one that balances the books by a politics of austerity, and one that, as Jesse Norman explains, seeks resolution of the social crisis by putting in place a new moral framework to secure free economy in the self-responsible behaviour of individuals.<sup>21</sup>

I argue that Adam Smith did not provide an economic theory. He analysed the political economy of what he called commercial society, and conceived of the state as its political force. For Smith, the state is the authority that renders viable commercial society by securing its moral, social, legal, and, also, its economic order. The ordoliberals reasserted the political form of free economy as the means of restoring and maintaining liberal economy in the eye of the storm. In this context, the buccaneering neoliberalism of the last two decade is really an exception to neoliberal dogma. That is, laissez-faire really is ‘a highly ambiguous and misleading description of the principles on which a liberal policy is based’.<sup>22</sup> Liberty does not apply in conditions of disorder, and that is, laissez faire is no answer to social disorder,

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circumstance that Foucault lectures illuminate the moral, social, and political presuppositions and ideas of economic liberalism is of no importance to him. In his view neoliberalism merely serves as an illustration of Foucault’s thought processes. Lois McNay, ‘Self as Enterprise’. *Theory, Culture & Society* 26:6 (2009) pp. 55-77, focuses on Foucault’s analysis of ordoliberalism and neoliberalism, but when it comes to the politics gets hung up on resistance to neoliberalism seemingly oblivious to his discussion of ordoliberalism as the foundation of modern neoliberalism. Foucault’s lectures argue that ordoliberalism amounts to an authoritarian liberal project of economic liberty by means of strong state action that seeks prevention of liberal emergencies by means surveillance and transformation of the laws of private property into a character trait.

<sup>16</sup> The weak state is one that retreats in the face of global economic power. See, amongst others, Susanne Strange, *The Retreat of the State* (Cambridge, CUP, 1996). See also the debate in Andreas Bieler, Werner Bonefeld, Peter Burnham, and Adam Morton, *Global Restructuring State . Capital and Labour* (London: Palgrave, 2006).

<sup>17</sup> Ulrich Brandt and Andrea Sekler, ‘Postneoliberalism – catch-word or valuable analytical and political concept?’, *Development Dialogue*, 51 (2009), pp. 5-13, Bob Jessop, ‘The ‘Return’ of the national state in the current crisis of the world market’, *Capital & Class*, 34:1 (2010), pp. 38-43.

<sup>18</sup> Peck, *Constructions of Neoliberal Reason*, p. 275.

<sup>19</sup> Eric Sheppard, E. and Helga Leitner, ‘Quo vadis neoliberalism?’ *Geoforum*, 41 (2010), pp. 185-194, p. 188.

<sup>20</sup> Peck , *Constructions of Neoliberal Reason*, pp. 19, 275.

<sup>21</sup> ‘You can call it’, says David Cameron, ‘liberalism. You can call it empowerment. You can call it freedom. You can call it responsibility. I call it The Big Society’ (cited in *Daily Telegraph*, 21 July, 2011). Jesse Norman, *The Big Society* (London: University of Buckingham Press, 2010).

<sup>22</sup> Friedrich Hayek, *Road to Serfdom* (London: Routledge, 1944) p. 84.

economic meltdown, and moral decay, then and now. Rather, laissez faire is a political practice. What this means is well brought out by Martin Wolf when he argued that the liberalising success of globalisation cannot be built on ‘pious aspirations but [on] honest and organized coercive force’.<sup>23</sup> He does not call for ‘more government and less liberty’. He calls for more liberty by means of organised force.

The paper argues that for the ordoliberal economic regulation by the invisible hand amounts to a constantly renewed authoritative decision for market freedom. The ordoliberal state is an ever watchful state. Although their conception of free economy and strong state does not depart from, in fact, they expound, the Smithean purpose of the liberal state as the political facilitator of the invisible hand, they develop it beyond itself. That is to say, while Smith developed his political economy as a social theory of commercial society, establishing the rational foundations of the liberal state, the neoliberals transformed it into a theology of the strong state. Rather than deriving the veracity of liberty from the development of the division of labour, they assert its veracity as political practice of strong state authority.<sup>24</sup> Liberty thus becomes a political decision, which as Hayek explains in The Road to Serfdom, one has to make in the face of the collectivist demands for a ‘freedom from want’.

The next section introduces the ordoliberal critique of laissez faire liberalism and argues that the Germans were wrong to see Smith as a proponent of laissez faire. The follows section expounds Smith’s political economy as a practice of government, and the final section develops the ordoliberal understanding of the state as ‘market police’. The conclusion draws out distinctions between Smith and the ordoliberals and argues that the free economy presupposes the political state as the ‘concentrated and organized force of society’ (Marx). Marx’s notion that the modern state manages the common affairs of capitalist society does not re-invent the proverbial wheel. Rather, it focuses the political character of the seemingly apolitical exchange relations on the form of the state.<sup>25</sup>

### **Political Economy and the Theology of Laissez Faire**

Adam Smith regarded political economy as ‘a branch of the science of the statesman or legislator’. He conceived of ‘commercial society’ as class ridden, and held the state indispensable for the organisation and maintenance of market liberty. The state gives order to economic freedom by means not only of law but, also by ‘ordering’ the conduct of society, restraining the passions of ‘self-love’ within the framework of the moral sentiments. The

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<sup>23</sup> Martin Wolf, ‘The need for a new imperialism’. *Financial Times*, 10 October 2001.

<sup>24</sup> On this distinction, see Simon Clarke, ‘The Neoliberal Theory of the State’, in Alfredo Saad-Filho and Deborah Johnston (eds) Neoliberalism – A Critical Reader (London: Pluto, 2005), pp. 50-59.

invisible hand is incapable of integrating society, and removal of, or indeed weakness in, public authority will lead to ‘open violence and bloodshed’.<sup>26</sup> The invisible hand does not have an independent existence.

