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The "new" crisis of the liberal order: Populism, socioeconomic imbalances, and the response of contemporary ordoliberalism

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The 'New' Crisis of the Liberal Order: Populism,
Socioeconomic Imbalances, and the Response of
Contemporary Ordoliberalism

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**The ‘New’ Crisis of the Liberal Order:
Populism, Socioeconomic Imbalances, and the Response of Contemporary Ordoliberalism**

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Abstract: In recent years, commentators have noticed that the European liberal order is ‘under attack’. Traditional parties of the center are in decline. Populist movements of the right and the left have won elections or significant shares in parliaments. In the face of this ‘new’ crisis of liberalism, our paper follows the spirit of Walter Lippmann’s *The Good Society* and argues for a renewal of (ordo)liberal thinking. Similar to Lippman – who lamented, “liberalism had become a philosophy of neglect and refusal to proceed with social adaptation” –, we argue that our current liberal economic order is unfit to deal with fundamental social asymmetries. The benefits of open borders and economic integration are distributed unevenly in most societies with urban economic and political elites as main beneficiaries and supporters of the current order, while neglecting less-skilled, rural workers. In this paper, we argue for a contemporary ordoliberalism that takes up this distributional challenge. In spite of recurrent criticism of its value-laden nature, we argue that the normativity of ordoliberalism is actually an asset in the current debate on populism. Moral and ideological arguments are often at the heart of citizens’ concerns. Following this rationale, we propose that *contemporary ordoliberals* advance their thinking in connection with the emerging field of *Philosophy, Politics, and Economics* (PPE).

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1. The ‘New’ Crisis of the Liberal Order

After the fall of the Iron Curtain, which Fukuyama (1989, 4) famously coined the “end point of mankind’s ideological evolution and the universalization of Western liberal democracy as the final form of human government”, there was a widespread consensus within European intelligentsia that the combination of a competitive market economy, a liberal and open democracy, and the rule of law was the most attractive form of social order (Fuest, 2018).

In recent years, this belief has been seriously upset by the success of populist movements. The once taken-for-granted connection between economic openness and liberal democracy is being severely questioned. Some commentators believe that the European liberal order is “under attack” (The Economist, 2018; Der Spiegel, 2018). Traditional parties of the political center that dominated the political debate in post WWII Europe are in decline. Populist movements of the right and the left have won elections or significant shares in parliaments in many European countries (e.g., Poland, Hungary, Italy, Greece). While ‘populism’ is certainly a vague umbrella term, populist movements generally define themselves in opposition to political and economic liberalism. In addition, they often share an anti-establishment orientation, an opposition to supranational institutions and open economies, and an appetite for authoritarian governance (Rodrik, 2018).

In the literature, there is an ongoing debate over the causes of the current rise of populist movements (see, e.g., Gidron and Hall, 2017; Guiso et al., 2017; Inglehart and Norris, 2017; Mudde and Kaltwasser, 2017). Different potential explanations have been offered (inter alia, globalization, immigration, digitization). However, most scholars agree that *individual economic anxiety* and *distributional struggles among social groups* are a crucial element of all these explanations (Rodrik, 2018). Interestingly, both of these drivers can be seen as endogenous to our current (European) liberal economic order; and, if this observation is true, the question must be asked whether liberalism, which has been the dominant public doctrine of the last decades, is itself guilty of its declining demand.

Specifically, the liberal economic order 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 while neglecting less-educated workers, often in rural areas (Collier 2018, Venables 2018). Accordingly, support for the liberal order can be expected from the beneficiaries of the economic, political and social outcomes of this order, while the losers may resort to populist

protest. An example of this dynamic is the striking geographical divide between ‘remain’ (esp. in Greater London) and ‘leave’ (mostly in the countryside) in the Brexit vote.

