

Plehwe, Dieter

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## The Development of Neoliberal Measures of Competitiveness

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# The Development of Neoliberal Measures of Competitiveness

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*Dieter Plehwe*

Throughout the last few decades, international rankings and ratings have occupied an important place in the context of international politics. Tools of quantification such as benchmarks, indices, ratings and rankings, measuring countries' democratic systems, levels of transparency and corruption, the quality of health services, creditworthiness and so on, have become abundant and are frequently heeded by actors in international politics (Cooley/Snyder 2015: 2; Krever 2013: 135). Although the quantification of governance as a phenomenon has existed since the late 19th century (Power 1997: 17), its proliferation in the form of global performance indicators (GPIs) aligns with processes of quantification originating in the years following the Second World War.

After 1945, data was collected to establish systematic observation of an ever-increasing number of functional areas relevant to governance. The transformation of information into numerical data facilitated the comparison of a wide range of social systems by way of simplification. Such comparison also established notions of sameness and comparability, driving and driven by the process of intensified globalization (Heintz 201: 169; Wahlberg/Rose 2015). Although a few indices were developed before 1990—notably GDP or the Freedom House Index of Political Freedom—most indicators have been set up afterwards and over 90 per cent after the year 2000 (Cooley/Snyder 2015: 10).<sup>1</sup> Inadvertently, the anarchic system of competing states has been turned into a global system of (e)valuation and competition (Lamont 2012) with considerable influence on the policies of individual states. Furthermore, if competition during the Cold War era was all about system competition pitching the socialist world against capitalism, it has more recently been turned into a

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1 Bandura (2008) counted 178 quantitative composite indices, 15 of which existed before the year 2000.

global system of competing competitions, depending on rival norms emanating from a greater variety of sources, and the objectives of a diverse set of players.

As a result of these transformations, at least two distinct notions of competition and competitive states need to be acknowledged. A traditional notion of competition is rooted in the (neo-)realist theory of international relations, which sees the international state system as an anarchy in which competing states are vying for power. According to this theory, the order resulting from the competition of states is ultimately decided by state power relations (Waltz 1979). Secondly, another theory of competitive states holds that ‘competition states’ have advanced to the status of a normative ideal. In this understanding, the question is how to improve the position of the state in a constant process of capitalist locational competition. The local perspective is here determined both by local (immobile) and global (mobile) factors of production (Cerny 2007). Unlike neorealist IR and its notion of competing states in an anarchic world system, this notion of competition understands states as part of a global order of “cosmopolitan capitalism”, which subordinates the local political and social system to the prerogatives of an economic system conceived as an inevitably global system (Plehwe/Slobodian 2017). While competition plays an important role in each of the two perspectives, the relevant properties and criteria relevant for states to prevail or succeed are quite different.

Scholars have hitherto explained the rise of global performance indicators (GPI)<sup>2</sup> and the rating and ranking organizations behind them in general with a confluence of three developments: the turn to neoliberalism, specifically the interest in establishing performance metrics; the rise of transnational governance networks; and the evolution of information technology and open data sources (Cooley/Snyder 2015: 10). These approaches, however, understate the importance of new data sources created for the specific purpose of index construction, as I will show below. The concurrent rise of neoliberalism and comparative performance indicators similarly does not address the

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2 Kelley and Simmons (2019: 492) define GPIs as “a named collection of rank-ordered data that purports to represent the past or projected performance of different units”, frequently states or regions, but also organizations. Apart from basic indicators like GDP much use has been made of what the authors call “overtly strategic state rating and ranking systems that package and deploy information intentionally for policy advocacy and implementation.” (Kelley/Simmons 2019: 493). The economic freedom indices discussed in this chapter belong to the latter category.

deliberate development of specific GPIs for the purpose of directing neoliberal transformation processes and the rise of the normative ideal of ‘competition statehood’ in the economic sense.

In order to substantiate this criticism, I will tackle the history and development of the economic freedom indexes of the Canadian Fraser Institute and the Heritage Foundation in Washington, DC. Looking closer at the origins of these “devices” (Bloch/Mitterle 2017: 933), which constitute technologies of knowledge creation, means of communication and, ultimately, “technologies of persuasion” (Porter 1995), allows the substantiation of claims regarding the coincidence of the rise of GPIs and neoliberalism; though we need to think of neoliberal world politics more as a highly contested arena.

Arguments pertaining to the neoliberal character of GPIs conflate neoliberalism and Western traditions of rationality and power. Indicators’ power in influencing nation-states or organizations’ dynamics of decision-making has stirred up contentious debates in academia and international politics on the issue of global governance. These debates focused on whether indicators were imbued with Western notions of rationality and achievement due to their origins in the Western world, (Cooley/Snyder 2015: 8; Diaz-Bone/Didier 2016; Uribe 2015). In this vein, poststructuralist scholarship in international political economy began to question the claim to neutrality of indicators and other tools of quantification. The research thereby aimed at re-politicizing these tools of global governance and at deconstructing the underlying neoliberal logics (Krever 2013). By seeing all indicators as Western efforts at economic domination, however, this scholarship misses the explicitly strategic nature of neoliberal efforts to counter GPIs of different orientations. Why should neoliberal scholars and activists bother developing specific indexes if the general development works in their favor? If supporters of neoliberalism rightly worry about indexes and rankings that seek to promote social development, social equality, ecological sustainability, or economic democracy, for example, the link between quantification and neoliberalism needs to be understood as tenuous.