Smith charges the state with removing impediments to market liberty and providing for the invisible hand that requisite legal, moral, and social order upon which it depends. The Smithean state is not a weak state. It is a strong state. It does not yield to the social interests. Instead it governs over them to secure the system of perfect liberty. The Smithean state does not compete with the invisible hand as if it were some alternative source of regulative power. It renders the invisible hand, and thus governs over society for the sake of economic liberty. Hayek focused this insight succinctly when he argued that for the free economy, the liberal state is indispensable as a ‘planner for competition’.<sup>27</sup>

Hayek’s notion is key to the ordoliberal tradition. Its main founding thinkers, especially Walter Eucken, Franz Böhm, Alfred Müller-Armack, Wilhelm Röpke, and Alexander Rüstow, argued that sustaining a liberal, competitive economy is a matter of strong state authority. Rüstow conceived of this strong state in terms of a ‘market police’ – a term Smith hints at in his Lectures on Jurisprudence where he argues that securing the system of perfect liberty belongs to the police. Yet, Rüstow and his colleagues, though praising Smith as an economist, are critical of him as the apparent founder of laissez faire liberalism. For the ordoliberals, laissez faire liberalism is indefensible. They developed their neo-liberalism in opposition to laissez faire liberalism, which at that time was the particular cause celebre of the Austrian school of economics, von Mises in particular.<sup>28</sup> Ordoliberalism argues that economic liberty is a practice of government. The system of market freedom does not come about just like that.<sup>29</sup> The state, they say, has to govern for liberty, and such government does not yield to the social forces, each seeking material concessions by transforming their own private interests into a matter of public policy. The state thus has to be strong to prevent itself from becoming the prey of the social interests. For the sake of liberty the state has thus to keep the social forces at arm’s length so that they do not govern through the state. The liberal state has

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<sup>25</sup> Karl Marx, Capital volume I (London: Lawrence & Wishart, 1983), p. 703.

<sup>26</sup> Adam Smith The Wealth of Nation (Oxford: Oxford University Press, 1976), pp. 428, 726.

<sup>27</sup> Hayek, The Road to Serfdom, p. 31.

<sup>28</sup> The distinction between Austrian laissez faire liberalism and German ordoliberalism is of less importance in the context of Realpolitik. See for example, Ludwig von Mises, The Free and Prosperous Commonwealth (Irvington: The Foundation of Economic Education, 2000), p. 5. He asserts that uninhibited market forces are the only remedy to resolving economic crisis, and then argues that ‘fascism and similar movements have...saved European civilization’.

<sup>29</sup> Walter Eucken, Grundsätze der Wirtschaftspolitik (Tübingen: Mohr Siebert, 2004).

to govern over them. The limited state is the strong state<sup>30</sup>. The ordoliberals require the state to contain what they identify as the proletarianisation of social structures to secure the civitas of an entrepreneurial society. Market freedom, they say, requires the incorporation of the moral sentiments of enterprise into a lifestyle.<sup>31</sup> Incorporation does not derive from some economic logic. It is a practice of government.

The ordoliberals criticise Adam Smith for positing the economic as an autonomous thing, disregarding the role of the state, and believing in the capacity of the free economy to regulate itself by means of the invisible hand. The first of these points is most important. According to Röpke ‘classical economic science had gone astray in conceiving competitive economy as autonomous’, and argues that this stance account is based on a ‘disastrous belief in the sociological autonomy of competitive economy’. This belief is ‘the cardinal error of the laissez-faire philosophers’. The idea that economic liberty is akin to a system in which ‘self-dependent processes [are] whirring away automatically’ amounts, they say, to a deistic philosophy that is not only blind to the sociological, ethical and political preconditions of market liberty.<sup>32</sup> It is also blind to the destructive impact of unrestraint competition on the moral fabric of society. For Rüstow, the idea that liberty will result from unrestrained market forces, and that moral restraint on excess is self-tutored, comprises the theology of liberalism. He dismisses laissez faire liberalism as a ‘paleo-liberalism’, one that is fed by religious zealots of economic price, one that believes that society is no more than a resourceful and calculable entity of arithmetic equations, and one that unthinkingly allows the emergence of its own grave-diggers in the form the proletarianised masses.<sup>33</sup> Laissez faire, says Rüstow, assumes as eternal truth the divine reason of a supposed natural order of things, but does not tell us what it is, what it requires, and what needs to be done to sustain, secure and defend it not only in the hour of a need but, also, and importantly, pre-emptively to prevent liberal emergencies from arising. For the ordoliberals, economic liberty is not a natural thing. It is socially created and can thus be destroyed. Its existence requires careful political attention to avoid emergencies.

The ordoliberal rejection of Smith’s theory as a metaphysics has to be seen in the context of their battle with the Austrian school of liberalism who proclaimed Smith as their intellectual authority. The ordoliberals rejected Austrian laissez faire liberalism not because of its

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<sup>30</sup> This is the theoretical context for Hayek’s praise of the Pinochet dictatorship. He argued that a state that yields to the social forces becomes unlimited in its character, requiring ‘well-meaning dictators...genuinely anxious to restore’ free economy. Quoted in Cristi, Carl Schmitt and Authoritarian Liberalism, p. 168.

<sup>31</sup> Alfred Müller-Armack, ‘The Social Market Economy as an Economic and Social Order’, Review of Social Economy, 36:3 (1978), pp. 325-331.

<sup>32</sup> Wilhelm Röpke, The Social Crisis of Our Time (New Brunswick: Transaction Publishers, 2009), p. 56.



elevation of free economy as the sine qua non of human existence. They rejected it because the free economy of laissez faire liberalism is bound to create socially destructive outcomes, especially in the form of proletarianised workers who, devoid of the moral sentiments of liberty, demand welfare to the detriment of liberty and security of private property. Freedom they say requires the acceptance of personal responsibility for that freedom.<sup>34</sup> The free market does not produce responsible workers; it produces proletarianised workers. There is thus need for a political authority to prevent proletarianisation. For the ordoliberal, prevention is a practice of ‘market police’.<sup>35</sup>

The ordoliberal perception of Smith is blinkered. The next section argues that for Smith the system of perfect liberty depends on the state as its political authority. He developed this insight against the time of mercantilism with the vigour of a man who saw that the time of commercial society had come. The ordo-liberals argued at a time of a profound crisis of capitalist civilisation, a time which they dismiss as one of ‘mass opinion, mass claims, mass emotion and mass passion’, a time which allowed “‘mass-produced’ men to shirk their own responsibility’ relying instead on ‘government-organized mass relief’.<sup>36</sup> Society, they say, had lost its moral compass, and instead of coping with economic hardship in an entirely self-responsible manner, demanded ‘freedom from want’<sup>37</sup>. They thus insisted on a strong state response to impose social order to reassert economic liberty as a well ordered system of freedom and personal responsibility for that freedom. Their argument that the state is the executive power of liberty is, I argue, an unacknowledged tribute to Smith’s political economy. Unlike Smith, though, the ordoliberals did not set out to render the system of perfect liberty intelligible. They argued for its rescue by means of force.

