

The Influence of Neoliberalism in Europe

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Abstract

Two main orientations can be identified in neoliberalism: a liberal-social one - ordoliberalism and another predominantly conservative. The ordoliberalism (and the social market economy) are the expression of a German cultural and political development, that marked western Europe. In this paper I emphasize the role that ordoliberalism has had over the Treaties of the European Union, influencing the competition policy, the monetary policy and the system of the social market economy. I inform that the Central and Western European countries have been influenced by ordoliberalism in remodeling their own economic system.

Key words: ordoliberalism, neoliberalism, state power

J.E.L. classification: K21, L40, B13, B2

1. Introduction

From the mid 70's, Keynes's theory has entered a state of crisis. Anti-cyclical fiscal policy did not work: spending in times of crisis increased, but budget debts were not reimbursed when the economy worked better. As a result, public debt has accumulated and the margin of maneuver for deficient spending has shrunk from one crisis to another. Above all the other problems, there came two oil crises.

With the enormous rise in oil prices, a vicious circle has been instated: wages have risen, but rising energy prices have again depleted the surplus; wages have risen again, but this has led to an increase in inflation, putting new wage pressures. Economic recovery programs weren't impactful anymore. The economy stagnated, in parallel with a galloping inflation (stagflation).

Under these circumstances, the Neo-Liberals have put in place a bidding policy to encourage and attract entrepreneurs: local benefits through cost-cutting, budget consolidation and austerity measures became the order of the day.

2. Literature review

The term neoliberalism was coined in 1938 by economists Friedrich Hayek, Wilhelm Röpke and Walter Eucken at a conference in Paris on the development of a concept for a long-term economic policy, a term that was understood as a middle way between liberal capitalism, undirected and socialism. According to this concept, State interventions in the economy are justified and necessary only when market distortions are hindered by monopolies and cartels.

Two main orientations can be identified in neoliberalism: one socio-liberal (the mainstream - ordoliberalism) and another predominantly conservative.

The advocates of a wider social opening of neo-liberalism have proposed abandoning those classical liberal approaches that have proven obsolete or unrealistic, without giving up the basic principles of liberalism.

Thus, free competition on the market is indispensable, but it must be ensured and controlled by the state (given that leaving the market to self-regulate itself leads to economic crises).

The main current of this neoliberal orientation is developed within the Freiburg School before World War II is ordoliberalism. The name is related to the publication issued in 1948: the *ORDO* academic journal - the main platform of this theoretical and political orientation. The core of the ordoliberal trend was Walter Eucken (economist) and Ludwig Erhard (Finance and Chancellor).

Ordoliberalism does identify the state as a central category of capitalist economy (Haselbach, 1991; Bonefeld, 2017a). It holds that capitalist society 'cannot function without political authority' (Böhm, 2010: 167). As Franz Böhm (1973: 101) states the capitalist economy is an 'eminently political practice'. The role of the state in ordoliberalism is that of 'market police' (Rüstow, 1942: 289; Röpke, 2009: 52). The foundation of the market police is the independence of the state from the economic interests and the democratic majorities – it presumes government as an exercise in the 'independence of political will' (Eucken, 1932:307-8).

Ordoliberalism is the economic philosophy behind the successful German social model following World War II: the social market economy. The excellent economic performance and position of Germany might have given weight to the ideas behind ordoliberalism in the way in which both the EU competition policy and the EU monetary policy were constructed and have developed (Dullien and Guérot 2012).

3. Research methodology

The project explores the roots of neoliberalism in the German ordoliberal tradition. Its methodological approach is grounded in critical theory. It is an interdisciplinary study in the ideological history of neoliberalism, and bears on how we conceptualise current political economy.

The research comprises critical study of primary German language sources. Ordoliberalism developed in the late 1920 at a time of great economic uncertainty, a political crisis of ungovernability, social polarisation and strife. It argued that the free economy depends on the existence of a strong state. Ordoliberalism saw itself as a critique of laissez faire liberalism which it deemed to be unable to maintain free markets in the face of social challenges.

Ordoliberalism promotes the decentralized coordination of economic activities within a framework of rules and regulations in opposition to any form of centralizing State intervention but while granting public authorities a major role in designing and transforming these rules and regulations. This is what also differentiates it rather significantly from the contemporary Austrian liberalism of von Mises or in a more complex way from that of Friedrich Hayek, not to mention the previous generation represented by Carl Menger and Eugen von Böhm-Bawerk.

4. Ordoliberalism

Ordoliberalism is deeply interwoven with the tumultuous economic history of Germany in the 20th century. It developed in 1930s in response to the economic crises of the Weimar Republic. Its foundational thinkers were Walter Eucken, Wilhelm Röpke, Franz Böhm and Alfred-Müller Armack. Its original intellectual epicenter was Freiburg, where legal (e.g. Böhm) and economic (Eucken) scholars worked together to develop what became known as the "Freiburg School of Law and Economics", also known as Ordoliberalism.

Dardot and Laval (2017) describe ordoliberalism as simply "the German form of neoliberalism." In line with the overall neoliberal outlook, competition within the framework of the market economy lies at the core of the ordoliberal philosophy – for two main reasons.⁹ First, in practical terms, such a competitive market economy, by maximising incentives to production, is seen as the only way that the problem of the scarcity of goods can be overcome and economic output maximised. Second, and at a more basic philosophical or even moral level, such a system is seen as granting people maximum freedom to live their lives as they see fit and thus enhances human dignity.

In the process of ordoliberalism, the state must be strong, but without becoming totalitarian and without directly intervening in the economic process. A strong state means the use of limited means, capable of ensuring economic order. The state "is not an instrument of private interests, but a guarantor of order and competition."