While there has been considerable attention to the links between neoliberalism, the transformation of governance and quantification in general, there has been a lack of attention to the substantive influence of neoliberal ideas. Some approaches to the measuring of the world are useful with regard to the theorization needed to guide comparisons (Strang/Meyer 1993) and to secure commensuration, i.e. “the transformation of qualities into quantities that share a metric.” (Espeland/Sauder 2007: 16). The example of the economic

freedom indexes developed by neoliberal intellectuals and think tanks of and around the Mont Pèlerin Society (Walpen 2004; Plickert 2008, Burgin 2012) in the course of the 1980s provides a powerful example of such theorizing, and a daring commensuration effort seeking to establish a social technology and policy instrument to support neoliberal reform efforts.

The first section provides an account of the intellectual background and the social origins of economic freedom indexes in the 1970s and 1980s. Economic freedom indexes relied on the theoretical work of a group of neoliberals organized in the realm of the Mont Pèlerin Society on the topic of entrepreneurship and competitiveness of the 1970s, and on the legal and institutional turn among public choice theorists. Apart from the key actors situated in academia and civil society, this section explains the dual meaning of competition of states (and regions) and of competition statehood in the global capitalist economic system, which endeavours to enable locations in the competition for local (immobile) and global (mobile) factors of production.

The second section describes how economic freedom indexes were made, focusing on the collection of data, its manipulation, and the distribution of the results to governments and publics worldwide, using the example of the Economic Freedom Index produced by two leading neoliberal think-tanks, the Fraser Institute and the Heritage Foundation in conjunction with partner think tanks and the Wall Street Journal, respectively. The production of Economic Freedom indexes thus is a case of how private think tanks (backed by corporate money) have acted to set the terms of inter-state competition in the economic field. Local conditions are judged according to how well-suited they are for improving conditions for local capital, and attracting and maintaining mobile capital.

The third section then pivots to critically assess the impact of the indexes, according to claims made by the officials and contributors of the ranking and rating organizations, as well as both friendly observers and critics. This section examines the linkages between neoliberal devices such as the Economic Freedom Indexes and the transformation of global and national institutions, which we can altogether describe *grosso modo* as the neoliberal transformation of statehood and governance. To substantiate this claim we will go beyond the discussion of the immediate impact of the economic freedom indexes by way of taking a closer look at subsequent indexes developed to address issues of economic governance. The original efforts of organized neoliberals pale in comparison to the role the World Bank's "Ease of Doing Business Index". At the level of global institutions, a new set of actors come into play, namely

state and regional actors who are critical in the social co-production of the public devices that seek to enable and support institutional transformations at regional, national and international levels. The original, civil society-based economic freedom GPIs, nevertheless continue to play a dual role in guiding neoliberal reforms and gauging the state of neoliberal transformation. They thereby inadvertently attest to the conflicted and contested character of the contemporary great neoliberal transformation process at large.

## **The Economic Freedom Movement and Supply Side Economics**

“In the most recent edition of the University of Pennsylvania’s Global Go To Think Tanks Report, Economic Freedom of the World was ranked as the fifth most influential report published by the world’s 6,618 think tanks. Nobel Laureate Douglass North has called it the ‘best available ... description of efficient markets.’” (Fraser Institute, 2020).

The self-described ‘economic freedom movement’ responsible for the economic freedom indices emerged in the 1970s under the ambit of the Mont Pèlerin Society. It is based in sprawling networks of neoliberal think tanks like the Atlas Economic Research Foundation network linked to the Mont Pèlerin Society (Djelic/Mousavi 2020). Its roots go back to critical assessments of traditional economic indicators, which measured GDP and economic growth (Schmelzer 2016). It aimed at complementing the Freedom House Democracy index, which has measured civil and political rights across the world since 1972. The neoconservative bias of Freedom House (Giannone 2010) notwithstanding, members of the Mont Pèlerin Society were ambivalent concerning the usefulness of an index focused on democratic institutions, doubting whether these could be relied upon to serve their conception of economic freedom. They were also hesitant about the social indicators movement (Andrews 1989), which attempted to measure the wellbeing of citizens and communities in conjunction with public policies designed to improve welfare. As such, social indicator measures also challenged the input focus of traditional economic indicators. The members of the Mont Pèlerin Society opposed the discourse leading up to the Global Development Index of the United Nations. Examining the welfare of populations living in different countries and economic systems moved a number of socialist countries in the developing world ahead of their capitalist competitors due to their performance in areas like economic

growth or public health—much to the dismay of neoliberals like Peter Bauer who placed a premium value on the economic freedom of capitalists (Plehwe 2009).

