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The Ideological Use and Abuse of Freiburg's
Ordoliberalism

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The Ideological Use and Abuse of Freiburg's Ordoliberalism*

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Abstract

In the aftermath of the Eurozone crisis, a ‘battle of ideas’ emerged over whether ordoliberalism is part of the cause or the solution of economic problems in Europe. While German ordoliberals argued that their policy proposals were largely ignored before and during the crisis, implying a too small role of ordoliberalism in European economic policy, critics saw too much ordoliberal influence, especially in form of austerity policies. We argue that neither view is entirely correct. Instead, both camps followed their ideological predispositions and argued strongly in favor of their preconceived *Weltanschauung*. The ordoliberal *Freiburg School* ceased being an active research program and instead grew to resemble a ‘tradition’ whose proponents shared a certain mindset of convenience. As a result, ordoliberal thinking was both *used* and *abused* by its proponents and critics to emphasize their ideologically framed policy recommendations. The present paper analyzes this ongoing debate and reflects on how the different ideological camps refer to the Freiburg School to push their own agendas. Building on this discussion, we end our paper with some constructive thoughts on how a contemporary ordoliberalism might want to react to some of the challenges of the ongoing Eurozone crisis.

Keywords: Freiburg School, Ordoliberalism, Eurozone Crisis, Austerity, Ideology

JEL Classification: B29, D43, E61, G18, P16

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By ideology I do not mean a knowingly biased or inaccurate description of the way society works, or an attempt to bamboozle the populace with explanations that economists know in their heart of hearts to be false. I mean, rather, an earnest and sincere effort to explain society as its ideologists themselves perceive it: an effort to speak the truth at all costs. What is “ideological” about such an effort is not its hypocrisy but its absence of historical perspective, its failure to perceive that its pronouncements are a belief system, conditioned like all belief systems by the political and social premises of the social order.

Robert L. Heilbroner (1988: 40-41)

1. Introduction

In the aftermath of the Eurozone crisis, which began in 2009 and is still ongoing, a puzzling debate on the role of ordoliberalism in European (economic) policy started. On the one hand, German ordoliberals complained that their ideas and concepts for European recovery had been ignored by politicians (Krieger 2018). Ordoliberals considered the political reaction to the crisis to be dominated by national interests, log-rolling and rent-seeking, and not the result of economic reasoning and an adherence to common, possibly ordoliberal rules (Dold and Krieger 2017a).

On the other hand, critics accused ordoliberalism of being responsible for not resolving the Eurozone crisis in a timely fashion, but also prolonging the suffering of Eurozone members located in the European periphery by advocating growth-reducing austerity policies and structural changes (among others, Krugman 2014; Blyth 2015; Ryner 2015; van der Walt 2016). Moreover, these critics “in Anglo-Saxon academic journals and print media with little involvement of German economists (...) [take it] for granted that ordoliberal thinking is a coherent intellectual Weltanschauung which provides ‘an authoritarian, undemocratic and technocratic turn in European governance’” (Young 2015: 7; quote referring to Biebricher 2013: 345).¹

These contrasting perspectives on ordoliberalism and its role in the Eurozone crisis provide the backdrop against which this paper sets out to discuss the *ideological uses and abuses of Freiburg’s ordoliberalism*. More generally, we argue that this debate can be seen as an example of the various ways in which schools of economic thought are the object of ideologically motivated uses and abuses in policymaking.

While economics has little to say about ideology (North 1988), economics has frequently been accused of being ideological. In this regard, much of the critique of economics results from different views on the economy. While economic theory usually portrays the economy as a ‘system’, i.e. a social structure that functions analogously to the “affectless interactions of the

¹ To give just one example of what a typical article on the role of ordoliberalism during the Eurozone crisis looked like, consider Art (2015) with the telling title “The German Rescue of the Eurozone: How Germany is Getting the Europe it Always Wanted” published in *Political Science Quarterly*. In this 32-page paper, the only direct references to ordoliberal scholars is a text by Wilhelm Röpke originally published in 1944, and another one by Alfred Müller-Armack, published in 1956 (note that no reference at all is given to scholars from Freiburg). For a synopsis of ordoliberalism, the author refers to a text by Ralf Ptak (Ptak 2009), a left-wing economist without any connections to the Ordoliberal School (which, today, is probably best represented by Lars Feld and Viktor Vanberg, the current and the former director of the Walter Eucken Institute in Freiburg). Even more puzzling: In the sections on the recent policies regarding the Eurozone crisis, the number of references drops substantially. In the section on the Outright Monetary Transactions (OMT) program not a single reference is given, although many German economists have written on this issue.

physical universe”, implying that its properties can be discussed in the neutral language of a science (Heilbroner 1990:107-8), critics of economic theory often see the economy as a ‘regime’ resulting from social hierarchies and communal relationships (Heilbroner 1990).² Even if, like Schumpeter (1949), one rejects the idea that ideology necessarily involves a deliberate misrepresentation of social reality, there is evidently an asymmetry in the views on how ideological economics is: While economists believe in the field’s scientism and the possibility of ‘positive’ economics (see, e.g., Friedman 1953), critics think of it as a ‘normative’ exercise in market liberalism (see, e.g., Foucault 1978-9).

More practically, ideologies can be understood as selective or partial representations of a complex world (Heilbroner 1988, 1990). In economics, the standard for careful scientific work is met when plausible generalizations are supported by robust data. This combination of theory and evidence, economists believe, delivers important insights on how the economy works. However, the evidence may be inconclusive and a specific class of models may not be the only possible representation of observable behavior of economic agents. This leaves researchers with the task of choosing reasonable models and interpreting their findings, which is a difficult challenge because the theoretical presuppositions as well as the political views of the researcher lead to value- or theory-laden explanations (Hands 2001, chapter 3). Or, in Weintraub’s (1990: 122) words: economic “[s]cience makes worlds, not discoveries”.