This paper will attribute at least a *partial* responsibility for the decline of liberalism to the behavior of liberals themselves. In section 2, we discuss how liberals focused one-sidedly on a business-friendly agenda that neglected a serious treatment of the emerging socioeconomic imbalances within advanced market economies. Section 3 carves out the core theses of Walter Lippmann’s classic *The Good Society* which we deem a pragmatic manifesto for the reinvention of liberalism that is as relevant for today’s debate as it was at his time. Based on Lippmann’s theses, Section 4 sketches the contours of a *contemporary ordoliberalism*. Concluding section 5 argues that the latter’s comparative advantage lies in the merger of positive-economic arguments with a liberal normative perspective which can and should be further integrated into current discussions in the emerging field of philosophy, politics, and economics (PPE).

A caveat is necessary from the outset: In this paper, we use a very broad understanding of “liberals” in the European sense of the term that encompasses practical politics as well as academic economics. In contrast to libertarians, the liberals we have in mind usually share the conviction that *open markets* (i.e., free trade and globalization) *paired with rule-constrained politics* (on the national and international level) is the best social system for securing and fostering social cooperation and economic prosperity. While some readers might find this too vague, we think it is necessary to capture the fact that the liberal coalition is colorful and comes in many stripes. It is also important to note that liberal politics in Western democracies has certainly helped to foster an unprecedented period of economic growth in the decades after WWII. However, we follow Posner and Weyl (2018, 23) in thinking that this success has made many liberals complacent. In both practical politics and academic economics “leaders decided that more or less perfect markets had been achieved. Ideas for further breakthroughs in expanding trade or eliminating monopoly power were largely abandoned,” and, strikingly, many “economists came to believe that differences in individuals’ talents are the main source of inequality.” While one can certainly argue over their proposed policy conclusions, we think that Posner and Weyl’s analysis catches a core feature of current liberalism across the Western world. Therefore, it forms the starting point for our following argument.

2. The Liberal Neglect of a Fundamental Societal Asymmetry

Many Europeans do not see liberalism as part of the solution, but as the cause of the ongoing economic crisis in Europe (The Economist, 2018). There are a number of reasons for this perception, all backing the claim that liberals bear *partial* blame for their own decline in popularity.

First, over the course of the last few decades, liberals often focused on a business-led agenda of economic policy-making and the justification of existing market institutions (Braunberger, 2016). Following the paradigm change toward supply-side economics of the early 1980s, many liberals propagated a form of trickle-down economics and supported economic deregulations (e.g., in the financial sector, in trade agreements, or in industrial policy-making) which often favored big corporations (Posner and Weyl, 2018). The result was that corporations, who initially had gained high market shares by superior efficiency, often used their market power to lobby successfully for various barriers to entry to protect their incumbent positions which made it harder for new innovative firms to enter the market or smaller firms to grow (Munger and Vilarreal-Diaz, 2019) with negative effects on consumer welfare.

Second, the very same liberal politics did not only favor big business, but was increasingly intertwined with it. Many observers gained the impression that the primacy of politics was replaced by the rule of economic power. This resulted in what has been called “political capitalism” (Holcombe, 2015), “captured democracy” (e.g., Acemoglu and Robinson, 2008: 283) or “economic-elite domination” (Gilens and Page, 2014: 566), which further weakened the interest in the less advantaged. In order to be economically successful, many liberals simply took it for granted that business interests need to be represented in politics. However, they underestimated that broader citizens’ interests have to be equally respected in the political game and that the liberal project only works if it is framed by general rules that apply equally to everyone.