### **Smith: Justice, Moral Sentiments and Police**

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<sup>33</sup>Alexander Rüstow, ‘General Social Laws of the Economic Disintegration and Possibilities of Reconstruction’, Afterword to Wilhelm Röpke, International Economic Disintegration (London: Hodge, 1942).

<sup>34</sup>The ordoliberals, Rüstow and Röpke in particular, accept that the freedom of the worker is a double freedom: it is the freedom from the means of subsistence and the freedom to sell her labour power to gain subsistence. They therefore argue that resolution of the ‘workers question’ has to focus on the determination of the true interest of workers, which lies in the progress of the common wealth, see below. Alexander Rüstow, Freiheit und Herrschaft (Münster: LIT, 2005), Wilhelm Röpke, A Human Economy (Wilmington Delaware: ISI, 1998). Marx’s account on this freedom of labour can be found in Capital vol. I, ch. 26. Werner Bonefeld, ‘Primitive Accumulation and Capitalist Accumulation’, Science and Society, 75:3 (2011), pp. 379-399.

<sup>35</sup>See Rüstow’s ‘General Social Laws of the Economic Disintegration and Possibilities of Reconstruction’.

<sup>36</sup>Röpke, A Human Economy, p. 152; Wilhelm Röpke, Welfare, Freedom and Inflation (London: Pall Mall Press, 1957), p. 24; Röpke, A Human Economy, p. 155.

<sup>37</sup>Like Hayek, Road to Serfdom, Röpke, Human Economy, p. 172, rejects freedom from want as a most ‘dangerous and seductive’ enunciation of tyranny.

For Smith, production and distribution are regulated through competitive exchanges, mediated by money<sup>38</sup>. This regulation is achieved where there is 'perfect liberty'. The price mechanism that allows prices to rise and fall above and below the 'natural prices' is governed by the invisible hand, which informs individuals where to invest and what to sell. The invisible hand is a depoliticised device of economic adjustment. Individuals follow price signals in a manner of their own choosing. Government or persons do not tell anybody what to do, when and where. Nevertheless, its magic requires government to make it effective. Impediments to its operation have to be removed. There is need for the defence of private property against conquest, foreign invasion, and accumulation of wealth by means of piracy and robbery. For Smithy, wealth results from the expenditure of productive labour. Then there is justice and the rules of justice, which he says are directed against the threat to property presented by the poor.

For Smith, 'justice...is the main pillar that holds up the whole edifice' of commercial society.<sup>39</sup> Justice is a matter not only of law and the rule of law, which is the regulative force of the freedom of contract between ostensibly equal exchange subjects.<sup>40</sup> Fundamentally, it is a matter of order as the precondition of law. The rule of law does not agree with social disorder, and law does not enforce order. Police enforces order and in this manner renders the rule of law effective. The system of justice is also dependent upon a moral order that commits individuals to the rules of justice. The rules of justice, then, presuppose a social order and unfold within a moral framework. The removal of impediments to the free movement of prices entails thus also the provision of morally committed participants in market freedom. In this sense, the invisible hand represents the bad-infinity of a system that is constantly striving for perfection by means of a political effort at removing obstacles from its operation. That is, the system of perfect liberty cannot be entrusted to the economy. Rather, it amounts to a constant political effort at restraining the passions of competition according to the rules of justice, formatting the moral sentiments of individual enterprise, and containing the rebellious character of the poor to secure those further improvements in the productive power of labour upon which the prospects of the common wealth rest.

According to Smith, the moral sentiments of commercial society are based on the sense of the 'propriety' of the beauty of a well-ordered whole. This whole gives purpose and benefit to the private individuals. It restrains their passions that are governed by 'self-love.' The private

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<sup>38</sup> This part draws on Clarke, Keynesianism, Monetarism and the Crisis of the State, Clarke, Marx, Marginalism and Modern Sociology, and Werner Bonefeld, 'Free Economy and the Strong State', Capital & Class, 34:1 (2010), pp. 15-24.

<sup>39</sup> Adam Smith, The Theory of Moral Sentiments (Oxford: Oxford University Press, 1976), p. 86.

individuals are interested only in themselves, and yet each individual is obliged to all other individuals. The pursuit of their unsocial interests rests thus on their fundamental sociability, which restrains their conduct within a well-ordered whole. He argues that the basis of judging the propriety of the whole is ‘sympathy’. Sympathy is the ability of individuals to adopt the position of the ‘impartial and well informed spectator’. However, sympathy is not sufficient to contain the fundamental condition of commercial society, that is, ‘self-love’. A society based on the pursuit of self-interest requires a moral foundation, a moral fabric and an ethical framework, to sustain it. The moral sentiments alone are thus not sufficient for maintaining a society of self-seekers. On the part of the self-interested individuals, the moral sentiments express, firstly, the charitable side of commercial society, or as Marx put it in the Holy Family, its sentimentality.<sup>41</sup> Inasmuch as the concept of ‘free labour contains the pauper’,<sup>42</sup> the character trait of private property combines cutthroat competition and robust enforcement of labour discipline on the factory floor, stealing atoms of additional labour time, with an impulse to charity for the poor and downtrodden. Secondly, for Smith the state renders the moral sentiments valid as the impartial and well informed spectator of the system of liberty. That is, for the Smith the political state is not really an impartial and well informed spectator. Rather, it is charged with making the system of perfect liberty valid. The state is thus the impartial and informed enforcer of the rules of perfect liberty.<sup>43</sup> Without such enforcement market impediments and social disorder will result, undermining the capacity of the invisible hand to transform private vices into public virtues. For Smith, the state governs in the true interests of the common wealth, appealing to and connecting with what is deemed the honest core of individuals, restraining their immediate individual interests and class interests within a moral framework that both legitimises the system of justice and embeds the morality of private property, sympathy and competitiveness, into the inner recess of society.<sup>44</sup>

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<sup>40</sup> On this, see Robert Fine, Democracy and the Rule of Law (London: Pluto, 1981) and Evgeny Pashukanis, Law and Marxism (London: Pluto, 1987).

<sup>41</sup> Karl Marx, The Holy Family (Moscow: Progress Publishers, 1975).

<sup>42</sup> Karl Marx, Grundrisse (London: Penguin, 1973), p. 604.