This is particularly problematic in (macro-)economic policy, including those policy measures aimed at resolving an economic or financial crisis like the Eurozone crisis, where the lack of counterfactuals opens the opportunity to evaluate a policy measure as a success that is slightly beneficial in absolute, but a failure in relative terms, i.e., there might have been other economic measures available that would have been more beneficial to society, all things considered. In contrast to the natural sciences, economic policy ‘experiments’ such as economic reforms cannot be repeated under different environmental settings and compared on this basis.³ Hence, it is impossible to know whether the decision for a particular reform policy achieves the best possible outcome in comparison to other reform options. From the perspective of the (ideological) group that introduced the reform, the slightest success ‘proves’ that the best policy was chosen in the first place. The opposing group will, at the same time, not be able to prove them wrong.

Within a specific interpretive community of scientists (the ordoliberals, the monetarists, the post-Keynesian macroeconomists, etc.), an ideology is shared, defined and supported by selective evidence and constructed theories (Weintraub 1990): it ends up having ‘its’ texts, theories and arguments. Importantly, however, to be successful the different camps that argue in favor of their ideologies or ideologically framed policy proposals need to convince policy-makers as well as voters outside their peer group. In this respect, ideology becomes inevitably intertwined with rhetoric, understood as “the whole art and science of argument, the honest persuasion that is good conversation” (Klamer and McCloskey 1988: 10). While academic discourse arguably may often come close to resembling an exercise in “honest persuasion”, (distributional) stakes tend to be much higher in political discourse. Therefore, public debates most likely do not result in a ‘struggle over ideas’ but rather a ‘battle of ideas’. Against this backdrop, it does not come as a surprise that Brunnermeier et al. (2016) call their remarkable book on the Eurozone crisis “The Euro and the Battle of Ideas”.

² While we refer to Heilbroner’s conceptual approach to ideology here, we do not want to engage in the debate on his – heavily disputed – claim of economics being an ideology; for details, see Weintraub’s (1990) comment on Heilbroner (1990).

³ This is reminiscent of Lucas’ (1976) critique.

To the surprise of many ordoliberal scholars, critics claim that Freiburg's ordoliberalism is one of the major participants in this very battle of ideas. There are good reasons to doubt the presumed size of the impact of ordoliberalism on European policy outcomes. However, as we will explain, the Freiburg School indeed suffers from the same problem that any school of thought is likely to have when it turns into a mere "tradition" (Dyson 2017) rather than being an active research program: it may fall victim of being used and abused as an ideology. More specifically, we will investigate how *uses* and *abuses* of Freiburg's ordoliberalism may occur both 'from within' and 'from outside'. Here, 'within' refers to participants of public debates that argue along ordoliberal lines including ordoliberal scholars themselves; the 'outside' consists of critics of (supposedly) ordoliberal thinking.

The paper proceeds as follows. In the next section, we will clarify what we mean by the ideological *abuse* of ordoliberal thinking. In Section 3, we will recapitulate the origins and – so far – unsuccessful attempts to solve the Eurozone crisis in order to demonstrate that national pragmatism, rather than ideology, spurred various political reactions to the crisis. In section 4, we will argue that it is this neglect of the 'banality of the mundane' that drove the ideological abuse of ordoliberalism 'from outside' and the systematic disregard by ordoliberal scholars for the international economic discourse that drove the ideological abuse 'from within', leading to a self-enforcing interaction between these two forms of ideological abuses. When research programs become traditions they lose their continuity and fail to strengthen their theoretical foundations. As this often facilitates ideological abuses, in Section 5 we will explore future lines of research which may revive and sharpen (Freiburg's) ordoliberalism; i.e., we will explore the ideological *uses* of ordoliberalism. Section 6 concludes.

2. The Abuses of Ordoliberal Thinking

Ideological *abuses* 'from within' could be frequently observed during the Eurozone crisis. By this we mean arguments in the public discourse that are framed in an ordoliberal sense. For example, the 'Swabian housewife',⁴ who never spends more than what she saves, has become the symbol of seemingly ordoliberalism-dominated crisis management characterized by German demands for 'austerity' (Hien 2017). Furthermore, some politicians and public intellectuals abused their ordoliberal position when they simply accused Southern European countries of breaking the rules by following their 'lazy mentalities' and eschewing structural reforms. For instance, they connect their ordoliberal complaints about southern Europeans' reluctance to reform with labelling these countries 'Club Med' (see, e.g., Berthold 2017), thereby evoking images of premium all-inclusive holidays (a private company with this name offers this type of vacation and runs many resorts at the Mediterranean Sea).⁵

'From outside', the ideological *abuses* appear as a strong critique of ordoliberal ideas that is rarely based on a sound reading of the school's defining texts. Critics often project their own ideological categories onto the ordoliberal school of thought. In doing so, they reassure themselves of the correctness of their own *Weltanschauung* or, possibly, 'supreme' values. Denouncing a school of thought as an ideology (in a more negative sense than Heilbroner and others do; see above) is a classic means of achieving opinion leadership in a fierce public debate

⁴ After the collapse of Lehman Brothers in 2008, German chancellor Angela Merkel stated: "One should simply have asked the Swabian housewife (...) She would have told us that you cannot live beyond your means." (Cited after King 2015: 29).

⁵ This is very much in line with German chancellor Angela Merkel stating in 2011 that "(i)t is also important that people in countries like Greece, Spain and Portugal are not able to retire earlier than in Germany – that everyone exerts themselves more or less equally. (...) We can't have a common currency where some get lots of vacation time and others very little. That won't work in the long term." (Der Spiegel 2011).

(e.g., Freeden 2006).⁶ In the current debate, a striking example of this form of ideological abuse can be found in an article by van der Walt (2016) whose arguments suggest very simplistic mechanics that run from ordoliberalism to jihadism. According to the author, protestant ethics led to ordoliberalism (several members of the Freiburg School were indeed protestants), which resulted in imposed austerity in France and ultimately jihadist terrorism. Dold and Krieger (2017a) argue that van der Walt's 'clash of religions story' is inaccurate on both fronts: it betrays a lack of knowledge of ordoliberalism and of jihadist terrorism. Due to the simplistic character of the statement, there might be a good reason to assume that the claim of ordoliberalism being an ideology actually emanates from the author's attempt to disguise the ideological core of his own argument.