Third, many liberal economists delegated the ‘social question’ (i.e., issues of distributional justice) to moral philosophy since they wanted to draw a sharp distinction between the ‘positive’ science of their discipline and normative evaluations (Hausman et al. 2016, 337). In cases they took a stance on distributional questions, liberals usually tolerated socioeconomic imbalances since they could always point to the fact that their model had generated unprecedented wealth and existing social safety nets worked absorbing drastic hardship. As a result, liberals have not done a good

enough job in addressing the new political divide between metropolitan voters – who back the liberal economic agenda – and rural voters – who are increasingly backing populist campaigns (Collier 2018, 125). In recent years, most of the productivity growth and wealth creation has taken place in big cities. The OECD (2017) estimates that the productivity gap between big cities and rural areas has widened by 60% in the last 20 years. People in rural areas who cannot afford city rent lack the opportunity to benefit from high productivity cities with better economic perspectives. Liberal urban elites, in turn, did not recognize that the urban-rural earnings gap resulted mostly from agglomeration economies rather than from superior individual performance, thereby deepening feelings of deprivation among their counterparts. As a result, they ignored that opening national economies for international trade caused a greater risk of external shocks, especially for low-skilled workers. Often, this would require ‘bigger governments’ (Rodrik, 1998) to attenuate economic hardship. However, in light of a globalized economy with sharper international systems competition (Sinn, 2002) this option became ever more difficult to implement since countries did not want to fall behind in an international comparison. Moreover, an extensive welfare state is rarely in the interest of liberal elites, whose primary concern are usually higher taxes.

Fourth, in a similar vein, liberals tended to neglect the increase in economic insecurity for low- and medium-skilled workers who have not gained their proportional share of the increased economic pie (Guiso et al., 2017; Rodrik, 2018). The causes of the recent decline in the labor share of income in advanced European economies are surely complex. Import competition and offshoring have contributed to long-term losses in middle-skill occupations and displacement of middle-skilled workers to lower-wage occupations (Dao et al., 2017). In addition, technological progress and the rise of ‘superstar firms’ help to explain a substantial part of the overall decline in the labor share of income in advanced economies, with a larger negative impact on middle- and low-skilled workers (Autor et al., 2017).

At this point, we want to be clear: These economic dynamics are surely not all attributable to a liberal agenda but must be seen as the result of a murky interplay of a myriad of social forces. However, we think that a reason for the decline of popularity of liberalism is the fact that liberal commentators have often downplayed the distributional effects of these economic dynamics. They largely neglected the fact that our current institutional order systematically favors high-skilled workers (especially in urban areas) but loses sight of low-skilled ones (especially in rural areas). Admittedly, some of the economic benefits to better-skilled workers will trickle down to lower

incomes. However, in many cases structural inequality will be negatively associated with subsequent growth rates among the lower-skilled percentiles and positively among the higher percentiles (Van der Weide and Milanovic, 2018). This dynamic may lead to new forms of socioeconomic fragmentation and the long-term consequence that low-skilled workers may find it increasingly difficult to climb the socioeconomic ladder. In countries that were traditionally built on a collective belief in upward social mobility ('from rags to riches'), this new societal stratification bears the risk of severe social frictions and a further promotion of populist movements.

3. What Can Today's Liberals Learn from Walter Lippmann?

Today's developments are reminiscent of those in the 1930s; it almost appears as if history repeats itself and that the existing liberal agenda is again challenged and under pressure to renew itself. The liberals of the 1930s saw themselves confronted with growing populist movements both on the right (fascism) and left (communism), while liberalism had lost the popularity it once had in the mid-19th century. In fact, the public perceived modern liberal democrats as a scapegoat for all kinds of social ills, from the economic depression of the late 1920s, to the reparation payments of the Versailles treaty and the perceived weaknesses of the nation state. The famous US journalist Walter Lippmann attributed the declining popularity of liberalism in the 1930s to the liberal agenda itself. In his seminal book *The Good Society* from 1937, Lippman lamented that "liberalism had become a philosophy of neglect and refusal to proceed with social adaptation" (1937, 208) and he blamed liberal leaders of the past for the "epochal crisis of civilization" (371). The publication of *The Good Society* was a true success story for Lippmann. It cemented his role as a leading public intellectual in the US and its thought-provoking content stimulated the organization of the famous *Lippmann Colloque* in Paris in August 1938 that eventually resulted in the foundation of the *Mont Pelerin Society* (Jackson 2012).