<sup>43</sup> I owe this insight to Phil Cerny.

<sup>44</sup> Force, Self-Interest Before Adam Smith, and Evensky, Adam Smith’s Moral Philosophy, argue that for Smith morality is a matter that individuals resolve for themselves by means of their own effort at moral learning, and they refer to the ‘impartial spectator’ as a product of the individuals imagination. Or as Smith put it: the impartial spectator is ‘the inhabitant of the breast, the man within, the great judge and arbiter of our conduct’ (Moral Sentiments), p. 61. Michel Foucault, ‘Governmentality’, in Graham Burchell, Colin Gordon and Peter Miller (eds.) The Foucault Effect: Studies in Governmentality (Chicago: University of Chicago Press), pp. 87–104, captures this inhabitation of moral virtue as a form of governmentality, which describes the internalisation of the function of government into the mentality of the acting subjects. Marx, The Poverty of Philosophy, called it the inner physiognomy of society. I have no reason to doubt the strength of Presbyterian self-discipline at the time of Smith’s argument. Nevertheless, for Smith, the poor do not seem to have the requisite civitas of moral restraint. Instead, their ignorance makes them unruly, which, he says, requires the state to protect the rich (Moral Sentiments), p. 161. The impartial spectator is both a particular residing in each individual and a universal in re, which is independent from the individuals and their self-interested calculations. The state is the force of moral entrenchment, and punishment.

For the sake of liberty it is thus necessary to employ ‘the power of the commonwealth’, that is, the state, ‘to enforce the practice of justice. Without this precaution, commercial society will descend into bloodshed and disorder, every man revenging himself at his own hand whenever he fancied he is injured’. Punishment is the condition of justice. ‘All men delight to see injustice ‘punished’, and injustice needs to ‘be punished...on account of the order of society’. Further, only those who do ‘not violate the laws of justice [are] left perfectly free to pursue their own way, and to bring both their industry and their capital into competition with any other man, or order of man’.<sup>45</sup> In the Wealth of Nations he argues further that the state is responsible for securing the proper use of freedom – it punishes the misuse of freedom, enforces the moral sentiments of freedom, and intervenes into the moral make up of individuals, restraining the passions for the benefit of the common wealth. In this context, he argues that the state is responsible for establishing the exact administration of justice, adjudicating between clashes of interests and equal rights, erecting and maintaining public works and public institutions upon which the pursuit of commercial society depends.<sup>46</sup> Furthermore, the state is responsible for achieving the ‘cheapness of provision’, that is, for facilitating the progressive division of labour by means of greater labour productivity.<sup>47</sup> Smith thus argues that the ‘system of private property necessarily requires the establishment of civil government...Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all’,<sup>48</sup> and he maintains therefore that the defence of private property against the poor is in fact undertaken in the interest of the poor. The state is the embodiment of the impartial observer, which upholds by means of force the beauty of the system as a whole for the benefits of every individual. That is, the ignorance of the poor prevents them from understanding what is in their own best interest. According to Smith, the unimpeded operation of the system of perfect liberty improves the conditions of the poor as wealth once accumulated in the hands of the rich, tends to trickle down – the bigger the cake, the bigger the poor slice.

Smith introduces the class struggle between capital and labour arguing that ‘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’. In this struggle, the masters have the upper hand because they ‘are fewer in number, and combine much more easily; they can live for

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<sup>45</sup> Smith, The Theory of Moral Sentiments, pp. 340, 89, 91, 749.

<sup>46</sup> See Smith, The Wealth of Nations, p. 723.

<sup>47</sup> Adam Smith, Lectures on Jurisprudence (Oxford: Oxford University Press, 1978), p. 6.

<sup>48</sup> Smith, The Wealth of Nations, p. 770.

longer without getting their profits, the workers are starved'.<sup>49</sup> That workers rebel is understandable given their 'desperate conditions'. Yet, their action is foolish because 'the masters react with purpose and force the worker back and that is, the workmen very seldom derive any advantage from the violence of those tumultuous combinations'. The only way to raise wages and improve conditions is by sustained accumulation. 'Workers do well not to struggle', because with the increase of surplus, stock accumulates, increasing the number of workers, and the increase of revenue and stock is the increase of national wealth. Thus, 'the demand for those who live by wages...increases with the increase in national wealth'. This, then, is the famous trickle-down effect - accumulation, he argues, increases national wealth and 'occasions a rise in the wage of labour'.<sup>50</sup> Smith calls this the 'liberal reward for labour', and one consequence of his argument is, of course, that if there are poor, this indicates that 'things are at a stand', requiring state action to facilitate 'the cheapness of goods of all sorts',<sup>51</sup> that is, to increase labour productivity and thus to improve price competitiveness in a world governed by the magic of the invisible hand.

The common wealth is a world market reality<sup>52</sup>. The owners of stock in some countries might achieve higher rates of return on their investment than owners in some other countries, 'which no doubt demonstrate[s] the redundancy of their stock'.<sup>53</sup> That is, 'the proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax, and would remove his stock to some other country where he could either carry on his business, or enjoy his fortune more at his ease'.<sup>54</sup> Thus, in order to maintain stock and retain investment, there arises the need for increased labour productivity to secure the 'cheapness of provision'. Its facilitation is a matter of 'police'.<sup>55</sup> Smith thus conceives of the state as a facilitator of price competitiveness by means of greater labour productivity to secure the common wealth. Resolution to the workers' desperate conditions and quarrelsome nature does not lie in the admittedly unequal exchange relation between capital and labour. Resolution lies in the dynamic increase in wages that depend on the most rapid possible growth in the demand for labour, which results from the growth of the

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<sup>49</sup> Smith, The Wealth of Nations, p. 83.

<sup>50</sup> Smith, The Wealth of Nations, pp. 84, 85, 86-7, 87.

<sup>51</sup> Smith, The Wealth of Nations, pp. 91, 333

<sup>52</sup> See Simon Clarke, 'The global accumulation of capital' in Werner Bonefeld, Richard Gunn and Kosmas Psychopedis (eds.) Open Marxism vol. I (London, Pluto, 1992), pp. 133-150; and Werner Bonefeld, 'The Spectre of Globalisation', in Werner Bonefeld and Kosmas Psychopedis (eds.) The Politics of Change (London: Palgrave, 2000), pp. 31-68.

<sup>53</sup> Smith, The Wealth of Nations, p. 109.

<sup>54</sup> Smith, Wealth of Nations, pp. 848-49.