There is, however, an important remark to be made here. Both types of ideological abuses – the one 'from within' and the one 'from outside' – tend to complement and stimulate one another. The less reflective a school becomes from within and the more it tends to criticize other opinions on ideological grounds, the more likely is an ideological backlash from the outside. Often it remains unclear who actually started the ideological dispute. Take, for example, the German economists and politicians who sense "moral hazards at every turn" (Landmann, forthcoming). This inappropriate simplification of the living conditions of poor and elderly Greeks suffering severely from austerity programs may lead, as a matter of course, to a harsh response from critics.

At the same time, it is certainly not conducive to a reasonable exchange between both sides when Münchau (2014) talks about the "wacky economics of Germany's parallel universe (...)" German economists roughly fall into two groups: those that have not read Keynes, and those that have not understood Keynes." Statements like this preclude any debate on how highly complex economic problems ought to be solved by – necessarily highly complex – economic reforms. Since the solution of the Eurozone crisis requires economic expertise but also touches upon significant national interests regarding massive distributional issues, a simplistic ideological answer seems inappropriate. Hence, on both sides of this debate, ordoliberalism appears – at least to some degree – to be "overused and undertheorized" (Young 2015: 11).

In the following, we will investigate the debate on the role of ordoliberalism in the Eurozone crisis in more detail. On the one hand, we will show that German politicians have indeed claimed that their policy measures rest on an ordoliberal foundation. We will argue that this position is neither backed by early ordoliberal theoretical writings nor by more recent ordoliberal scholarship, which often lacks expertise in macroeconomics and financial market economics. Ordoliberalism has been used as if it were a "tradition (...) associated with a certain mind-set" (Dyson, forthcoming; 2017), which combines elements of the main lines of ordoliberal thinking from the past, but also convenient personal interpretations of what ordoliberalism ought to be in the present.

On the other hand, we will show that critics of German economic policy find it all too convenient to use ordoliberalism as the culprit for their general dislike of the German political position. They ignore that solving the Eurozone crisis involves enormous costs that need to be shared among EU member states. Given the complex interplay of responsibilities (Krieger 2016), it is not easy to identify a 'fair' share of burden between the 'irresponsible' Southern European debtors and the 'careless' German investors. Since in a democratic European Union, which honors member states' sovereignty and their national policy interests, deciding on other countries public finances is not an option, moral pressure is used as an attempt to increase the

⁶ As Freeden (2006: 4) writes: "... the term [ideology] is very common, though not beloved, among scholars, writers and academics, and it has an illustrious pedigree, although regrettably also a notorious one ... We find it in the 'slash and destroy' mode when used to rubbish another point of view."

share of burden of the German investors, inter alia, by means of the implementation of Eurobonds and a more integrated fiscal policy on the EU level.

3. Political Responses to the Eurozone Crisis: Pragmatic, not Ideological

Even ten years after the US investment bank Lehman Brothers filed for bankruptcy in 2008, marking the starting point of the global financial crisis from which the Eurozone crisis emanated, the Eurozone has not fully recovered. Most recently, the left-right populist Italian government proclaimed a tripling of its fiscal deficit in 2019 compared to the previous agreement with the European Commission. Given the already very high public debt of approximately 130 percent of GDP, the Italian government's plan is criticized by most observers since it threatens the stability of the Eurozone (e.g., Spence 2018). Apparently, the Eurozone has yet to find an institutional order that allows member states to pursue their own economic policy without – in case of irresponsible fiscal policies – endangering other member states' fiscal stability.

It is beyond the scope of this paper to discuss the root causes and origins of the Eurozone crisis in detail.⁷ According to Becker and Fuest (2017), there are three main narratives to explain the Eurozone crisis. First, since the European Monetary Union is not an 'optimal currency area' (OCA), asymmetric shocks like the financial crisis spilling from the US housing market to housing markets in the European periphery cannot be accommodated with sensible countermeasures. Since these countries were hit most and they had relatively high unit labor costs, their competitiveness decreased, but they could not respond by means of currency devaluations (or mass emigration). Second, unsustainably high public debt in some countries in the European periphery (mainly Greece and Italy) caused a loss of confidence in the fiscal stability of all member states in Southern Europe (and Ireland). The significance of this view is challenged, however, by the fact that public debt was reasonable in countries like Spain. Third, extensive international capital flows into countries in the European periphery resulted in high current account deficits. Since inflows were often used to finance investments in non-tradables, especially in the real estate sector, and since the financial crisis started as a subprime mortgage crisis in the US, the loss of confidence of international investors led to a 'sudden stop' of capital inflows, putting the respective countries into deep trouble. In all three scenarios, insufficient regulation of the banking sectors, non-enforceable rules for fiscal deficit control and poor crisis management at the European level aggravated the problems. Ultimately, Becker and Fuest (2017) identify a commitment problem at the heart of the crisis, because most European legislation and treaties for the EMU were 'fair weather politics' that were no longer suitable in times of crisis.

More relevant for our analysis are, however, the times of crisis resolution and development of a new European institutional framework for avoiding future crises. Again, it is not overly instructive to provide a precise account of all policy measures that were introduced post crisis, including the European Financial Stability Facility (EFSF), the European Financial Stabilisation Mechanism (EFSM), the European Stability Mechanism (ESM), the European Fiscal Compact, the Two and Six Packs, the Banking Union etc. The same is true for the additional monetary policy measures by the European Central Bank which directly aimed at providing relief for anxious financial markets (and, allegedly, public coffers in Southern Europe). Rather, we are interested in why (at least) two political camps are fighting a 'battle of ideas' (Brunnermeier et al., 2016) instead of solving actual economic problems (note that the

⁷ There are various extensive accounts of these developments, e.g., Sinn (2014).

new institutional framework that Eurozone member states are working on is all about future, not current, crisis resolution).