At his point, we will not trace the historical importance of the Colloque itself, but rather focus on the question what the current discourse can learn from Lippmann's original contribution. In fact, we think that contemporary liberals should seriously consider Lippman's argument that, to be relevant, liberals cannot solely base their analysis on economics alone but must address ethical questions of fairness, distribution, and power in a wider framework of political, philosophical and economic arguments. Lippmann pointed out that a technocratic and academic discussion is not enough if liberals want to persuade the public of the merits of a free and open society.

In *The Good Society*, Lippmann emphasized that economic ‘laws’ and policies do not operate in an institutional vacuum. To him it was a mistake of 19th century liberalism to assume “that the economy of divided labor operates by natural laws outside the context of a legal system” (1937, 195). For Lippmann, the analysis of property rights and contract law was absolutely essential in understanding economic mechanisms. He coined the term *fallacy of classical economics* which to him was the mistake of drawing practical conclusions of widespread significance from the institution-free analysis of economic models. In his words, “economists forgot that they had deduced from their hypothesis the conclusions which they had put into it” (1937, 199).

In addition to this methodological point, Lippmann was deeply concerned with power concentration, both in state bureaucracies and markets. He saw the danger of a ‘weak state’ being captured by social pressure groups and of a ‘strong state’ becoming a Leviathan which constantly intervenes in economic affairs and thus violates civil and political liberties (Jansen 2009). Frank H. Knight nicely summarizes Lippmann’s starting point in a review of *The Good Society*. Knight writes that Lippmann “shows how the nineteenth-century liberals made two fatal mistakes. The first was to identify liberal political policy with one of extreme economic laissez faire. Then, when the falsity of a too literal laissez faire was demonstrated by experience, they increasingly fell into the second and equally disastrous blunder of reacting from the faith in a free-market economy to collectivism” (Knight 1938, 864-5). Many other liberals at the time (e.g., F.A. Hayek, Ludwig von Mises or Lionel Robbin) agreed with Lippmann on this point. However, unlike them, Lippmann identified also an inherent threat in big business. Consequently, he urged liberals to take on distributional questions and the discussion of power dynamics between big business and unions as an inherent part of their agenda.¹

In the latter part of *The Good Society*, Lippmann develops an “Agenda of Liberalism” (1937, 203ff.) in which he does not only deconstruct existing policies but wants to discuss constructively which institutional framework is necessary for real-world economic interactions to produce a prosperous and peaceful society. While not all of Lippmann’s proposals can be applauded from a modern perspective (for instance, his endorsement of eugenics), his list of reforms is very

¹ In a later letter to Hayek in 1960, Lippmann wondered about Hayek’s neglect of corporate power in *The Constitution of Liberty*. He remarked that he was “puzzled to find that you have one reference to the corporation and nineteen references to labor unions” and went on to ask rhetorically, “can it be that you think that the corporation and its problems rate less than one page in a treatise of this kind?” (Quoted in Jackson 2012, 68).

instructive for today's discourse as he grants considerable scope to questions of power and fairness beyond efficiency considerations.

Lippmann sees problems in uncontrolled business corporation and believes in the possibility to improve the "market machinery" by eliminating monopoly privileges and "necessitous bargains, from sweating, adulterating, bootlegging, racketeering" (1937, 227). Lippman mentions favorably organized forms of labor and consumers as a counterbalance to big business, but he is also quick to hint at the obvious temptation for labor to erect market entry barriers (1937, 312). In addition, Lippmann argues in favor of social insurance and public investments (especially in health and education) in connection with "drastic inheritance and steeply graduated income taxes" (1937, 227). He thought these political measures necessary to do justice to natural differences in abilities and the resulting economic inequality.