<sup>55</sup> Adam Smith, Lectures on Jurisprudence, p. 5.

market, increase in trade and commerce, and which is based on the division of labour, which in turn is fed by greater labour productivity.

However, although according to Smith, ‘national wealth’ and ‘workers’ benefit from progressive accumulation, the owners of stock might not because ‘the increase in stock, which raises wage, tends to lower profit’.<sup>56</sup> In this context, too, the state acts in fact as the impartial enforcer of the system of perfect liberty. That is, higher wages benefit capital too by stimulating the growth of population, the expansion of trade and the division of labour, and the industriousness of the worker. Nevertheless, capitalists pursue their own class interests and might therefore seek to maintain the rate of profit artificially, impeding the natural liberty of the market, for example by means of price fixing or protectionism. This assertion of private power ‘produces what we call police. Whatever regulations are made with respect to the trade, commerce, agriculture, manufactures of the country are considered as belonging to the police’.<sup>57</sup> Effective policing entails a strong state, a state where it belongs: over and above the egoistic interests and class struggles, partial to none, that is, ostensibly not governing in favour of this or that social interest but in the interest of the beauty of the well ordered whole, securing its propriety. The state thus governs in the interests of the bonum commune of commercial society, restraining the passions of ‘self-love’ and short term class interests, be it greed, protection of short term profit interests, or the rebelliousness of the poor who demand public provision of relief to meet subsistence needs. Concerning the poor, police is needed to make the worker accept that ‘if he is frugal and industrious, [s/he] may enjoy a greater share of the necessaries and conveniences of life than it is possible for any savage to acquire’. There is thus need, also, for a public system of education to promote ‘the instruction of the people’ chiefly by means of education and public diversions.<sup>58</sup> He argued that government should take pains to offset the socially and morally destructive effects of accumulation, by assuming responsibility for cultural activities to maintain the civility of the unsocial interests.

In sum, the administration of justice, which secures property and the person, and which defends the rich against the poor, describes an ‘order of good government’ that despite appearances to the contrary, is in the interest of the poor. Government is to sustain the propriety of the system to advance the ‘true’ interests of each individual. The state recognises the ignorance of the poor who react to conditions in an aggressive manner, and governs over them so that they may benefit from the liberal reward that the progressive development of the productive power of labour may accord to them. In addition, the state enforces the system of

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<sup>56</sup> Smith, The Wealth of Nations, p. 105.

<sup>57</sup> Adam Smith, Lectures on Jurisprudence, p. 5.

<sup>58</sup> Smith, The Wealth of Nations, pp. 10, 723.

perfect liberty upon the owners of stock to contain their passion within the framework of law, order, morality and sociability. For the benefit of everybody in society, the political state enforces the discipline of a globally effective competitive system to sustain the further division of labour, global trade and markets, on the basis of improved labour productivity. The purpose of the state is thus to secure for the invisible hand that perfect order upon which the progress of commercial society depends. It eradicates disorder, establishes the rules of justice, facilitates the moral sentiments and restrains the passions, secures the cheapness of provision and achieves greater labour productivity, and instructs the people. As the impartial observer of the system of perfect liberty, the state maintains ‘the rich in the possession of their wealth against the violence and rapacity of the poor’ and it does so for the benefit of the poor.<sup>59</sup> It is in the poor’s self-interest to let wealth trickle up to allow for that improvement of conditions which only economic growth can furnish.

### **Ordoliberalism and Human Economy**

Smith’s notion that frugality and industriousness is fundamental to the prospects of liberal economy is central to the ordoliberal stance. It conceives of ‘enterprise competition’ as a ‘public duty’.<sup>60</sup> Government is responsible for the provision of a firm ethical framework to secure liberty in the face of ‘greedy self-seekers’ and labour struggles for employment, conditions, and welfare.<sup>61</sup> The ordoliberals concede that capitalism has a natural tendency to create proletarianised workers who, they say, exist in a devitalised state: proletarianised workers seek material well-being at the expense of individual enterprise. For them, a proletarianised worker is one who rebels against regulation of wage income by means of the free price mechanism. Nothing is worse, writes Böhm in 1937, than a condition in which the capacity of the free price mechanism to regulate peacefully the coordination of, and adjustment between, millions and millions of individual preferences only for ‘the will of the participants to rebel against that movement’.<sup>62</sup> Ill-will is an impediment to free economy and needs to be ‘removed’.

They conceive of liberty as the freedom of the entrepreneur to engage in competition to seek gratification by means of voluntary exchanges. Free markets are governed by the principles of scarcity, private property, freedom of contract, and exchange between equal legal subjects, each pursuing their own self-interested ends. The free market allows social cooperation between individuals by means of a ‘signalling system’, that is, the price mechanism. It thus

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<sup>59</sup> Smith, Lectures on Jurisprudence, p. 338.

<sup>60</sup> Alfred Müller-Armack, ‘Thirty Years of Social Market Economy’, in Josef Thesing (ed.), Economy and Development (Mainz: Hase und Köhler, 1979), pp. 146, 147.

<sup>61</sup> Alexander Rüstow, ‘Die staatspolitischen Voraussetzungen des wirtschaftspolitischen Liberalismus’, in Rede und Antwort (Ludwigsburg: Hoch, 1932/1963), p. 255.

requires monetary stability to permit its effective operation as a 'calculating machine' that informs consumers and producers of the degree of scarcity in the whole economy. Prices, says Röpke 'are orders by the market to producers and consumers to expand or to restrict'.<sup>63</sup> They thus endorse the free market as a particular 'social instrument' that allows 'for greater chance for personal responsibility and individual freedom'.<sup>64</sup> However, freedom is troublesome. It requires surveillance so that it does not go astray, preventing its misuse as prices can be fixed, markets carved up, and competitive adjustment avoided by means of protectionism and manipulation of monetary policy; and workers can strike, the masses can revolt, and a proletarianised mass society can force the state to concede welfare. The free market requires therefore strong state authority to assure the market-liberal utility of freedom. Order is sociability, and there can be no freedom without order. They argue that order does not derive from free markets. Rather, free markets depend on the existence of order. Law regulates order and effective order is a matter of 'police'.