Aware of our own ideological biases, we argue that governments' slow crisis resolution in the Eurozone can reasonably be explained game-theoretically by a 'war of attrition' or 'chicken' game (Schimmelpfennig 2015; Krieger 2016). This game is a variant of a timing game which is characterized by a last mover advantage (Brunnermeier and Morgan 2010; Bulow and Klemperer 1999; Fudenberg and Tirole 1991; Osborne 2003). The game involves two contestants who compete for a valuable resource. They do so by resorting to a 'wait-and-see' strategy because the contestant, or government, that moves first and reveals its strategy is fated to be the loser. The main problem with this game is that the players constantly accumulate costs for the entire duration of the contest. In other words, while both players individually have an incentive to wait so that they do not have to give in, this strategy leads to the worst possible collective outcome.

In the Eurozone, the 'prize' in this 'war of attrition' was, and is, to minimize one's own costs of crisis resolution. Given that these substantial costs will eventually materialize, they have to be paid by some country (or, more specifically, by its citizens who may – as voters – punish their government for too costly bargains) at some point in time. This implies that, ultimately, distributional issues of burden sharing are at stake, which directly challenge the member states' legislative prerogative to determine their fiscal policy independently. Trying nevertheless to act independently, governments of the crisis countries on the European periphery often decided to delay the implementation of structural reforms until assistance from the core arrived (which did not happen). At the same time, the governments of the countries at the core (such as Germany or the Netherlands) preferred to wait for stabilizing structural reforms to be implemented at the periphery in order to minimize their own economic and political costs.

Yet, waiting further increased the negative macroeconomic effects of the crisis. The costs of the crisis amounted more quickly for the less resilient Southern European countries, driving up their costs of further waiting. This put countries like Greece in a relatively weak position compared to the post-crisis economic powerhouses in Europe, in particular Germany. Considering the efforts at the European level to resolve the crisis, Schimmelpfennig (2015) concludes that “[w]hereas negotiations produced a co-operative solution averting the breakdown of the euro area and strengthening the credibility of member state commitments, asymmetrical interdependence resulted in a burden-sharing and institutional design that reflected German preferences predominantly.” One does not have to agree with this conclusion but the Greek population – without doubt – did not fare well in the process of crisis resolution.

The relative position of a country, i.e., its threat point, in the Eurozone crisis-resolution bargaining game depended (and still depends) not on economic performance alone but also on other factors. First, there is a time dimension. Immediately after the crisis started, the uncertainty about the financial linkages between banks, insurance companies and other financial players of the Eurozone member states was enormous and so was the fear that macroeconomic instability and even state insolvency could spill over to neighboring countries. This gave countries that were candidates for negative macroeconomic outcomes a relatively strong position. With time passing, however, cross-border financial involvement was reduced and the resilience of the national financial sectors increased. Second, the sheer size of national economies affects their relative strength in bargaining. Compared to Greece, Spain was given much more favorable conditions regarding economic reforms; and today, Italy is still seen as a threat to financial stability in the Eurozone. Third, whether or not an economy is a key market for the dominant player in the game might affect bargaining as well. For instance, France has always been treated quite favorably during the Eurozone crisis, despite its budgetary problems.

In fact, while pushing for a tough stance on some highly indebted countries, Germany in particular had a self-interest in not losing the French or Spanish markets for exports. In sum, while there were advantages for those countries that survived the crisis easily, mainly in the early years after the crisis, the heavier affected countries were strategically on an equal footing. This would have allowed more balanced steps toward crisis resolution if not for shortsighted policies that were driven by narrowly constructed national interests. Countries played out their threat points because they believed they could minimize the costs of crisis resolution for themselves. Yet this just led to more waiting and more macroeconomic damage.

The shortsightedness of political actors, most prominently epitomized by German chancellor Angela Merkel's expression "driving by sight" when dealing with the Eurozone crisis (quoted after Zestos 2016: 146), not necessarily their steadfast ideological fundament, played a pivotal role in prolonging the crisis. Feld et al. (2015) rightly state that "German economic policy was simply a pragmatic response to different crisis phenomena (...) German pragmatism during the crisis has caused an unintended break of basic principles of ordoliberalism – surrendering EMU's de-politicised monetary constitution against the prevention of further fiscal integration on the EU level."⁸ In the same vein, Burda (2015) adds that "[i]t is not ordoliberal religion, but a mixture of national self-interest and healthy mistrust informed by experience that guides German economic policy today." The latter remark refers to the experience with Germany's federal structure in which joint liability for each state's debt led to ever-increasing debts: "Understandably, moral hazard becomes a categorical imperative." Or, as Kluth (2018) puts it, "within Germany, rich Bavarians are already fed up with bailing out indebted Berliners, and Germans don't want to replicate this 'transfer union' in the EU." This fear of bailouts and deeper fiscal integration – be it through Eurobonds, joint deposit insurance or other 'transfer union'-like means – drove, and drives, Germany's position in the negotiations about the resolution of the Eurozone crisis.

In the following section, we will argue that the neglect of the role of national pragmatism led critics of ordoliberalism to overstate the role of ordoliberal ideas in managing the Eurozone crisis. Ultimately, we think that this lack of acknowledging the 'banality of the mundane' drove the ideological abuse of ordoliberalism 'from outside'. However, we will also argue subsequently that the intellectual history of German ordoliberalism (especially in form of a systematic disregard for the international discourse in macroeconomic theory as well as a fixation with rules and balanced budgets) contributed its fair share to the ideological abuse 'from within'.

4. Pragmatism? Egoism? Neoliberalism? ... Ordoliberalism!

Many articles that criticize the role of ordoliberalism in the current Eurozone crisis are ultimately driven by an attempt to clarify or interpret the German response to the crisis. More specifically, they try to make sense of Germany's seeming passion for hard currencies, low public debts and high national savings rates. These factors are suspected to direct German demands for 'austerity', i.e., its call for a deflation of prices, wages and public debts in crisis countries in order to regain competitiveness or investors' trust (Blyth 2015; Dold and Krieger 2017).