In order to understand the history of the economic freedom indexes it is necessary first to examine conceptual developments in economic theories of entrepreneurship, innovation and competitiveness that can be summarily labelled as supply-side economics (Feldstein 1986). These efforts date back to the 1960s and developed rapidly in response to the stagflation crisis of the 1970s, which seemed to neoliberals to prove the failure of Keynesian demand management. A wide range of neoliberal scholars, influenced by Austrian economics in general and Ludwig von Mises in particular, including Herbert Giersch in Germany and Israel Kirzner in the United States, helped to shift the focus of economic reasoning to supply-side conditions. These scholars and many others under the ambit of the Mont Pèlerin society emphasized the importance of entrepreneurship, competitiveness, innovation and economic opportunity (Plehwe 2020).

During the 1980s, the activities of this cohort of supply-side, neoliberal economists provide a clear illustration of the importance of theorizing, and of theoretical simplification, for the development of systems of comparison and quantification (Heintz 2010: 169). Opposed to the ways in which quantification was used to measure economic growth across economic systems, the economic freedom movement was not afraid to construct direct comparisons between conditions of economic freedom, regardless of whether the state in question was one of the richest or poorest in the world. On the basis of a common notion of national competitiveness and the comparison of regulatory and other conditions of private economic activity it became possible to organize the process leading up to the construction of economic freedom indices that thrive on “numerical difference” (Heintz 2010).

The Anglo-Hungarian development economist Peter Bauer’s critique of statistical measures of GDP and growth is the best place to retrace the steps from neoliberal criticism of indices and rankings to the construction of these new neoliberal quantification projects. Crucially, these began with a rejection of existing methods of quantification centered on GDP. Bauer’s field studies in Africa and the Far East led him to challenge standard statistical efforts, because the collection of data on agricultural work missed the trading activities of peasants, and because subsistence activities escaped measurement altogether (Bauer 1948, 1954). Such concerns with blind spots of mainstream econometrics and GDP measures preceded the broader attack on quantita-

tive GDP measures from a qualitative perspective (Meadows et al. 1972; cf. Schmelzer 2016: 245f.).

After the second world war, neoliberals strongly opposed important features of mainstream neoclassical economics, Keynesian econometrics and modernization theory. Far from being champions of a unitary Eurocentric tradition of quantification, the heirs of Austrian economics in particular attacked prevailing positivist approaches to economics and the use of standardized quantitative data, on the basis of qualitative considerations. Against mainstream recognition of the economic success of the macro-planning efforts of socialist economics, neoliberals raised fundamental objections to the calculation and to a certain extent the planning macro-economic development. Peter Bauer and many other neoliberals emphasized choice and freedom of choice, holding these to be more relevant than wealth. It was only later that neoliberals made the additional claim of a positive correlation of freedom and growth and wealth. This moment coincided with the neoliberal turn towards techniques that claimed to quantify qualitative data (Schmelzer 2016: 288f.).

The rejection of quantification and positivism after the second world war was complemented by another, more important shift of emphasis in neoliberal economics. From the late 1960s, neoliberals orchestrated a revival in concepts and understandings of 'entrepreneurship', based on the original work of Ludwig von Mises. Against the neoclassical emphasis on equilibrium—an ideal of marginal production without profit and loss—von Mises had defended the priority of profit as a critical element of the price mechanism; one that was neglected in mainstream neoclassical economics alongside the key role of the entrepreneur. According to von Mises, every entrepreneur, no matter the size of a company, was a critical person in the relation of demand to supply, which he held to be impossible without profit (Mises 1998 [1949]: 255)

Based on the principled emphasis on entrepreneurship and profit a number of neoliberals worked hard to oppose prevailing notions of the limits and problems of entrepreneurship. Mises' student Isaac Kirzner (1971) attacked Joseph Schumpeter's famous characterisation of entrepreneurship as disruptive, for example, and emphasized the role of entrepreneurs with regard to achieving equilibrium. Germany's early behavioral economist Günther Schmolders, president of the MPS from 1970 to 1972, organized the Society's general conference on the issue of entrepreneurship in Munich in 1970 (Schmolders 1971). Schmolders and colleagues in other countries launched



surveys on the image of the entrepreneur in Germany and France, for example. Arguably even more important than Kirzner or Schmolders, however, was Herbert Giersch, the long-time president of the Kiel Institute for the World Economy and president of the MPS from 1984 to 1986.

Giersch published his seminal work on the role of entrepreneurship, "The Role of Entrepreneurs in the 1980s", in 1982, and announced a new age of Schumpeter in 1984 (Giersch 1982, 1984). Contrary to Kirzner's effort to displace Schumpeter, Giersch now claimed to rely on him, albeit selectively. Neoliberals like Giersch proudly professed a new confidence in greatly expanded notions of entrepreneurship, which went far beyond Schumpeter's elitist understanding of successful family business founders who made a difference for macro-economic development. Despite his references to Schumpeter, however, Giersch's theory effectively re-labelled the Mises entrepreneur as the Schumpeter entrepreneur. Unlike Schumpeter's rare species of innovative and successful entrepreneurs, Giersch and Mises saw no limits for entrepreneurs as long as they behaved in an entrepreneurial way. Schumpeter was nevertheless a more attractive name for two reasons. Firstly, Schumpeter was much more widely recognized and respected as a leading economist. Secondly, Schumpeter had an elaborated theory of product and process innovation, which went beyond micro-economic opportunity and which Giersch was ready to combine with the German tradition of location theory. At the center of Giersch's theory of innovation, growth and economic geography was what he called the 'Schumpeter volcano', a center of innovation in a specific location, which would provide the innovating entrepreneur with a temporary monopoly. Once the innovation lava flowed downward and cooled, competitive advantage was lost. The volcano thus must continue producing new innovations (new technologies) or move to the margins in the process of locational competition. In reaction to the slow growth patterns of the late 1970s and early 1980s, Giersch directly opposed Keynesian economics in his nine-point program based on his Schumpeter hybrid. His third point said:

