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Ordoliberalism is not responsible for Jihadist terrorism in Europe: A reply to Van der Walt (2016)

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Ordoliberalism is not Responsible for Jihadist Terrorism
in Europe – A Reply to Van der Walt (2016)

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Ordoliberalism is not Responsible for Jihadist Terrorism in Europe – A Reply to Van der Walt (2016)*

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Johan van der Walt (hereafter referred to as VDW) is indisputably an excellent scholar in legal philosophy who is well-versed in Catholic, Protestant and Calvinist theology, de-hermeneuticisation, Giorgio Agamben and Hans-Georg Gadamer. Clearly, the recent terrorist attacks in France and Belgium made a strong impression upon his research endeavours. In this context, his attempt to explain the genesis of homegrown Islamist terrorism in Europe using his expertise is understandable. However, juxtaposing one's own expertise upon disjointed fragments of less well understood research from other fields does not necessarily lend itself to convincing scholarship. VDW's (2016) argument in *When one religious extremism unmasks another: Reflections on Europe's States of Emergency as a Legacy of Ordo-Liberal De-hermeneuticisation* rests crucially upon assumptions about the current economic crisis, ordoliberalism and the genesis of terrorism; however, the author appears to lack valuable academic expertise in these topics. We strongly doubt that the simple mechanics of VDW's argument support the assertion that – with or without a process of de-hermeneuticisation – protestant ethics led to ordoliberalism, which resulted in an imposed austerity in France and ultimately Jihadist terrorism. This causal chain is not only highly questionable, but also its underlying assumptions are, in fact, inaccurate.

We begin by examining the economic arguments in VDW's article. VDW states “economic scarcity is never a naturally given phenomenon” (p. 80). From an economist's viewpoint, this is certainly a perplexing statement given that the concept of scarcity is at the heart of the field. In fact, economists believe, with good cause, that scarcity is not only a mental or ideological construct. The scarcity problem results from the fact that while resources are limited in amount, people nevertheless desire them in an infinite amount. The implication of scarcity is the need to sacrifice one resource for another. Henceforth, people begin competing for scarce resources and engaging in economic exchange. Those who most desire a resource and are willing to pay the highest price (or sacrifice) will be the ones who ultimately receive it. This mechanism guarantees mutual benefits from trade, and thus a steady increase in social welfare, if detrimental information asymmetries and power concentrations are prevented on both sides of the market.

VDW asserts that a lack of resources (or at least the prevalent public believe in “economic scarcity”) has substantially contributed to the social unrest in Molenbeek, Belgium, or the *cités* around Paris. The resulting socioeconomic grievances allegedly spawned terrorism. While this claim may possibly have some merit (though the mono-causality of this claim is at least questionable), VDW confuses the economic concept of scarcity with the political or politico-economic problem of resource distribution. He argues that there are “vast pockets of surplus wealth [that] remain exempted from the constructive redistribution of social resources” (p. 80). Economic scarcity, however, refers to the total resources available to the private *and* the public. Since the state has the *power to tax*, it is free to shift the balance between private and public pockets, while it cannot extend the total amount of available resources. If there are too few

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resources to support people in Molenbeek or in the *cités*, this is a distributional, i.e. political, problem in the first place. The sovereign French government (that would certainly oppose VDW's implicit claim of being influenced by an ordoliberal agenda set by the Germans) decided prior to the financial crisis not to support these places sufficiently. Instead, it chose, for example, *not* to tax the rich (which is in line with VDW) as well as to spend resources preferably on a large, Bismarckian-style welfare state known to perpetuate social stratification, with the inhabitants of the *cités* certainly being on very low strata.

VDW most likely did not intend to pursue this particular line of reasoning. Rather, he appears to claim that – beyond tax cuts for the rich and insufficient material support for the poor (Muslims?) – France lacks resources overall. Arguably, this is caused by stern austerity measures imposed by the Germans or, more specifically, German ordoliberals. However, the amount of resources available to any country is determined ultimately by its total “output” (i.e. its *domestic product*). In a low productivity-growth environment, spending additional resources is only possible through borrowing from others (domestic and foreign investors, or future generations). However, the accruing public debt must be repaid at some point in time. The problem is that investors are wary of lending money to countries with high perceived risk due to debt or other – often institutional – weaknesses, especially when less risky alternatives are available. On the same note, if the risk is perceived to be identical, investors often prefer to invest in a more dynamic and promising nation.