In spite of the convincing arguments that identify national pragmatism and self-interest at the heart of German crisis policies – think, for instance, of the bailouts of major German banks (see

⁸ This 'pragmatic response' driven by German national interests surely merits its own in-depth analysis. Yet, this lies beyond the scope of this paper (but is nicely explored, e.g., in Feld et al. 2015).

Feld et al. 2015; Krieger 2016) – many critics of ordoliberalism shy away from accepting or seeing this point. In the aftermath of World War II, pragmatism, egoism or even nationalism were usually not seen as an opportune description of German policies. Rather, Germans were regarded as the biggest supporters of European integration and, indeed, they fulfilled this role by being one of the biggest financial net contributors to the EU budget. However, with a new generation of politicians in the post-Kohl era, who did not experience the war and who were (and are) elected by voters who take peace in Europe for granted, national economic self-interest increasingly trumped beliefs that European integration is first and foremost a peace project. This changed Germany's political role in Europe, but was not necessarily recognized by the European public.⁹

Another potential reason why critics were not willing to accept the argument of national pragmatism might be the fact that one can apply this logic, in principle, to any country in the world. Therefore, Dold and Krieger (2017) call the argument of national pragmatism the 'litmus test' of the current critique of ordoliberalism: would France, for instance, react differently if it were in a similar situation as Germany? Would France guarantee public-sector loans or debt relief to countries with a history of national insolvency? Of course, we don't know the answer to this hypothetical question. However, if ordoliberalism is responsible for the German support of austerity policies, France would have to react fundamentally differently to the current challenges (e.g., by a call for the collectivization of national debts). One might doubt whether this would indeed be the case.

In addition, it seems rather absurd to accuse German crisis management for being too 'neoliberal', as some of the critics of ordoliberalism have done (see, e.g., Van der Walt 2016; Bonefeld 2012).¹⁰ German politics (and, for that matter, ordoliberalism) is committed to the idea of a social market economy with a strong state that guarantees social security and prevents the concentration of market power. The German economic model was coined 'Rhine capitalism' by Albert (1993) which favors the model of a *social* market economy. This can be contrasted with the American model of a *pure* market economy which, at the outset, puts less emphasis on the notion of social justice or the idea of greater economic equality. Hence, the term 'neoliberalism' (or for that matter, market liberalism) should rather be associated with the Anglo-American version of capitalism that has its intellectual roots in Chicago School economics, with its most famous proponent Milton Friedman, whose pro-market thinking is quite distinct from German ordoliberals like Walter Eucken or Franz Böhm (Dold and Krieger 2017; Young 2017).

In their search for a specific 'Germanic element' that could explain the political reaction of Germany to the Eurozone crisis and which was not confined to the ideas of national pragmatism or neoliberalism, critics singled out ordoliberalism. Since its intellectual roots lie in Germany (more specifically in Freiburg) and since some of its core theses – such as the inseparable connection of freedom and liability – were propagated repeatedly by German politicians, economists, and the media, critics were sure to have found the scapegoat for the puzzling

⁹ In fact, many observers were surprised when Germany assumed not only economic but also political leadership during the Eurozone crisis. Traditionally, Germany and France split their leadership roles, with France leading politically and Germany economically.

¹⁰ For instance, Bonefeld (2012: 633) writes: "the study of ordoliberalism brings to the fore a tradition of a state-centric neoliberalism, one that says that economic freedom is ordered freedom, one that argues that the strong state is the political form of free markets, and one that conceives of competition and enterprise as a political task." In addition to the claim that ordoliberalism is neoliberal (here meaning a radical market fundamentalism), Bonefeld connects the ordoliberals' quest for a strong state with the Schmittian notion of a 'strong state', which "if read in isolation, may sound undemocratic or even anti-democratic" (Young 2017: 136; Vanberg 2015). For an extensive reflection on this problematic comparison, see Berghahn and Young (2013).

reactions of Germany to the Eurozone crisis. Young (2015) labels this behavior of the critics the ‘hijacking of ordoliberalism’ in the sense that they project all types of bad features into ordoliberalism (such as a ‘Teutonic obsession’ with rules or saving), without trying to understand the theoretical and normative core of the research program. While well aware that our explanation is very broad, we nevertheless believe that this ‘hijacking’ explains the essence of the ideological abuse of ordoliberalism ‘from outside’.

One should not ignore, however, that German economic policy exhibits certain historically and institutionally shaped characteristics and beliefs which provide fertile ground for critics. For instance, German policy makers often emphasize a national preference for low inflation rates resulting from the country’s experience with two major episodes of inflation (the hyperinflation of 1923 and the suppressed inflation of 1948).¹¹ From a Keynesian perspective, this does not appear to be very helpful in fighting unemployment. High savings rates, as seemingly preferred by the Swabian housewife, have been deemed typically German, too: “Welcome to Germany: Erst Sparen, dann Kaufen!” (Blyth 2015: 132; German in the original text¹²). According to Blyth (2015: 216), from there it is only a small step toward “Kein Kaufen, nur Sparen!”¹³, a “very ordoliberal/Austrian slogan”, which again clearly runs counter to any Keynesian approach to crisis solution.

Finally, a more current German experience was the economic bust in the early 2000s, when Germany was dubbed the “sick man of the Euro”. Economic reforms and pay restraints, i.e., austerity measures, were used to recover from that crisis; however, not without a high political and social price to be paid.¹⁴ In fact, these policies – although perceived as hard and sometimes unjust – were believed to have formed the basis for Germany’s later – and ongoing – economic success.¹⁵ This ‘success story’ appears to many Germans as a useful model to restore economic success in the European crisis countries of today. This thinking is reminiscent of the projection of Germany’s social market economy as a role model for successful economic policy in general (and in Europe specifically). As Tribe (1990: 631-632) concludes: “The term [social market economy] did after all gain definition only after economic recovery was under way in the Federal Republic, and has consequently since then been associated with the more positive aspects of German economic development. In this way the principles of the ‘social market economy’ have become identified with whatever is thought to have been fundamental to the successes of the postwar German economy.” We will return to this point when considering the ordoliberal perspective on crisis resolution in the next section.