"What matters most in present circumstances are the driving forces of economic development. Emphasis, therefore, is on the growth and dissemination of knowledge, on path breaking entrepreneurs and eager imitators, on credit creation for the supply of venture capital, and on Schumpeterian competition (i.e. on innovative monopolistic competition rather than sterile perfect competition, on oligopolistic rivalry rather than collusive equilibria and on aggressive trading rather than arbitrage transactions). In the interna-

tional economy, which Schumpeter mostly neglected, emphasis is on free trade rather than fair trade (trade minus competition) and on export orientation rather than import substitution.” (Giersch 1984)

Giersch's ninth and last point reads: “Entrepreneurial talent is in almost unlimited supply, but it often finds productive outlets only abroad, or less productive and even counterproductive use in politics and government, public and private bureaucracy or the military” (Giersch 1984).

Against Kirzner, Giersch also chose to reinstate Schumpeter's ideas of innovator-entrepreneurship in his writing. No longer was the concern to make entrepreneurship compatible with neoclassical theories of equilibrium. The new emphasis was on disruption and innovation, which were now considered positive rather than disturbing. The important link between Schumpeter, Schmolders and Giersch was the emphasis on dynamism and change, which required entrepreneurs to manoeuvre. According to Giersch, even the underemployed and unemployed could be turned into self-employed entrepreneurs, provided that political institutions were adequately reformed and the correct incentives put in place. In order to realize this potential, Giersch argued, it was necessary to encourage a society's demand for entrepreneurship: “the demand permitted, induced or actively provoked by the socio-economic structure and the political and cultural environment” (Giersch 1982: 15).

The demand for entrepreneurship, in other words, depended on the social arrangements in support of economic freedom. This was an understanding that Giersch and Kirzner shared. “The central question,” Kirzner had written in 1980s, was

“what *institutional frameworks* are best-suited to tap the reservoir of entrepreneurial alertness which is certainly present among the members of society? ...Entrepreneurial talent is ‘switched on’ by the prospect of ‘pure gain’—broadly defined to include fame, prestige, even the opportunity to serve a cause or to help others.” (Kirzner 1980, emphasis added)

Progress in favor of entrepreneurship thus can be measured by reforms dedicated to enable the prospect of pure gain, to advance economic freedom broadly conceived, reaching far into the non-profit sector to advance social entrepreneurship and civic engagement. Progress in favor of entrepreneurship, in this logic, requires the wholesale removal of restrictions on economic freedom including much of the welfare state and the full range of legal regulatory measures that compromise price signals.

Thus, it was possibly most important in the course of the evolution of the economic freedom movement that Giersch, Kirzner and a wide range of other neoliberal economists re-focused economics on the role of political and other institutions conducive to entrepreneurship, articulating a relentless critique of what they held to be the sclerotic developments of the modern welfare state. In 1985, Giersch coined the term “Eurosclerosis” in a paper arguing for comprehensive European deregulation and cross-border liberalisation: the programme to complete the single European market by 1992 (Giersch 1985).

The counter-narrative to state-led development can therefore be considered as a kind of template economy: an ideal-type that serves as a benchmark the distance to which can be judged in the world of individual countries, rich and poor. Economic freedom indexes measure the deviation of the real model of economic governance of a country with reference to what, according to the normative perspective of the neoliberal economic freedom movement, constitutes the universal model of optimal economic governance. Such a conception allows countries to compete with one another in the extent to which they conform to this ideal-type. The closer a country manages to approximate the ideal type of governance tailored to economic freedom, the better it does in the never-ending competition for optimal location according to neoliberal reasoning. This was the backdrop of the initiative taken by the Fraser Institute in Canada, which led the effort to turn verbal assessments and comparative judgements into numerical difference: the social technology of economic freedom indexing and ranking developed into the Economic Freedom Index.

## **Developing indices: Ideas, Money and Networks**

It is illuminating to look at the timeline of global indicator projects related to issues of political, social and economic governance. While we can observe early efforts to promote sustainable and human development, the Index of Sustainable Economic Welfare (later Genuine Progress Indicator) still covers a small range of countries only and has not been fully completed. As will be discussed below, the Human Development Indicator under the auspices of the United National Development Program (UNDP) in 1990 had been one of the reasons for neoliberal circles around the Fraser Institute and the Heritage Foundation to establish the Economic Freedom Indicators. In the meantime, the Fraser Institute in 2018 has added the Human Freedom index (HFI) to the Economic Freedom Index. Adding personal and civil freedom indicators to the

staple of economic freedom indicators, HFI was an effort to shield economic freedom from democratic concerns (Slobodian 2019). A decade after the first economic freedom reports were published, the World Economic Forum and the World Bank created indices (Fougner 2008) that build on the ideas put forth by the self-declared “economic freedom movement”.