Taken together, Lippmann promoted a pragmatic third way position between laissez faire and state interventionism. Lippmann considered state regulation, redistribution and counter-cyclical intervention in the market as necessary to counteract the inequalities and instabilities generated by decentralized economic transactions (Jackson 2012). Lippman saw no necessary conflict between state action and individual liberty, since it was only through *a set of predictable, impartial legal rules* that one can make sure that individuals are given similar opportunities to benefit from the marvels of the market. In summary, Lippmann was a staunch supporter for a regime of law-governed liberty. According to him, individual rights, as well as corporations, contracts and property are all the creation of a particular legal order. He concludes that it "is, therefore, misleading to think of them as existing somehow outside the law and then to ask whether it is permissible to 'interfere' with them" (1937, 269).

While some of the proposals of Lippman might seem naïve or common sense to the modern reader, we think that the direction and pragmatic tone of his diagnosis is still instructive in so far as he puts a socially radical question at the core of the liberal agenda: How can we make sure that a market order can benefit everyone, not just the privileged few? We think that this question in connection with the constructive-positive aspect of Lippman's program can (and should be) incorporated into, what we call, a *contemporary ordoliberalism*.

4. A Plea for a *Contemporary Ordoliberalism*

Parallel to Lippmann's intellectual endeavors, *ordoliberalism* started as part of a larger liberal movement in the interwar and postwar periods and developed as a reaction to right- and left-wing populism (Kolev 2019). While it has never been a monolithic tradition, it shares certain core features with Lippmann's program. Like Lippmann, ordoliberals of the first generation (such as, Böhm, Eucken, Müller-Armack, Röpke, and Rüstow) developed their ideas with the aim of identifying the legal framework for a *productive* market economy (i.e., it helps overcome scarcity problems) that was at the same time *humane* (i.e., it enables a self-determined life for all citizens). Like Lippmann, ordoliberals emphasized – to a varying degree – the need to protect individuals from power concentration in the business world besides the need to protect individual liberty from arbitrary state coercion. In general, ordoliberalism perceives power concentrations as problematic when particular social groups become so dominant that they are able to shape the rules of the societal game in their favor and produce systematic disadvantages for other, less powerful groups (Eucken 1952, 175-179).

As a consequence, ordoliberalism aims at dispersing power through the implementation of general rules and competition in the economic and the political realm. In markets, ordoliberals typically support anti-trust legislation that ensures that competition works as “the most magnificent and most ingenious instrument of deprivation of power in history” (Böhm 1960, 22). In politics, the best way to disperse power is seen in citizens' effective participation in processes of collective decision-making by means of decentralization and federalism on the national level and the principle of subsidiarity on the level of international governance (Vanberg, 1997a, 724; 1997b, 190). In both the market and the political order, the legal rules are meant to enable a form of *performance competition*, i.e., “record-type games” that pursue excellence or competitive advantage, and hamper *prevention competition*, i.e., “struggle-type games” that determine winners in zero-sum games by preventing competition from outsiders (Dold and Krieger 2017).

However, the idea of a humane market economy became less prominent over time; instead, ordoliberals – especially of the second and third generation – repeated the mantra that the state should never be concerned with outcome considerations (‘discretionary economic policies’), but only make sure that the rules of the game are fair and square (‘procedural economic policies’). While this is a sensible strategy *in theory* since it aims at the prevention of a slippery slope into overarching economic planning, it might have its limits *in practice* when distributional problems

arise endogenously within the (imperfectly implemented) liberal economic order. In the latter case, the system might be perceived as unfair if people get the impression that the market only benefits the already powerful and mighty. Then, the economy might not only be less economically dynamic, but also lose its socially integrative function. We think that ordoliberalism can learn from Lippmann's more pragmatic perspective regarding distributional concerns.