They thus argue that competition is an instrument of freedom only if it is not extended beyond the economic sphere. That is, 'we do not demand more from competition than it can give. It is a means of establishing order and exercising control in the narrow sphere of a market economy based on the division of labour, but 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. There should be strong state...a high standard of business ethics, an undegenerated community of people ready to co-operate with each other, who have a natural attachment to, and a firm place in society'.<sup>65</sup> The market mechanism does not supply morally decisive and socially coherent outcomes in support of its further development. The moral sentiments of private property have therefore no price and can thus not be determined by the highest bidder or strongest party. They are public goods that if properly arranged facilitate the utility machine of the market. Their arrangement, they say, is a political task undertaken to secure the system as a whole.

For the ordoliberals, laissez faire liberalism is thus tantamount to disaster. It opens the gate of opportunity to greed and allows the entirely self-serving individuals of economic price to run riot. They accept that greed is a fundamental economic value. It oils the machinery of competition and secures the effective regulation of liberty by the free price mechanism.

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<sup>62</sup> Franz Böhm, *Ordnung der Wirtschaft* (Berlin: Kohlhammer, 1937), p. 11.

<sup>63</sup> Wilhelm Röpke, *2 Essays by Wilhelm Roepke* (London: Lanham, 1987), p. 17.

<sup>64</sup> Müller-Armack, 'The Social Market Economy as an Economic and Social Order', p. 329.



However, if unrestrained by law and the system of morality, it erodes the fundamental sociability of a competitive society with costly consequences. Once political authority fails in its provision, social order is subject to abuse by the social interests, including the welfare seeking proletarians. They argue that social crisis is brought about by the ‘revolt of the masses’, which a weak state is unable to contain. This revolt manifests a proletarian personality that is devoid of the moral sentiments of a free society, and that instead of adjusting to markets, rebels against market pressures seeking collective means of subsistence support. The revolting masses must be countered ‘the revolt of the elite’ to reassert the utility machine of the market as an instrument of freedom.<sup>66</sup>

For the ordoliberal, poverty is not material in character. Rather, it shows a lack of enterprise on the part of the poor. Fundamentally, poverty is characterised by a poverty of aspiration. A proletarian personality compounds the conditions of poverty. Instead of helping themselves and others to cope with economic shocks, it subverts the moral sentiments that affect the system of liberty. Proletarianised workers lack the moral stamina to provide for themselves and do not accept economic freedom as a personal responsibility. For the sake of moral economy, the state has to resist demands for welfare provision – conceding welfare means that the state loses its ‘independence’ from society and is ‘devoured’ by the social forces.<sup>67</sup> Instead of governing over them, they govern through the state to the detriment of the poor themselves who find themselves enslaved by a welfare state, which reduces them to ‘an obedient domesticated animal [that is kept] in the state’s giant stables’.<sup>68</sup> They say, this is a state of utter social devitalisation, spiritual abandonment, and one in which the utility machine of freedom grinds to a halt, and with it the prospects of the common wealth, which provides for everyone on the conditions that they accept their entrepreneurial responsibilities and adjust to price signals and market conditions willingly and on their own initiative.<sup>69</sup> Progress, they declare, should not be measured by welfare-induced material well being. Rather, it should be measured by what the masses can do for themselves ‘out of their own resources and on their own responsibility’.<sup>70</sup> That is to say, welfare provision ‘devitalises’ workers and disempowers them as entrepreneurs. Fundamentally, they are ‘devitalised’ because they are not possessed by the ‘ethic and spirit of the bourgeois’.<sup>71</sup> Unbeknown to themselves, workers do however aspire to become full members of the bourgeois ‘civitas’ and full employment policies and welfare security are therefore ‘repugnant to the workers’ own sense of freedom’.

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<sup>65</sup> Röpke, *The Social Crisis of Our Time*, p. 181.

<sup>66</sup> Röpke, *A Human Economy*, p. 130.

<sup>67</sup> Rüstow, ‘Die staatspolitischen Voraussetzungen des wirtschaftspolitischen Liberalismus’, p. 258.

<sup>68</sup> Röpke, *A Human Economy*, p. 155.

<sup>69</sup> Sir Keith Joseph and Jonathan Sumption, *Equality* (London: John Murray, 1979) capture this well when they declare that poverty is not unfreedom. It is an opportunity.

<sup>70</sup> Röpke, *Welfare, Freedom and Inflation*, p. 22.

that expresses the honest core of their being.<sup>72</sup> Ordo-liberal social policy is thus deemed to be in the true interest of workers.

The ethical formation of the market-conforming structures of behaviour is essential. Echoing Smith's view that, if left to its own devices, commercial society will descend into bloodshed and disorder, Röpke argued that without strong state authority the competitive market society will 'degenerate into a vulgar brawl' that threatens to break society up.<sup>73</sup> The state is indispensable as the force of sustaining sociability. In this context, Müller-Armack argued that economic growth is the best possible means of social cohesion.<sup>74</sup> That is, sustained economic growth undercuts working class dissatisfaction by providing employment and security of wage income. The 'social content' of the system of economic liberty is thus economic growth itself.<sup>75</sup> Only the 'total mobilisation of the economic forces allows us to hope for social improvements, which achieve real social contents by means of increased productivity'.<sup>76</sup> The free market is therefore a social economy because it will eventually trigger the (in)famous trickle-down effect of wealth, improving the conditions of the poor. A proper 'social policy' does therefore not redistribute wealth. Instead it aims at sustaining an entrepreneurial society, and intervenes into the mentality of quarrelsome workers by establishing a connection between the 'human beings and private property'.<sup>77</sup> Money, says Röpke, 'is coined freedom',<sup>78</sup> and the exercise of this freedom comprises 'the bourgeois total order' which a proletarian tyranny cannot abide.<sup>79</sup>

For the ordoliberal, the system of economic liberty contains 'the natural tendency towards proletarianization' requiring state action to sustain it. The free economy 'must be conquered anew each day' to secure economic liberty, incorporating the sentiments of liberty into 'into a

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<sup>71</sup> William Campbell, 'Introduction to the Transaction Edition' of Röpke, *The Social Crisis of Our Time*, p. xvi.

<sup>72</sup> Alfred Müller-Armack, *Wirtschaftsordnung und Wirtschaftspolitik* (Stuttgart: Paul Haupt, 1976), p. 182

<sup>73</sup> Wilhelm Röpke, 'The Guiding Principles of the Liberal Programme', in Friedrich Wünsche (ed), *Standard Texts on the Social Market Economy* (Stuttgart: Fischer, 1982), p. 188.