This phenomenon occurred in Germany in the late 1990s and early 2000s. The introduction of a common currency led to the impression that country risks were becoming indistinguishable in the Eurozone. Thus, portfolio capital and investments funnelled into the more dynamic southern parts of Europe rather than Germany, which was dubbed the “sick man of the euro” by *The Economist* in 1999. Since the financial crisis of 2008, France and the southern European countries have faced similar problems. Neither domestic nor international investors are willing to risk their assets on these uncertain economies. While this could be a temporary problem caused only by the current crisis, this is doubtful. More likely, global investors dislike investing in these countries precisely because they “have long traditions of relying on morally and politically quite acceptable combinations of state debt and inflationary measures to sustain socio-economic coherence and minimum levels of social equality” (p. 88).

Given that many countries compete for *scarce* investment capital, those nations with low debt, low inflation rates and competitive firms have a clear economic advantage. Regaining the trust of investors poses a difficult problem and may require economic as well as political and social reforms that hurt domestic citizens. VDW chooses to label these reforms as “imposed austerity” and traces them back to ordoliberal influence. However, this is not very convincing since the overwhelming number of international investors are likely not familiar with the term nor the concept of “ordoliberalism”. For them, investment decisions follow “normal” business sense, i.e., a simple cost-benefit calculus that is currently not in favour of investing in Southern Europe.

Contrary to VDW's bold claim about its hegemonic influence, the teaching of ordoliberalism (or “Freiburg School economics”) plays practically no role in any prominent economics or business studies curriculum in Europe (not to mention the prestigious Anglo-Saxon graduate programs where much of the European political elite is educated). If this observation about the academic marginalisation of ordoliberalism holds true, then it seems reasonable to question where the performative power of the ordoliberal theory over policy-makers or the electorate should originate from. Furthermore, it casts doubt upon whether a comparison of the de-hermeneuticisation inherent in modern Islam and ordoliberalism can serve any meaningful purpose from the very outset.

The problematic arguments continue with VDW's assertion of "an economy not suited for [imposed austerity]". If austerity implies cutting prices, wages and public debt in order to regain competitiveness or investor's trust, no country is suited for it. When Germany was still the *sick man of Europe*, the other European nations provided useful advice to the country. These suggestions included mainly structural reforms such as cutting back the welfare state (note that the advice did not include any offer of financial support). German politicians followed this – very ordoliberal-sounding – advice and actually introduced several reforms while labour unions and employers' associations agreed on moderate wage increases at the same time. Although these self-imposed austerity measures led to a very slow recovery of the German economy, they also resulted in severe political disruptions including the founding of a new left-wing party. Surprisingly, in the light of VDW's argument, they did not lead to more Jihadist terrorism. Today, countries like France are in a similar situation and there is little hope that some kind of *voodoo economics* could resolve the existing structural problems without any harm to either present or future generations – note that this is a pragmatic rather than an ordoliberal statement.

There is, however, hope for those who dislike this pessimistic narrative about the state of the French economy: redistribution of resources between countries. The crux of VDW's argument focuses on the criticism that Germans lack solidarity with their neighbours. Obviously, the EU treaties do not allow for any kind of bailout, but instruments like Eurobonds would easily bypass this legal problem. Eurobonds would have interest rates higher than those in Germany, but lower than the ones in France. Hence, Germany would pay some of the debt obligations of other countries and lose some of its competitiveness vis-à-vis the southern European member states. Not surprisingly, German voters dislike this idea, regardless of whether or not they think like ordoliberals.

The litmus test for VDW's hypothesis about the ordoliberal imprint on Europe is therefore a simple one: would the French (assuming that they do not adhere to ordoliberal principles) behave differently if they were in the same situation as the Germans? Would they share their national resources unconditionally with their poorer neighbours? Would they do so even if they knew that their neighbours did not use economically successful times to reform their economy, but focused on highly problematic sectors like banking and construction (in the case of Spain)? If increasing tax revenues resulted in increasing public debts because no efforts were made to use the additional revenues to keep the debt in check, would France be willing to help their neighbours financially? While it is clearly difficult to answer these questions, the corollary is that it might simply be national egoism, the egoism of private investors or the lack of European solidarity that resulted in the demand for austerity, rather than ordoliberal thinking.

Having said this, one may wonder whether ordoliberalism really lies at the core of the problem in a country like France. Most of the problems described above refer to a way of economic thinking that is typically ascribed to the "ice-cold logic of a new global capitalism," which lacks sentiment and solidarity. The ideas concerning austerity actually originated in the 1980s in Thatcher's Britain and Reagan's America, where the concept of a minimal state, propagated by libertarian economists like Friedrich August von Hayek,¹ Milton Friedman and Murray Rothbard received much attention. From there, their ideas slowly spilled over into the states of the European continent. In other words, the recipes that are being applied in Europe (including *Catholic* Poland), but also in the US today are not ordoliberal, but libertarian or neoliberal. The

¹ Note that the influence of Hayek (who was the director of the Walter Eucken Institute in Freiburg from 1964 to 1970) on these developments has to be attributed to his "Austrian" economic research program, in which he had shifted away from ordoliberalism in the tradition of Walter Eucken at a very early stage. Ludwig von Mises, the intellectual father of Hayek, once called the ordoliberals "ordo-interventionists" to stress the distinction between the Austrians and the Freiburg School of economics.

distinction between these liberal schools of thought is much more complex than thinking of ordoliberalism as “neoliberalism with rules”. At the heart of the distinction lies the role of the state. It seems that VDW interestingly chose not to dig deeper into these crucial differences, as his selection of references indicates (see endnote 15).