*Table one: Economic and political governance indexes, timeline*

Year	Index	Organization
1972	Freedom in the World	Freedom House
1980	Freedom of the Press	Freedom House
1989	Index of Sustainable Economic Welfare	Hernan Daly, John B. Cobb (U.S.), Preceeds GPI
1990	Human Development	UNDP
<b>1995</b>	<b>Economic Freedom</b>	<b>Heritage Foundation</b>
1995	Corruption perception index	Transparency International
<b>1996</b>	<b>Economic Freedom of the World</b>	<b>Fraser Institute</b>
1996	World Wide Governance	Brookings & World Bank
<b>2003</b>	<b>Ease of doing business</b>	<b>World Bank</b>
<b>2004</b>	<b>Global Competitiveness Index</b>	<b>World Economic Forum</b>
2006	Tax Misery and Reform	Forbes
2012	International Property Rights	Americans For Tax Reform
2018	Index of Economic Democracy	New Economic Thinking
???	Genuine Process Indicator (beyond GDP)	Different, EU, changing, still subject to change

Source: Cooley and Snyder 2015, Annex one, author’s selection from a total of 95 indexes listed. Indexes in Bold highlighted are subject to closer analysis in this chapter

In the course of the 1980s, Mont Pèlerin Society circles engaged in a multi-pronged effort to develop new ways of advancing policies based on their theories concerning the relationship between entrepreneurship and economic freedom. At the second conference dedicated to developing an economic free-

dom index organized by the Fraser Institute in Vancouver in 1988, which resulted in a volume titled *Economic Freedom: Toward a Theory of Measurement* (Block 1988), William Hammett of the Manhattan Institute in New York suggested that “people think that entrepreneurship is bad and we are suffering from an overdose of it in this country” (Hammett 1988: 127). Unlike support for political freedom, which is supported as an end in itself, Hammett claimed, economic freedom is considered as a means to the end of wealth, which is frequently hard to sell. Hammett used the difficulties the then-real estate developer Donald Trump faced when he wanted to evict a few rent controlled tenants to illustrate his concern. He went on to report on his limited success in strengthening the link between entrepreneurship and economic freedom on previous occasions:

“I organized two conferences overseas in the last two years on the topic of growth...In both cases we were trying to energize the debate on lowering taxes and encouraging growth and entrepreneurship...the whole George Gilder scenario, supply-side thing. At neither one of those conferences did the topic of economic liberties ever come up. It was treated strictly as a pragmatic thing. Will this produce more growth and more wealth or will it not? ...We all believe in economic freedoms here, we know what it leads to. But it is almost an impossible chore to try to translate this to the general public who relate much more to the concept of growth, wealth, things like that, which is the end result of economic freedom.” (Block 1988: 127).

Sustained efforts to clarify the link between economic freedom and entrepreneurship aimed at defining and determining measurable conditions of economic freedom. The earliest index proposed to measure economic freedom came from Freedom House in the early 1980s. Freedom House emphasized a link between democracy and economic freedom. Subsequent measuring and indexing efforts organized by the Fraser Institute in Canada and funded by the Liberty Fund (Indianapolis) began to de-emphasize democracy and eventually led to the construction of the Economic Freedom of the World Index (Gwartney et al. 1996) and to the Heritage Foundation's Indices of Economic Freedom (published in conjunction with the Wall Street Journal).

Much of the groundwork for these efforts to define and measure economic freedom was carried out by the MPS members Alvin Rabushka (Stanford) and Gerald William Scully (University of Texas), often in close interaction with MPS members from Europe. The 1988 conference proceedings (Block 1988)

list (among others) the German libertarian science philosopher Gerard Radnitzky; Antonio Martino, a founding member of Forza Italia and later Italian minister of foreign affairs and defense; and the French libertarian essayist Henri LePage. All were members of the Mont Pèlerin Society.

In lieu of an accepted definition of economic freedom, Alvin Rabushka's combination of four central elements of economic liberty were considered by neoliberals to constitute the gold standard:

- a) secure property rights;
- b) voluntary exchange of individuals within and across borders;
- c) absence of governmental control of the terms of transactions of individuals;
- d) freedom from governmental expropriation of property (e.g., by confiscatory taxation or unanticipated inflation) (Hanke/Walters 1992, 120-121).

All but the first element (secure right to property) emphasizes the absence of restrictions by governments, not positive rights like a minimum social condition or a clean environment, or the freedom of association. Quite to the contrary: legal rights to form trade unions and mandated minimum wages, for example, are considered restrictions of economic freedom because they impede the price mechanism entrepreneurs depend on to fulfil their function in the economic system, according to the basic understanding laid out by Ludwig von Mises. The terms of transactions of individuals are subject to undesired external influence if trade unions determine the price of labor, rather than shifting conditions of supply and demand.