A Needed Update

In our opinion, ordoliberalism needs an update by explicitly taking on the *distributional challenge*. The liberal project has been quite successful in promoting growth, but it has not done enough to ensure that the welfare gains are shared broadly. The systematic and persistent disadvantage of certain social groups (e.g., low-skilled workers, the rural population, the long-term unemployed, etc.) produces market conditions that are not conducive to long-term, inclusive growth. Besides the lack of economic opportunities for individuals from socioeconomically disadvantaged backgrounds, cleavages between different social groups induce conflictual forms of competition where societal players invest in conflict activities aimed directly at damaging other competing social groups (Dold and Krieger 2017). These conflict activities comprise *indirect measures* such as protest voting for 'anti-system parties' or subtle discrimination of out-group individuals (e.g., in the form of anti-elitism) and *overt measures*, such as in-group nepotism, publicly shown disrespect for democratic institutions, or the distribution of false accusations against members of the competing group (e.g., in the form of defamations in media outlets or social networks). The consequence is a social climate of general mistrust where wasteful group-specific investments aim at a non-market driven re-allocation of existing property rights that improve a social group's relative bargaining power to win a conflict in the next round.

We think that this unfortunate situation, which has arisen (to some degree) endogenously within our liberal economic order, carries two main implications. First, *at the bottom of the income distribution*, a contemporary ordoliberalism should invite the implementation of policies that enable individuals' competent participation in market transactions and political discourse. While it is true that most of liberal economies have achieved a decent formal framework for democracy, the resulting 'distributive struggle' between the winners and losers of an open society has not gotten sufficient attention in debates among economists. It is fair to assume that the support for traditional parties and the European economic order will further erode if we continue to produce the same group of 'losers'.

Second, *at the top of the income distribution*, a contemporary ordoliberalism should foster the implementation of institutions that secure ‘performance-based competition’, which hampers political capitalism and ensures the responsiveness of politics to the common interests of its citizens. Taking the advocacy for citizen sovereignty seriously, a contemporary ordoliberalism has to think creatively about democratic norms of representation, participation, and deliberation when it comes to economic policy-making. The guiding idea is that ‘working from both ends’ will increase citizen sovereignty and instantiate a broader distribution of prosperity.

Policy Proposals

We think a contemporary ordoliberalism can help find solutions to the distributional challenges. From an ordoliberal perspective, the ideas of open borders and international trade are desirable if they are able to foster competition and economic specialization in a sensible way that secures balanced and inclusive growth, distributed sufficiently equally across citizens and space.

To achieve this goal, economic efficiency considerations and distributional concerns have to be addressed together in economic policymaking, which, in turn, raises deep political-institutional questions regarding the democratic legitimacy of economic policies. Recent developments like globalization and digitization drain political authority from traditional nation-states (Kahler and Lake, 2003). They necessitate shifts of governance functions downward (to newly empowered regions and provinces), upward (to supranational organizations) and laterally (to private actors such as multinational firms, rating agencies and transnational nongovernmental organizations). A contemporary ordoliberalism acknowledges that political legitimization of the newly developing institutional framework ultimately depends on its broad public support, which requires that the ‘economic game’ (i.e., efficiency considerations) does not trump the ‘political game’ (i.e., distributional issues). Ordoliberalism may then provide (constitutional) rules that help to balance the precarious interplay of both spheres. How exactly the balance would look like cannot be decided in theory. Rule proposals that have the potential to improve the status quo can be developed by economists (and other experts), but then have to be subjected to the democratic process of decision-making. In spite of potential complexities during the implementation process, this procedure is uniquely equipped to distill robust, incentive-compatible policies by respecting the affected citizens as the ultimate sovereign of political rules (Buchanan 1959).