Unfortunately, most writings by ordoliberal scholars were never translated from German into English. If VDW had read these original texts or at least the contributions of scholars with a deep understanding of German ordoliberalism (such as Viktor Vanberg), he would probably have started questioning his own assumptions about the ordoliberal program. The ordoliberals, especially members of the Freiburg School, were very conscious of the need to include a strong social welfare element in their program. After all, there were millions of war widows, orphans, refugees, expellees and people who had been bombed out who could not be neglected or exposed to the harsh winds of a competitive market economy. In his *Grundsätze der Wirtschaftspolitik* (1952), Walter Eucken, the most prominent proponent of the Freiburg School, acknowledges explicitly the state’s role for implementing social policies. He subsumes them under the expression *Spezielle Sozialpolitik*, which attenuates social misfortune and economic tragedies that cannot be balanced through private insurance or individual assets.

Moreover, Eucken states explicitly that the competitive market order might lead to an income distribution that is undesirable from a social point of view and which ought to be corrected by the use of a progressive income tax if necessary. This proposal reaches far beyond the simple support of social insurance systems for which Germans have always sympathized, and which can easily be justified on moral *and* efficiency grounds. In summary, VDW’s assertion that ordoliberals “[...] are not interested in the historical circumstances and structural conditions that exclude millions of people from ever entering this order” (p. 87) is a presumptuous perversion of the significance Eucken attributed to social concerns in his oeuvre.

Regarding the connection between ordoliberalism and Protestantism, VDW’s argument remains dubious as well. Firstly, in Appendix 4 (written by Eucken) of the *Denkschrift des Freiburger Bonhoeffer-Kreises* (1942/43), the most theologically-inspired contribution of the Freiburg School, theological requirements stand equally next to theoretical economic considerations and practical aspects of the economy. Secondly, one must not ignore the strong upsurge in general religious feeling among both Protestants and Catholics after 1945, which readily explains references of ordoliberals like Eucken to a god-given order. This order was originally meant as the diametric opposite of the Third Reich, a truly godless time. Lastly, while many early scholars from Freiburg were undoubtedly influenced by Protestantism, they are only one fraction within German ordoliberalism. Especially after Ludwig Erhard and Alfred Müller-Armack enriched the ideas from Freiburg with a catholic social perspective to form the Social Market Economy, a dominance of Protestant thinking that continues until today is doubtful.

At this point, VDW would probably argue that we, as ordoliberals, due to the process of de-hermeneuticisation have turned blind-eye on our problematic tradition and religiously framed theoretical basis. We cannot exclude this possibility, but if we ignore ordoliberalism for a moment and look into any mainstream economics textbook, we will find the same arguments that we presented here. Typically, these textbooks do not rely on ordoliberalism at all. Hence, our assertion is that the European economic crisis and the responses of Germans and French are well supported by mainstream economic theory. The true reason why Germans and French have different opinions on the matter has nothing to do with ordoliberalism or de-hermeneuticisation, but rather with distributional issues. Clearly, it is a political conflict about who has to pay for the burdens resulting from the crisis.

We conclude with remarks on VDW’s vision of Jihadist terrorism resulting from a Huntington-type clash of (de-hermeneuticised) religions or quasi-religions. While we mainly accuse the author of a superficial (de-hermeneutic!) reading of ordoliberalism and the Freiburg School of

economics, we observe the same problem with the idea of de-hermeneuticised Islam. VDW's position is somewhat reminiscent of Gilles Kepel in his debate with Olivier Roy on whether the current terrorism problem results from a *radicalization of Islam* or from an *Islamicisation of radicalism*. Combined with de-hermeneuticisation, meaning the Islam – somewhat mechanically – becoming “more fundamentalist (...) and less interpretive” (p. 80), the radicalisation of Islam argument becomes an oversimplification, as the *process* of radicalization is not explained. Roy, on the other hand, argues more psychologically and places greater emphasis on individual behaviour. Following his line of reasoning, a specific combination of individual traits and environmental influences causes radicalization. This is not simple mechanics, but can be traced back to concrete root causes. In addition, Roy considers the terrorists' religious beliefs in a jihadism that is strictly marginal to Islam. If Roy is right, and there are indeed good reasons to honour his arguments, VDW's clash of religions story is indeed inaccurate from both ends.

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