<sup>74</sup> Alfred Müller-Armack, *Religion und Marktwirtschaft* (Stuttgart: Paul Haupt, 1981), p. 496.

<sup>75</sup> Müller-Armack, *Wirtschaftsordnung und Wirtschaftspolitik*, p. 253.

<sup>76</sup> Alfred Müller-Armack, *Genealogie der Sozialen Marktwirtschaft* (Stuttgart: Paul Haupt, 1981), p. 79.

<sup>77</sup> Müller-Armack, *Wirtschaftsordnung und Wirtschaftspolitik*, p. 133. Müller-Armack coined the phrase social market economy in 1946, which became not only an election slogan for the German CDU but, also, the term that expresses the apparent distinction of the German economy as a socially conscious capitalism. On the ideological force of this distinction, see Sarah Wagenknecht, *Freiheit statt Kapitalismus* (Frankfurt: Eichhorn, 4th ed. 2012). Akin to Brown's appeal to Smith as a counter to the invisible hand, Wagenknecht appeals to the ordoliberal tradition as a counter to neoliberalism, on behalf of Die Linke.

<sup>78</sup> Wilhelm Röpke, *Maß und Mitte* (Zuerich: Rentsch, 1950), p. 252.

<sup>79</sup> Röpke, *A Human Economy*, p. 99. Different social characters do however experience the coined freedom and the way in which the coinage is produced differently. As Marx, *Grundrisse*, pp. 156-57, put, 'the power which each individual exercises over the activity of others or over social wealth exists in him as the owner of *exchange value*, of *money*. The individual carries his social power, as well as his bond with society, in his pocket'.

total life-style'.<sup>80</sup> Free economy is therefore a constant political practice of what they call Vitalpolitik - a politics of life or a bio-politics that sustains the society of willing, responsible, and entirely reliable entrepreneurs who see poverty as an incentive to do better, perceive unemployment as an opportunity for employment, and secure employment by pricing themselves into jobs. Freedom depends on the moral sentiments of freedom. They therefore see the free economic as a moral economy. In this sense, the strong state does not really govern over society. Rather, as the political force of market discipline, it governs through society to secure the transformation and multification of the social fabric into competitive enterprises.<sup>81</sup> That is, they reject the socialisation of the state and instead demand the 'etatisation of society'.<sup>82</sup> Given the natural tendency towards proletarianization, the ordoliberal idea of freedom is essentially a practice of government. That is, freedom requires an ever-vigilant security state to prevent the misuse of freedom and, if need be, to restore freedom restrained by rules and tied to the moral values of responsible entrepreneurship. In the late 1920s, they therefore called for a commissarial dictatorship to cope with the 'extreme emergency'<sup>83</sup> that had arisen because the great majority of society lacked the 'moral stamina' to absorb economic shocks.<sup>84</sup> That is, and as Hayek put it most succinctly, at a time of liberal emergency, 'the most fundamental principles of a free society...may have to be temporarily sacrificed...[to preserve] liberty in the long run'.<sup>85</sup> The prize for the sacrifice of freedom 'is freedom' itself.<sup>86</sup> For the ordoliberals, the state of economic liberty is an ever-vigilant security state, which is tasked with ensuring that every person is first and foremost recommended to his or her own care as an entrepreneur.<sup>87</sup>

In sum, ordoliberalism asserts the authority of the state as the political force of free economy. Freedom is freedom within the framework of order, and order is a matter of political authority. Only on the basis of order can economic freedom flourish, and can a free people be trusted to adjust to the price mechanism in the entirely self-responsible manner of the rule abiding and ever so innovative entrepreneur. For the ordoliberals, the task of sustaining market liberty on the basis of the rule of law is not enough. Fundamentally, as Röpke<sup>88</sup> puts it, market behaviour needs to be embedded into 'psycho-moral forces' of society, containing the

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<sup>80</sup> Röpke, The Social Crisis of Our Time, p. 218. Röpke, Human Economy, p. 27; Müller-Armack, 'The Social Market Economy as an Economic and Social Order', p. 328.

<sup>81</sup> On this, see Müller-Armack, Wirtschaftsordnung und Wirtschaftspolitik, p. 235.

<sup>82</sup> Franz Böhm, Reden and Schriften (Karlsruhe: Müller, 1969), p.171.

<sup>83</sup> Alexander Rüstow, 'Diktatur innerhalb der Grenzen der Demokratie', in Vierteljahreshefte für Zeitgeschichte, 7 (1929/1959), pp. 87-111, pp. 100f, Röpke, International Economic Disintegration, pp. 246, 247. On the connection between Schmitt and the ordoliberals, see Haselbach, Autoritärer Liberalismus und Soziale Marktwirtschaft.

<sup>84</sup> Röpke, The Social Crisis of Our Time, p. 52.

<sup>85</sup> Friedrich Hayek, The Constitution of Liberty vol. III (London: Routledge, 1960), p. 217.

<sup>86</sup> Carl Friedrich, Constitutional Government and Democracy: Theory and Practice in Europe and America (London: Blaisdell Publishing, 1968), p. 581.

<sup>87</sup> Michel Foucault, Ethics: Subjectivity and Truth (London: Penguin, 1997), p. 97.

proletarianisation of workers, restraining the ‘greedy self-seekers’, and ingraining the discipline of self-responsible enterprise into the moral fabric of society.

### **Conclusion**

The Adam Smith who is said to have argued for the autonomy of the economic is quite unlike the Adam Smith who authored The Theory of Moral Sentiments in 1759, delivered The Lectures on Jurisprudence between 1762-1764, and published The Wealth of Nations in 1776. I have argued that for Smith the autonomy of the economy is a political task, comprising the removal of impediments to the market, restraint of the passions of competition within a legal and moral framework, and enforcement of social order to secure the system of perfect liberty. Without government, liberty descends into ‘disorder and bloodshed’. Government civilises society and sustains its civility. For Smith, police is the premise of liberty. For the ordoliberals, liberty has become a practice of a watchful ‘security state’, which in the words of Böhm no longer governs over society. It governs through society and the individuals that comprise it. Freedom, he says, depends on the stratification of society to secure what Röpke calls the psycho-moral forces of society. They argue that freedom is a matter of market police and market police is a practice of freedom – to enforce the laws of justice, achieve the cheapness of provision, and maintain the moral sentiments of private property. Like Smith they demand the removal of the impediments to the perfect system of liberty, and they call upon the state as market police to ensure the continuous improvements in labour productivity as the fundamental condition for the progress of the common wealth. They see that economic liberty contains not only the pauper but also the tendency towards proletarianisation, and they therefore demand the empowerment of individuals as responsible market agents. For them, economics is a dismal science precisely because it claims to be a science. Economics turns human effort into a calculable equation that knows the price of everything, reduces every conceivable human endeavour to an arithmetic expression of costs and benefits, and knows the social value of nothing. For the ordoliberals, the attainment of the moral sentiments and social order is more important than GDP, inasmuch as GDP does neither breed the moral sentiments nor provide for liberty that the social order, upon which its progress depends. The laws of justice do not apply to disorder. They thus reject laissez faire liberalism as a doctrine of faith in the automaticity of a system of numbers. When the going gets tough, it is incapable of defending itself. The ordoliberal Smith is the Smith of the moral sentiments and market police, of the laws of justice and empowered entrepreneurship. Compared with the ordoliberal Smith, the Smith of laissez faire liberalism is a caricature.