5. The Fair Share of German Ordoliberals

The debate about the role of ordoliberalism in shaping German crisis politics shows how problematic it is when research programs do not keep up with or take part in the international scientific discourse. The aforementioned critique of ordoliberalism could get out of hand *because* ordoliberalism is largely an unknown intellectual tradition outside of Germany. Some critics point out – whether justly or unjustly – that over time German ordoliberalism became “more fundamentalist (...) and less interpretive” (van der Walt 2016: 80). For instance, it is an important economic insight that Eucken’s constituting principles of a competitive order (viz., a

¹¹ There is, however, no particularly strong empirical evidence for this claim (e.g., Shiller 1997).

¹² “Erst sparen, dann kaufen” = “First save before you buy”.

¹³ “Kein Kaufen, nur Sparen” = “No buying, just saving”.

¹⁴ Among other things, the German Social Democrats (SPD), who were held responsible for the reforms, lost part of their members and clientele to a new left-wing party (Die Linke).

¹⁵ For a more balanced view on this ‘narrative’, see Dustmann et al. (2014).

functioning price system, the primacy of the monetary order, open markets, private property, freedom of contract, liability, and continuity of economic policy) are to a greater or lesser extent part of any efficient economy. However, without any theoretical qualification or empirical weighting in concrete cases (e.g., in the event of a transformative economy) the status of Eucken's principles might be reduced to a mere dogma.

One of the unfortunate features of ordoliberal scholarship has been its neglect of ongoing debates in contemporary macroeconomics. Bachmann (forthcoming) points out that a “[f]ocus on microeconomics, if not the mathematical methods, is entirely consistent with ordoliberal ideas (see Hesse 2010: 53). With the prestige that economic theory has always enjoyed in German economics academia (ibid: 261) this meant: a long-lasting dearth of applied macroeconomic theory and empirical macroeconomics.” Furthermore, Bachmann points out that many German economists of an ordoliberal tilt are convinced that Anglo-American macroeconomics equals Keynesianism and left-wing economic policy. In addition, the fact that some ordoliberals after Eucken simply equated a functioning market economy with the realization of business interests (Braunberger 2016), while neglecting the fact that ‘exit and voice’ on behalf of the workers and consumers is a necessary prerequisite for a ‘record-type competition’ (*Leistungswettbewerb*), did not help to enhance their scientific reputation.¹⁶

While Bachman and Braunberger rightly criticize the lack of empirical research of ordoliberal economists, Landmann (forthcoming) points out that ordoliberalism emphasizes price stability and liability on the micro level, but it neglects the role of fiscal policy in securing macroeconomic stability on the national or supranational level. The reason is, according to Landmann, that “ordoliberalism was designed as a rulebook for running a market economy, not as a blueprint for the architecture of a currency union.” Due to its historical roots, ordoliberals of today tend to neglect the macroeconomics of the Eurozone at large. At the end of his assessment of ordoliberalism, Landmann urges that “it is at times hard to shake off the impression that the respectability of ordoliberalism is used as cover for a thinly veiled nationalist conservatism.”

Indeed, some macroeconomic arguments that have been proposed under the label of ordoliberalism appear precarious. Burda (in *The Economist*, 2015) and Krugman (in the *New York Times*, 2014) point out that the logic of the Swabian housewife no longer applies when ‘the aggregation step’ is made. If all individuals and governments in the Eurozone cut spending at the same time, aggregate demand may fall to such an extent that any microeconomic reform will be overcompensated. Even if one does not follow this Keynesian logic, the idea that all members of the Eurozone could run current account surpluses at the same time (after successfully implemented austerity measures) is hardly convincing. Krugman (2014) calls this German logic ‘ordarithmetics’: “As [the Germans] see it, their economy was in the doldrums at the end of the 1990s; they then cut labor costs, gaining a huge competitive advantage, and began running gigantic trade surpluses. So their recipe for global recovery is for everyone to deflate, gaining a huge competitive advantage, and begin running gigantic trade surpluses. You

¹⁶ Eucken himself was well aware of the crucial role of a ‘record-type competition’ for the efficiency and stability of the economic order. Eucken (1949) argued against ‘prevention competition’ (*Behinderungswettbewerb*), i.e., a market order that prevents competition from other producers – or, for that matter, consumers’ reactions. Eucken’s approach combines ideas of coordination through the invisible price mechanism with ‘record-type games’ that incentivize excellence, while rejecting ‘struggle-type games’ which determine winners in zero-sum games (Dold and Krieger 2017b).

may think there's some kind of arithmetic problem here, but in Germany they have their own intellectual tradition."¹⁷

There is another macroeconomic misinterpretation on the German (ordoliberal) side. If one recapitulates how the crisis evolved, one observes that a part of the quick economic recovery in Germany after the crisis was driven by capital inflows due to Germany being a fiscally stable 'safe haven' compared to the European periphery. Germany benefitted from the increasing interest rate spread relative to the rest of Europe and the devaluation of the Euro. Hence, the German belief that self-imposed austerity measures in the early 2000s are the reason for today's economic success is only partly true. A reason for Germany's fast recovery is also the relative weakness of other European economies. In turn, this implies that the current economic situation in Germany is abnormal, a consequence of the crisis, rather than self-made. Once the Eurozone as a whole overcomes the crisis and recovers economically, Germany will lose parts of its competitive advantage. In this respect, the request for more public spending in Germany may not be entirely misled. Additional spending on infrastructure (but, obviously, not on government consumption) could have helped to sustain German competitiveness and to support European neighbors at the same time, but it was not an option from the point of view of German politicians in the aftermath of the crisis.