Let us briefly apply this reasoning to the European Union. The European Single Market with its goal to implement the ‘four freedoms’ (free movement of goods, capital, services, and

labor) certainly fosters competition and economic growth. However, European political institutions have difficulties coping with the ensuing economic, political and social consequences of the market outcomes. The necessity to provide Europe-wide public goods (e.g., external border enforcement) and the existence of externalities spilling across borders (e.g., environmental pollution) requires governance functions to be located at the European level. At the same time is the European Commission too distant from local preferences to be able to care for social policy, about which *local* decision-makers have superior knowledge. Policy-makers at nation-state level are caught in-between these poles, producing cross-national externalities while struggling to come up with one-size-fits-all solutions to policy challenges in their countries' regions. Harmful tax, systems and regulatory competition are all too often the negative consequences of policy-makers' dilemmas (Sinn, 2002). Under these circumstances, citizens' frustrations with inefficient policy measures rise and the political legitimization of governments is challenged. Even if the appearance of globalization strain under governments pursuing liberal agendas were a unlucky coincidence, protests of citizens and voters at the ballot box would not come as a surprise.

Against this backdrop, an ordoliberal policy agenda requires a consequent application of guiding principles and conditions that lead to predictable adaptations of political institutions. For instance, the *principle of subsidiarity* in combination with policy measures fostering labor mobility within and between countries provides a framework within which efficiency gains can be achieved while preserving democratic legitimacy. On the one hand, the principle helps to avoid harmful externalities by shifting governance functions to the next higher level of governance. On the other hand, where citizens' preferences differ sharply, governance functions ought to remain at the local level, thereby accommodating potential economic and social disruptions. When workers are negatively affected by structural changes in the economy, they should be first and foremost supported on the regional or national level, where redistributive policies can be tailored to specific circumstances and legitimized by each country's social contract, respecting its 'citizens' sovereignty'. Those who are still not satisfied with their local perspectives should have the possibility to migrate to more preferred places at home or abroad so as to implement a possibly positive element into the systems competition dynamic between countries.

One important prerequisite for this strategy is long-term investment in education, whose previous neglect has contributed to the current socioeconomic imbalance within and between European countries (Goldin and Katz 2009, Martins at al., 2010). In times of digitization and

globalization, public programs aimed at increasing the human capital of workers are likely to be more effective than industrial or agricultural policies trying to preserve an inefficient status quo. In addition, Europe-wide programs that increase worker mobility through educational and professional standardization, pre-distributional policies aimed at decreasing disparities in access to infrastructure, and repealing market-entry barriers can help realize both efficiency and equity. Ultimately, it is the subsidiarity principle that coordinates these measures at the European level in order to secure worker mobility and an incentive-compatible harmonization of the regulatory framework (Dold and Krieger 2019, 256).

The implementation of such policies, however, remains a challenge. When economic programs and political-institutional reforms are felt externally imposed to the affected citizens, a fundamental erosion of trust in the existing political institutions may be the consequence. This was, for instance, the case with almost all programs introduced to resolve the recent Eurozone crisis (Algan et al., 2017). In addition, promises like that Europe would become the “most competitive and dynamic knowledge-based economy in the world” (EU Council, 2000) seem like empty clichés to many people. The current form of economic order has therefore increased the ‘rational ignorance’ of many citizens who see little chance of affecting the outcome of the economic policy-making process with their votes. The consequence has been a crowding-out of European citizenship (i.e., the identification with and participation in EU rule-making) and a widespread embrace of nationalism and populism as possible alternatives.

It is therefore time to reconsider which actors and institutions dominate national policy agendas in many Western countries. Currently, rent-seeking groups in the private sector hold disproportionate political influence (think of the role of big banks or pharmaceutical companies in setting their own standards). That is why many consumers feel that their interests are systematically weakened in bargaining processes (Rodrik, 2018). Liberals often did not consider taking on this – sometimes only subjectively perceived – loss of significance of labor a priority of their policy agenda. As a consequence, today many people do not see the economic elite as part of the solution, but as the cause of their precarious situation. In the view of a large portion of the public, entrenched interests block changes to the rules of the game that promote greater equality and political reform (The Economist, 2018). In spite of the fact that many people might confuse (ordo)liberal ideas with business-led interests, support for a liberal European economic order will further vanish if many citizens feel that they do not have any influence in setting the rules of the economic game. In this

context, the negative public reaction to the intransparent negotiations of the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US can be a lesson to liberals: citizens' concerns have to be taken seriously for economic policies to be implementable. In practical terms, this requires reconsidering who is given a voice when pivotal economic policies in trade, finance, and other far-reaching areas are negotiated. An economic policy, such as a free trade agreement, might look liberal from the outside. But if it is not backed by broad public support, it is just an inoperative idea that fails the liberal litmus test of *citizen sovereignty*.