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<sup>88</sup> Röpke, International Economic Disintegration, p. 68.

The difference between the ordo-liberals and Smith is that unlike Smith, the ordoliberalists do not provide a social theory of capitalist social relations. They demand strong state action as the means of liberty in the face of a manifest crisis of political economy. Their stance expresses the theology of liberalism – they demand strong state authority as a means of asserting the veracity of market liberty. Smith, in contrast, does not even utter the word ‘liberalism’. There was no such system to defend. His theory of the common wealth based on invisible principles of market freedom and of the state as the means of rendering effective the system of perfect liberty ridding it from impediments, looked forward to a world that still had to be born. He saw the emergence of commercial society as a consequence of the human propensity to truck and barter, which develops through the ages by means of an ever greater division of labour towards the separation of the economic and political as interdependent spheres in and of commercial society. That is, for Smith, the system of perfect liberty is the unplanned outcome of the processes of a natural human propensity. This conception of historical becoming was well put by Adam Ferguson in 1782: ‘nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design’.<sup>89</sup> For the ordoliberalists, in contrast, the free economy is a political creation and the outcome of a political decision, and if need be, it is imposed by the state<sup>90</sup>. Unlike Smith, the ordoliberalists did not look forward to a new liberal world – they sought to prevent its collapse, and asserted the means of rescue. For them ‘liberalising’ society was not an option. It had to be ordered anew by means of strong state authority. In the late 1920s, they therefore demanded the full force of the state to secure the liberal empowerment of individuals in the self-responsible use of economic freedom, and like theological avengers, moved from the lectern to the barricade, demanding a commissarial dictatorship to reassert order and morality.

The political response to the crisis of 2008 – financial socialism for the few and austerity for the many – illustrates well the practical meaning of Marx’s notion of the state as the executive committee of the bourgeoisie. This notion reveals the liberal truth of the capitalist state. Smith’s political theory and the ordoliberal call to arms expound with great clarity its character as the political form of bourgeois society. The capitalist state is neither independent from the economy nor does it derive from it. The economic has no independent existence. It is a practice of government. The state, says Milton Friedman, provides for the ‘organisation of economy activity’.<sup>91</sup> That is, the state is not defined in relationship to the economic, and nor is the economic defined in relationship to the state, a view which implies a conception of market

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<sup>89</sup> Adam Ferguson, *Essays on the History of Civil Society* (Edinburgh: Edinburgh University Press, 1966), p. 122.

<sup>90</sup> Ronaldo Munck therefore argued that Chile is the practical birthplace of neoliberalism because its demand for a decision to impose free economy, and force a people to be free, saw its first successful manifestation in the Chilean dictatorship of 1973. ‘Neoliberalism, necessitarianism and alternatives in Latin America: there is no alternative (TINA)?’, *Third World Quarterly*, 12:3 (2003), pp 495–511.

and state as two distinct modes of social organization, and the perennial question about such a conception is whether the market has autonomy vis-à-vis the state, characterising its retreat, or the state vis-à-vis the market, characterising its resurgence. Political economy defines the state not by its relationship to the market but by class. That is, it governs for the well-ordered civil society to achieve that cheapness of provision, which results from improvements in the productive power of labour. There can thus be no economic crisis. Economy is a political economy. Economic crises are crises of political economy. That is, a crisis expresses a political failure. The state 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, or it failed in facilitating the requisite psycho-moral forces of enterprise, etc. Marx's conception of the state as the concentrated and organised force of society – 'of society viewed in relationship to itself' – focuses political economy as a political practice. As the organised force of liberty the state facilitates its order.<sup>92</sup>

Marx's stance elucidates the liberal paradox that the state always governs too much and too little. The market liberal assertion that uninhibited market forces are the only remedy to resolving economic crisis is deceitful. Uninhibited markets describe a political practice of eliminating impediments to free economy. The contemporary idea of the Big Society is equally deceitful. If anything at all, it is a political practice that in the face of the 'deepest cuts to public spending in living memory' and predicted job losses of five hundred thousand public sector workers by 2014,<sup>93</sup> demands a big society response to cope with austerity out of its own resources and by means of its own responsibility. In the big society there can be no commitment to 'stop making capitalism'.<sup>94</sup> As the proponent of Red Toryism and advocate of the Big Society, Philip Bond, argues, there can only be entrepreneurial commitments to secure that step-change in labour productivity upon which the future prospects of free economy depend.<sup>95</sup> To their credit, the ordoliberals are robust about the liberal utility of the state as the indispensable power of market freedom and entrepreneurial responsibility. They understand that for the sake of free economy, the state cannot have enough power - an apolitical enterprise society requires the 'political state' (Marx) as its concentrated force.

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<sup>91</sup> Milton Friedman, *Capitalism and Freedom* (Chicago: Chicago University Press, 1962), p. 15, see also pp. 25, 27.

<sup>92</sup> Marx, *Grundrisse*, p. 108.

<sup>93</sup> BBC News, "Spending Review 2010," October 20, 2010, <http://www.bbc.co.uk/news/uk-politics-11579979>

<sup>94</sup> John Holloway, *Crack Capitalism* (London: Pluto, 2010), pp. 253-261.

<sup>95</sup> Philip Bond, 'Common Purpose', *Ethos*, 12 (2011), retrieved from: [www.ethosjournal.com/home/item/26500-common-purpose](http://www.ethosjournal.com/home/item/26500-common-purpose); Accessed: October 3rd, 2011.