As the last point indicates, the broader debate might indeed have an important ideological component that goes beyond the discussion about theoretical details. During the crisis, German politicians moralized about the size of public debts in countries like Greece and Italy. Hardly surprising, Becker and Fuest's (2017) second narrative about non-sustainable public debts being responsible for the crisis was the most popular explanation for the crisis in Germany. Against this backdrop, it is easy to derive a moral obligation of countries with high debts having to 'earn' support from the German state. In fact, the German word for 'debt' (*Schuld*) has two meanings: debt and guilt. In a moral or even religious sense, it is only a short step from guilt toward sin. Some authors have pointed out that the Eurozone may also be interpreted as a conflict between – catholic – debt 'sinners' in the South and – protestant – debt 'saints' in the North (e.g., Hien, forthcoming). Josef Hien, in a lecture at the University of Freiburg in 2017, asked provocatively whether ordoliberalism is "protestant medicine against catholic dissoluteness".

6. A Revival of Ordoliberal 'Ideology'

Having highlighted, so far, the ideological 'abuses' of ordoliberalism, it remains to be asked whether there are – more positive – 'uses' of this school of thought, too. As the title of our article suggests, we believe that there are indeed positive 'uses' of ordoliberal 'ideology'. In line with Heilbroner's quote at the beginning of this paper and Freeden's (2006) rehabilitation of the term 'ideology' as an analytical tool,¹⁸ we are convinced that ordoliberalism has much to

¹⁷ In the debate on the best means to solve the mostly macro-level crisis, two schools of thought indeed seem to oppose one another and neither of them is willing to give in. The respective policy conceptions differ remarkably; in the words of Brunnermeier et al. (2016: 4): "The northern vision is about rules, rigor and consistency, while the southern emphasis is on need for flexibility, adaptability and innovation. It is Kant versus Machiavelli. Economics have long been familiar with this kind of debate and refer to it as rules versus discretion." In this respect, it is also a debate between (self-declared) ordoliberals and (often) Keynesian pragmatists about the willingness to use taxpayer's money for quick crisis resolution through demand management. Against this backdrop, van der Walt's (2016: 88) argument that Southern Eurozone member states "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" sounds quite provocative to the Swabian housewife.

¹⁸ Freeden (2006: 21) states that "the rehabilitation of ideology both as social phenomenon and as analytical tool has shifted it from just a class or mass occurrence to a general feature of political thinking. It has removed it from

contribute to the current debate about the future of the Eurozone. In particular, ordoliberalism can bring back political and normative thinking into a discourse that is mostly dominated by economic technicalities.

However, in order to do so, it is essential that ordoliberalism returns to being an active research program that focuses on its competitive advantage, viz., a combination of economics with politics, positive insights with normative reasoning, and theoretical idealization with applied policy recommendations. The normativity of ordoliberalism, or call it the ideological ordoliberal representations and interpretation of a complex world – regardless of whether one agrees with its positions or not – is actually its strength since it makes its ethical assumptions explicit. Ordoliberal theory is built on a normative commitment to liberal values (such as individual opportunities for economic and political participation) and a moral – not solely economic – defense of free, open, and competitive markets (Dold and Krieger, forthcoming). The normativity of ordoliberalism can be seen as an argumentative advantage in the current debate: the implementation of policies needs to be supported by the European citizenry whose approval of reforms will not only rest upon theoretical economic efficiency concerns, but ultimately depend upon moral arguments that go to the heart of what it means to live together as a ‘European community’.

The ideals of consumer and citizen sovereignty

At its core, ordoliberalism is built on the moral idea that the legitimacy of collective action stems from the consent of the individuals involved. In his advancements of Eucken’s ideas, Vanberg (1997a, 2005) points out that this starting point leads to the ideals of *consumer sovereignty* in market settings and *citizen sovereignty* in political processes. While consumer sovereignty (i.e., the degree to which markets satisfy consumer preferences) is seen as the normative benchmark for judging the ‘economic game’, citizen sovereignty (i.e., the degree to which institutions reflect the will of the people) forms the normative benchmark of the ‘political game.’ This means that it is the individual in his/her role as a consumer and citizen whose agreement defines the legitimacy (and relative efficiency, *sic.*) of a given mix of economic and political rules.

While this contractarian starting point is not necessarily unique in political economy (it is, for instance, part and parcel of the logic of constitutional economics; see, e.g., Buchanan 1987), it contributes to a democratization of ordoliberal economic policymaking since it transcends the top-down character of Eucken’s constituting principles. Following Vanberg, a contemporary ordoliberalism shifts the role of the political economist from being a technocratic expert to an adviser in the process of identifying a suitable institutional structure in which individuals can best govern themselves to their mutual advantage. Therefore, contemporary ordoliberalism abstains from imposing a liberal economic agenda upon unwilling citizens, but enters a public debate where it is only one among many contenders in an open democratic discourse whose ultimate arbiter is the European citizenry.

The crucial question that contemporary ordoliberals have to answer is how this emphasis on individual sovereignty translates into policy recommendations in the face of the ongoing crisis in the Eurozone. While this is not the place to discuss policy proposals in detail (for an in-depth discussion, see Dold and Krieger, forthcoming), we think that there are two main implications. First, at the bottom of the income distribution, ordoliberal reasoning invites the implementation of policies that enable individuals’ competent participation in market transactions and the political discourse. At the top of the income (and political power) distribution, ordoliberalism

the marginalized and ethically suspect shadowlands of its past existence and enabled it to claim recognition as the archetype of political thinking.”

fosters the implementation of institutions that secure a ‘record-type competition’ which hampers political capitalism, i.e., the concentration of economic and political power. The idea is that working at both ends of the income and power distribution will increase consumer and citizen sovereignty.