The data that is collected and prepared for the use in the economic freedom indices is not readily available. Think tanks in the different countries are charged with collecting and interpreting the data in the case of the Fraser Institute effort, for example. Qualitative data (like changes in the tax code etc.) are transformed into numerical data in order to offer an air of quantitative 'exact' assessment. No external and recognized academic council is involved in checking the data or the interpretation for accuracy and reliability. But the large number of countries and the long time period covered in the meantime offers a data source that is now readily available for use by think tank pundits and in universities and academic research institutes. Beyond academic research, the data is widely cited in media outlets and has been used in economic governance reforms at various times in a number of countries, notably in Central and Eastern Europe (Gwartney/Lawson 2003). Heritage indices and

rankings are relied upon to allocate US foreign aid through the Millennium Challenge Corporation, for example.<sup>3</sup>

To improve the academic utility of the index, data has also been added for the period before the two economic freedom indexes were started. The extension draws on data sources from OECD countries and goes back to 1850 (Prados de la Escosura 2016). Regardless of the increasing efforts by the producers of the Economic Freedom Index to obtain academic standing, it is essential to take a closer look into the ways in which such ready for use data have been produced. Anybody who relies on the Economic Freedom Index data without subjecting the figures to critical investigation by way of looking into the sources and the ways in which the information has been transformed into quantitative indicators buys into the economic freedom ideology of the producers of the index, which at the same time leads to surprisingly different results in the position of countries like Russia or the Netherlands in the two rankings (Ram 2014).

More important than specific measures and valuations, of course, has been the overall message: economic liberalization will be economically beneficial, supporting entrepreneurship and growth. Regardless of significant qualifications, academic studies that employ the apparently more widely used Fraser Index are held to confirm this expectation (Haan/Sturm 2000). Jeffrey Sachs (2005) disputes such claims, however, and Ram (2014) demonstrates the fundamental flaws of the datasets, which undermines the very possibility of drawing such conclusions. It is in any case fascinating to observe how early neoliberal critiques of indices such as GDP and positivist accounts of economic growth have given way to generate instruments claiming the value of (pseudo-positivist, to be sure) instruments to improve growth. Ironically, the economic freedom movement appears to be complicit in the old bandwagon game: if you cannot beat them, join them. But the shift of attention to institutional conditions of economic activities must still be considered creative, helping to pave the way for the wider concerns of James Buchanan's public choice and Douglass North's new economic institutionalism.

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3 See [www.mcc.gov/who-we-fund/indicators](http://www.mcc.gov/who-we-fund/indicators) (last access December 18, 2020)

## Creating the Data You Need: Using the Index and its Data Sources

MPS members themselves took stock of the impact of the index at the Chattanooga regional meeting in 2003. Among the highlights reported were increasing media coverage of the Economic Freedom Index by quality journals like the *Economist*, the increasing reliance of professional economists on the index data in academic journals, new software projects to make easier use of the data, regional spin off projects in China and North America, a better understanding of the link between institutional environment and investment, and, last not least, a number of individual country examples of policy impact (Gwartney/Lawson 2003). The project has since expanded to cover more developing regions like the Maghreb World.

The history of this collective effort in the social construction of a neoliberal understanding of economic freedom as a precondition for entrepreneurship, and the important differences to the parallel development of national competitiveness indexes (on the International Institute of Management and the World Economic Forum, cf. Davies 2014) have been discussed by MPS member Steve Hanke and his co-author Stephen Walters in the *Cato Journal* (Hanke/Walters 1996). The Global Competitiveness Indicator of the World Economic Forum draws on a wide and diverse set of data including infrastructure, health, education, product and labor market efficiency, state of technological development, and so on. The index relies on both public data sources and perceptions of business leaders. It thus has little in common with GPIs like the economic freedom indices that are designed to address the regulatory framework of private economic activities that are subject to political change. Unlike managerial indices and ratings, the economic freedom indices do not aim at appraising endowments and infrastructures relevant for planning and forecasting. All measures are about institutions that can be changed by political means.

The economic freedom index endeavour has thus been conceived and strategically developed as a comprehensive and universal neoliberal policy tool, directed to remove restrictions on private sector economic activities needed to strengthen—in Giersch's terms—the demand side for entrepreneurship. But this purpose need not to be the only function of the index. Inadvertently and at the same time the yearly results can also be read as a measure of the state of neoliberal transformation. Attacks on neoliberal reforms, like the nationalization of erstwhile privatized companies or significant re-regulation, led to setbacks and roll back of neoliberal reforms in



quite a few countries. In particular in times of economic crisis, voters and politicians frequently show a taste for policy preferences that lead to lower values in the economic freedom ranking. The numerical representation allows neoliberal reform forces to point to such decline to voice concern with regard to the conditions of economic freedom in a country, without discussing the details of individual measures. For those who oppose neoliberalism, index data similarly offers opportunities to identify countries in which the opposition to neoliberal reforms has made gains.

A great example of neoliberal data use of the neoliberal production of index data is Johan Norberg's (2001) "In defense of global capitalism", a popular booklet written to provide a counter narrative to the alter-globalisation movement of the late 1990s. Much of the statistical material used to support the claim that free market capitalism is good for development, the environment and gender relations comes from the data sources created by the Fraser Institute and its allies of the Economic Freedom project.

In her work on quantification as a means of communication, Bettina Heintz (2010) de-emphasizes the relevance of social networks in terms of their relevance for globalization processes. She argues that means and modes of communication are more relevant than the social relationships across borders. The social construction and the use and communication of economic freedom data and rankings suggest that we may need to rethink her argument that relies on functional differentiation. In the case of the neoliberal networks in charge of economic freedom indices, production and communication are closely intertwined and embedded in transnational think tank networks.