The state must also ensure freedom for the individual through economic order. And the goal of this "order" is "to guarantee the inalienable right of the people to freedom" (W. Eucken). The key to understanding the ordoliberal approach is the concept of "economic constitution", which assures the order under which the rules of the economic game are implemented, as well as several constitutive principles:

The market cannot be left exclusively to spontaneous market forces, in order to avoid the risk of increasing private power and its prevalence over the state (as was the case with cartels - those secret agreements between firms on market sharing and sales pricing). Ordoliberals regard competitive market economy as the "constitutional order" that gives individuals the means to coordinate their preferences and decisions when allocating resources. Coordination is carried out by private agents without the interference of public authorities. This constitutional order opposes the order of privileges, in which individuals are subjected to political decision-making, and in which the preferences of some are subordinated to others. So, competition is the first constitutive principle.

Another principle relates to the free pricing mechanism in a competitive environment. Prices are the main parameters in a competitive market economy order. Any intervention during the establishing of prices alters with information and the efficient allocation of resources. Free pricing must be underpinned by the principle of monetary stability. In this sense, the ordoliberals support a strict money supply control, coupled with a control over the money demand assured by the central bank money (this thesis explains Germany's adverse reaction to US monetary policy expansion in recent years as well as their insistence to promote a fiscal austerity policy). For the Germans, austerity does not mean privatization, but fiscal discipline, in a Protestant environment of institutional ethics and social solidarity.

Private property is another constitutive principle of ordoliberalism as it is a precondition for a competitive economy that ensures the decentralized allocation of resources and constitutes a "guarantee against political and economic monopoly".

5. The Social Market Economy

The social market economy ("Soziale Marktwirtschaft") is the reflection of the ordoliberal thinking that has turned into an economic system, namely in "economic order" (Alfred Müller-Armack, 1947). Alfred Müller-Armack was inspired by Werner Sombart's concept of "social capitalism."

But the phrase "social market economy" is also the result of a political compromise between liberalism and publicly regulated social distribution so that the capitalist system can be preserved in the western part of post-war Germany: "We are talking about a social market economy to characterize this third form of economic policy. It means [...] that the market economy seems necessary as a support for the future economic order, but it is not a liberal market economy left in the will of fate, but a consciously guided economy focusing on the social aspect" (Alfred Müller-Armack, 1947).

The phrase "social market economy" may not have scientific rigor, but it is a successful political and economic project. The "social market economy" is a form of social liberalism, different from Friedrich Hayek's liberalism that we see in the UK as conservatives, libertarianism (Murray Rothbard) or constitutional liberalism (James M. Buchanan).

6. Rhine Capitalism

These new ideas also outlined the guided capitalism, "rhine" capitalism (Michel Albert, 1994) based on a coordinated market economy, on the exchange of private information through independent market institutions - trade unions or professional organizations. The rhine model developed in Germany and then expanded to other northern European countries - Belgium, the Netherlands, Austria, and Japan, focusing on collective success, on consensus, on long-term concern.

Rhine capitalism is characterized as follows:

- financial system: financing is usually provided through bank loans. This capital is "more patient" than the "shareholder value" model, allowing longer-term investments. However, this form of enterprise financing can make access to finance more difficult for new market players, such as those that set up businesses. In addition to the market, management is controlled and evaluated by others, such as banks, workers and state actors (this is the stakeholder model).

- labor relations: wages are negotiated in a coordinated and sectoral manner at a superior level to enterprises (collective bargaining agreements). Labor relations are rather long-lasting. Between stability and social balance, the bond is tight. Employers' unions and trade unions are well-organized, as are the co-decision systems at the enterprise level.

- the school and training system: the training model combines business-specific qualifications with industry-wide standards, supported by trade unions and employers' unions (dual training system). Thus, the transmission of specialized knowledge specific to enterprises and sectors of activity is established.

- business relations: there are frequent situations in which there are links between enterprises through mutual participation in capital. Branch organizations have an important role in the political system. Guided capitalism is characterized by high stability, as well as by lower dynamics and flexibility than unguided capitalism. In this system, production lines and processes are constantly changing in "low doses". Innovation progresses with small steps. The system adapts slowly to new situations.

7. Conclusions

In practice, the ordoliberal ideology has had a particular influence on the development and progress of the European rules of competition. The Maastricht Treaty of 1992 – the blueprint for European Monetary Union (EMU) – would stipulate that member states had to implement policy in “accordance with the principle of an open market economy with free competition.”(art 119 and 120). Amsterdam Treaty placed limits on states’ deficit spending and debt levels – through the Stability and Growth Pact (SGP) – and thus on the extent to which governments could economically intervene other than to promote the competitive market economy.

The central idea of ordoliberalism - after which the economy must be put in a certain order - is more than ever topical, because states fail to provide solutions to the global problems faced by mankind. Ordoliberalism and the social market economy are the expression of a German cultural and political development that marked western and European political and economic space.

In Eastern Europe, the situation is different. Eastern European countries do not have strong market institutions, and their social capital (community norms and values) is fragile and heterogeneous, as they have had a different economic and cultural development, and the degree of urbanization is low.

The incorporation of the values underlying the social market economy is slow, especially in the Balkan area, since this type of "economic order" was not built only on the background of economic evolution, but also depended on the evolution of the synergic social capital type (cooperation and complementarity between actions of social actors). Thus, an economic development depends on property relations, but also on the change of the social capital.

It is a necessary precondition for authority to act as a ‘market police’ capable even of breaking up corporations or financial institutions if they are ‘too big to fail’ and harbor excessive market power. After all, concentration of (economic) power was the source of most evils for the ordoliberals.

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