Socioeconomic cleavages and ordoliberal responses

Currently, the European Union is built on a fundamental asymmetry: the benefits of open borders and economic integration are distributed unevenly favoring a well-educated and mobile urban elite as well as capital owners (Rodrik 2018). From an ordoliberal perspective, the systematic disadvantage of certain social groups (e.g., low-skilled workers and the rural population) will likely produce outcomes that are not conducive to a stable social order. Socioeconomic cleavages can lead to conflictual forms of competition where disadvantaged market participants invest in conflict activities aimed directly at damaging more powerful social groups (e.g., in the form of protest voting for ‘anti-system parties’). In addition to the efficiency loss from socioeconomic cleavages, economic imbalances can create political imbalances when certain societal groups define the rules of the political game. These politico-economic power concentrations can become problematic for the broadly shared realization of social welfare (Eucken 1952: 175-179).¹⁹

Contemporary ordoliberal policies would aim at dispersing power concentrations through the implementation of competition in the economic and the political realm. In markets, this means the advocacy of consequent anti-trust legislation with the aim that competition works as “the most magnificent and most ingenious instrument of deprivation of power in history” (Böhm, 1960, p. 22). In this regard, the European Commission should continue its tough stance on policing economic mega deals between industrial conglomerates and it should continue to deepen the harmonization of the regulatory framework for individual privacy and data protection (along the lines of the General Data Protection Regulation).

In politics, ordoliberals argue often that the best way to disperse political power is the active participation of the public in political decision-making processes which reduces the likelihood of permanent winning coalitions (Vanberg 1997a: 724). In order to foster political participation, ordoliberalism embraces the idea of the principle of subsidiarity. According to this principle, political authority should be allocated to the lowest competent institutional unit (Vanberg 1997b: 190). In combination with a consequent advocacy of the idea of the European Single Market with its goal to implement the ‘four freedoms’ (free movement of goods, capital, services, and labor), the principle of subsidiarity will incentivize European nations to find local solutions in order to avoid the ‘exit’ of mobile factors of production, capital and consumers. Facing disruptions caused by technological progress and global integration, national and communal programs aimed at human capital investment and activating labor market programs (e.g., access to programs of life-long learning) are likely to be more effective than industrial or agricultural policies trying to preserve inefficient branches of the economy through large-scale subsidization at the national or European level. However, the subsidiarity principle does not rule out the feasibility of policies at the supranational level. On the contrary, it seems necessary to coordinate these measures at the European level in order to secure worker mobility and an incentive-compatible harmonization of the regulatory framework.²⁰ Ultimately, the subsidiarity

¹⁹ The main reason is that many market players will find it more profitable to invest in rent-seeking activities (e.g., lobbying for protectionist measures or higher subsidies) rather than selling consumers better and cheaper products. For ordoliberals, economic power and political power are two sides of the same (problematic) coin.

²⁰ An example of an incentive-compatible harmonization is the principle of delayed integration as a rule for taxing migrants (Richter 2004, Weichenrieder and Busch 2007). In order to curb a ‘race-to-the-bottom’ dynamic in the tax systems stemming from the mobility of not only workers but also potential welfare recipients, delayed

principle will help to decide which of these programs should be located at the communal, national, or supranational level.

The crucial role of political participation

In the years since the last financial crisis, the European Commission (together with the International Monetary Fund and the European Central Bank) reacted with several bailout packages to the severe economic situation in the economies of the European periphery. At the time, many experts thought of these packages as plausible and necessary in the face of the severity of the crisis. However, to many citizens in these countries these economic programs felt externally imposed. This fact, in combination with the lingering crisis, has led to a fundamental erosion of trust in European political institutions on behalf of citizens in the crisis-affected countries and in the core countries of the European Union (Algan et al. 2017).

Against this backdrop, a contemporary ordoliberalism should reconsider which actors and institutions dominate the European policy agenda. All too often, rent-seeking groups in the private sector hold disproportionate political influence, e.g., when big banks or pharmaceutical companies set their own regulatory standards (Rodrik, 2018). As a result, many Europeans do not see the economic elite as part of the solution, but as the cause of the current crisis (The Economist, 2018). It seems plausible to assume that trust in a liberal economic order will further erode if consumers feel that they do not have an equal say in setting the rules of the economic game (think of the negative public reaction to the negotiations of the Transatlantic Trade and Investment Partnership, TTIP, between the EU and the US). In practical terms, this requires that contemporary ordoliberals be sensitive to the question of who is given a stake when pivotal economic policies in trade, finance, and industrial policy are negotiated between the EU and its nation states. A contemporary ordoliberalism has to think more carefully about institutional reforms that do not only take consumer sovereignty but also citizen sovereignty seriously. This requires a comparative analysis of ways in which democratic norms of representation, participation, and deliberation can be realized on the European level. Europe will only end up with a true European community, if it is able to establish a regime that enables economic governance by discussion and not by top-down crisis politics.

7. Conclusion

In this paper, we presented a detailed view on the current ‘battle of ideas’ that originated in the aftermath of the Eurozone crisis. In this battle, ordoliberalism has been identified both as the culprit of and the answer to the many economic challenges that continue to exist in Europe. In order to understand this debate, we argued that one has to delve deeper into the issue of ideological ‘uses’ and ‘abuses’ of ordoliberal ideas. We suggested that many critics simplify ordoliberal thoughts in order to advocate their own ideological position. However, ordoliberals have also contributed to the ideological battle by simply repeating mantras from the past without trying to actively develop a dynamic research agenda. We think that the latter can be realized if contemporary ordoliberals focus on their normative core of consumer *and* citizen sovereignty and translate it into feasible policy proposals that tackle the most pressing socioeconomic imbalances of the European Union.

integration requires that emigrated workers have to continue paying taxes in their home countries for a certain period and immigrants be taxed in the host country only after a period of transition. According to proponents of this plan, this changes governments’ incentives regarding their tax plans in a way that may limit negative tax competition.

Ordoliberalism is built on the core idea that the coordination of economic interaction in a complex system requires a deep understanding of the essential role of moral and political thinking. And as Landmann (forthcoming) concisely points out, “[the] Eurozone is such a complex system – a system badly in need of a shared political determination of Europeans to cooperate towards financial and macroeconomic stability.” Facing the recent populist backlash against openness and international coordination, ordoliberal policy proposals might help to regain public support for market integration by increasing democratic control of national and European economic policies. After decades in which economists often neglected fundamental social questions in favor of technocratic details, ordoliberals can offer an attractive politico-economic framework.

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