Arguably even more relevant than the influence exerted by think tank networks and organized neoliberal intellectuals of the economic freedom movement has been the influence of the ideas promoted by these forces on global governance elites in more powerful institutions like the World Bank. While the Economic Freedom Indexes have received a fair amount of criticism from progressive forces, the contested character of neoliberal transformation processes and the pertinent use of indexes and ranking instruments can be clarified best by way of examining the younger but bigger brother of the economic freedom indexes, the World Bank's Ease to do Business Index.

## Intermediate Influence: Normalizing and Generalizing Neoliberal Ways of Thinking

The World Bank's Ease of doing Business Index (EODB) shares with the Economic Freedom Indexes the idea of measuring the quality of the legal institutional environment of private sector economic activity across the different countries. A stylized medium sized company has been imagined for which the conditions are established in the different countries around the globe. The EODB-Index goes deeper into the micro-economic dimension of business activity than do the Economic Freedom Indexes. They add the regulatory dimension of starting a business, of credit facilitation, and employing or firing workers, for example. In principle, however, the World Bank's index follows a supply side economic logic very similar to the economic freedom indexes. How did the index come about?

The key person behind the index is Bulgaria's most illustrious economist, finance minister and World Bank director, Simeon Djankov. As co-founder of the index Djankov worked at the World Bank and was a non-resident senior fellow of the economic think-tank the Peterson Institute before he became deputy prime minister and finance minister of Bulgaria. Apart from his affiliation with high end economic research institutes, Djankov also took part in activities of the Atlas Economic research foundation network of think tanks linked to the Mont Pèlerin Society and the Economic Freedom Movement at large.<sup>4</sup> Djankov can be considered a—if not the—key global intellectual behind the drive toward market oriented institutional reforms. He easily operated in and between academia, think tanks, national government and global institutions illustrating both the interaction and the coalescence of different sources of (epistemic and political, national and international) authority (cf. Zürn 2017 on such "liquid" authority).

Djankov was asked to participate in writing the World Development Report of 2002 titled "Building Institutions for Markets". Djankov turned to Andrei Shleifer, an American economist at Harvard, who had worked on institutions and varieties of capitalism. Shleifer was willing to collaborate on the report if the project involved committing to gathering cross-country datasets

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4 See for Djankov's biographical background [www.doingbusiness.org/en/about-us/funders](http://www.doingbusiness.org/en/about-us/funders) and <https://www.atlasnetwork.org/about/people/simeon-djankov> (last accessed 04.01.2021).

on institutions (Djankov 2016: 247). Together with Djankov and a range of colleagues a number of background papers were produced, which relied heavily on rational choice institutionalism developed by Douglas North and public choice literature, among other sources. Overlaps with the neoliberal sources of the economic freedom movement and the producers of the Economic Freedom Indexes are abundant. The first publication on the regulation of market entry (Djankov et al. 2002) draws on public choice inspired bureaucracy and corruption theory to develop the comparative framework and criteria for the index. The other papers backing the index development are written very much in the same public choice spirit.<sup>5</sup> Unsurprisingly, the EODB-Index has run into heavy criticism. Arguably because of its success detailed in review papers, which single out the number of academic articles using the data (more than 1.000 in 2013) and the number of political reforms inspired by the index, the methodology of the index has been attacked from many sides (compare “A Review of doing Business” Acemoglu et al. 2013).<sup>6</sup> The strongest defense of the report by the review committee points to the Scandinavian countries, which do quite well in the World Bank’s index. Accusations of neoliberal deception are unfounded according to the authors, because the index deals only with about 100 of more than 14.000 regulations of the European Union, for example (Acemoglu et al. 2013: 6).

This response clearly misses the point. If a set of just one hundred regulations is singled out to compare countries in de-contextualized ways, the result is quite likely to be skewed. If, for example, regulations to start and run businesses and to hire and fire workers are quite positive in Scandinavia from a neoliberal perspective, the ways in which an expanded welfare state and a high unionization rate mitigate the impact of business flexibility on labor is obviously not addressed. Such selective representation of facts about a country uses Scandinavia to promote business models that are not very much like the Scandinavian models taken as a whole.

In some ways the Economic Freedom Indexes are franker and less diplomatic than the EODB-Index because they don’t make a secret of their dislike of labor market deregulation, for example. The reason for diplomacy at the World Bank is obvious on the other hand. The index ran into serious criticism

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5 Compare the compilation of papers at <https://www.doingbusiness.org/en/methodology> (last accessed 07.09.2020).

6 350 by 2013 claims the Review paper from 2013, and almost 2000 claims Steve Hanke of the Cato Institute (2013).

with regard to the labor market measurements on the one hand, and with regard to the disclosure of income of politicians on the other hand (Djankov 2016: 248). The first measure was dropped from the ranking and the second was not taken up by the World Bank. Even the World Bank project cannot escape contestation and needs to invest heavily in corrections and legitimization efforts, as demonstrated by frequent changes to the methodology between 2005-2017. It appears as if the perceived power of the World Bank's index generates the contestation (Kelley/Simmons 2019; Doshi et. al 2019). Strong criticism of the World Bank's index from China in turn sparked a defensive response from members of the Economic Freedom movement (Hanke 2013).