5. Concluding Remarks: The Merits of a PPE perspective

Economic liberalism has lost popularity around the world. In this paper, we hypothesized that one reason for this decline might be a narrow understanding of what constitutes “good economics” on behalf of liberal elites. Many liberals (including ordoliberals of the second and third generations) became complacent and simply repeated the ideas of their intellectual forefathers which often led to a one-sided focus on a business-friendly policy agenda. In addition, liberals too often neglected the inextricable link between efficiency considerations on the macro level and distributional concerns on behalf of the affected citizens on the micro level. In many advanced economies of the West, this led to social frictions in form of structural inequality between social groups and geographical regions. In recent years, systematically disadvantaged parts of the population have started to turn away from the post-WW II consensus that competitive markets paired with democratic politics brings prosperity for all. Instead, they sympathize with various forms of left- and right-wing populism that explicitly define themselves in opposition to political and economic liberalism. If liberals want to respond successfully to this challenge, we argue in this paper, they should return to the egalitarian and pragmatic roots that lie historically at the heart of their agenda.

Admittedly, our sketch of a contemporary ordoliberalism is value-laden: it starts from the normative premise that liberal economists must convince the affected citizens of the merits of their agenda. We think that this is only possible if they make sure that individuals have comparatively similar chances to participate in *the economic game* and that *the political game* grants opportunities for participation and is responsive to shared interests of its citizens. We think that the emphasis of the normative core of the (ordo)liberal idea will actually be an asset in the current debates vis-à-vis populist movements. It makes clear that we need both, a strong economy that helps reduce scarcity problems and a socially inclusive politics, which aim at the reduction of structural and

distributional problems. Purely technical-economic arguments will not help to address this twofold perspective and convince the public in Western democracies about the advantages of a liberal economic order. On the contrary, moral and ideological arguments are often at the heart of citizens' concerns. This means that liberal economists should not hide behind the façade of an ostensibly value-free disciplinary consensus but think creatively about economic policies that defend a normative liberal perspective.

Following this rationale, we propose that contemporary ordoliberals advance their thinking in connection with the emerging field of Philosophy, Politics, and Economics (PPE). We are currently witnessing a reintegration of these disciplines in the form of a convergent research agenda (Dekker and Kolev 2019). This reintegration is based on the insight that tools and methods of all three disciplines are essential to make progress on many social problems (Gaus, Favor, and Lamont, 2010). The idea of PPE is guided by a twofold conviction. On the one hand, normative analysis is utopian and unhelpful if it ignores economic and political constraints. On the other hand, economic and political ideas become irrelevant for many debates if they do not take account of the explicit moral dimension of political and economic choices (Anomaly et al. 2017). Clearly, empirical economic research is helpful to discipline ideological policy advice and support theoretical hypotheses. However, we do not think that there is a lack of empirical research in economics. In fact, we argued in this paper that a contemporary ordoliberalism that is aware of its reformist-pragmatist roots and does not shy away from taking on distributional concerns can enrich the economic policy discourse: it helps transcend the logic of efficiency and balance economic values with democratic concerns for an egalitarian relationship among citizens.

Most importantly, a contemporary ordoliberal perspective emphasizes that elites should abstain from imposing a liberal economic agenda in a top-down manner. Liberals should instead enter a public debate where, by means of moral and economic arguments, they must convince citizens of the superiority of economic liberalism. This will (hopefully) help prevent further populist backlash since citizens are given an active role in the political and economic debates of our times.

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