Apart from the general closeness of the Economic Freedom Index and the EODB-Index, which both are designed to reproduce neoliberal ideas of law in the service of private business activities and entrepreneurship, the two devices both seem to revive ordoliberal ideas of an institutional framework for a market economy as pure as possible. Unlike the Economic Freedom Indexes, the neoliberal assessment of legal institutions gains weight at the World Bank because the index data accrue meaning of standards and instruments of conditionality (Krever 2013).

The neoliberal intellectual efforts behind the economic freedom indices—particularly their shared focus on supply-side reforms, entrepreneurship and public choice-type institutional analysis—conjunction with the personal experience of the decline and eventual collapse of socialist economies have clearly shaped Djankov's economic understanding. The World Bank's index co-developed by Djankov in turn informed the Atlas Foundation's economic freedom campaigns in various countries, notably India. India has been a prominent user of the EODB-Index to guide domestic reforms under Prime Minister Narendra Modi. On top of using the device to promote neoliberal reforms at the national level, his right-wing government replicated the index at the domestic level to push the different provinces in the direction of deregulation (Doshi et al. 2019: 633f.). The creation of the EODB-Index at the World Bank was arguably a significant upgrade for the Fraser and Heritage led efforts. Due to the weight of the World Bank for the international investment and policy-making community, governments are considerably more under pressure from a World Bank rating than from rankings established by civil society-based think tank networks. Unsurprisingly, the "market share" of the EODB-Index among the "cognate economic indicators" (including the two economic freedom indexes studied here) is calculated at 65.26 per cent, compared to 16.46 per cent for the global competitiveness index of World

Economic Forum (WEF); 8.07 per cent for the Heritage Foundation's Index of Economic Freedom, and 2.8 per cent for the Fraser Institute's Economic Freedom Index (Doshi et al. 2019: 618).

The relevance of the Fraser and Heritage efforts can thus be seen less in the institutional weight of the economic freedom indexes as such. They have become stepping stones in the process of redirecting more relevant private (World Economic Forum) and public (World Bank) institutions that provide much more weight and authority to the cause of economic freedom. In addition to the numerical difference of the indicators and rankings we need to consider the institutional difference. Neoliberal ideas become quite a bit more powerful once they enter the realm of the powerful global financial institutions at the core of contemporary global governance and neoliberal transformation processes. In the process of two decades, national and regional competitiveness norms and concerns advanced from the status of pro-business ideology nurtured by neoliberal intellectuals and think tanks to thoroughly institutionalized norms within the hierarchy of intertwined global and domestic institutions—a powerful example of the agenda-setting capacity of neoliberal think tanks.

## Conclusion

The impact of the economic freedom indices developed by neoliberal think tanks around the Fraser Institute and by Heritage Foundation and the Wall Street Journal in the 1990s has been underestimated rather than overestimated, even if the indexes remain subject to severe criticism and academic use of the data seems unimpressive. Examining the genesis of neoliberal economic freedom indexes enables us to better comprehend the ability of neoliberal intellectuals to develop new concepts labelled 'supply-side economics', which are based on neoliberal norms and principled beliefs that were subsequently used as critical tools in a wide range of media and policy circles to change perceptions of the world.

The indices provided a policy instrument and knowledge reservoir for a broad range of social actors frequently based in think tanks linked to the Atlas network. The self-declared economic freedom movement behind the push for economic freedom indices focused attention on legal and other regulatory institutions subject to political change. The economic freedom indices were designed as tools of neoliberal policy reforms, guiding the larger process of

neoliberal transformation. The development and articulation of a new understanding of entrepreneurship and the institutional requirements for innovation and economic development enabled the economic freedom movement to develop indices and to stage-manage the numerical depiction of alleged economic freedoms. The building of the collective transnational indicators project could draw on neoliberal civil society networks and served to expand and stabilize the work of this group of non-state actors. It attests to the capacity of neoliberal networks of intellectuals and think tanks to institutionalize new expertise and thus to advance an effort to change the global knowledge power structure (Strange 1988) by way of introducing new data sources, institutions, social technologies and communication circuits. Neoliberal networks did not just draw on a wider range of open data resources but displayed a critical ability to generate their own databases tailored to the needs of the economic freedom arguments. Born in critical distance to indices focused on macro-economic growth like GDP measures, economic freedom indices have lately been used to legitimate free market reforms based on claims of a close correlation of economic freedom and growth.

From a historical perspective, such arguments made in favor of economic freedom indices avoid the fundamental question: why have growth rates been higher across the OECD world and the Global South during the time of welfare state expansion and planning compared to the recent era of welfare state retrenchment? The indices are also silent on the crucial issue of asymmetries and uneven distribution. The design of the economic freedom indices suggests a causal relationship between economic freedom and economic benefits for the whole of society, although welfare state regimes and rules benefitting the working class and the poor are cast in a negative light. The evident attempt to support economic freedom for the rich in turn implies the question: what about economic freedom for the rest of us (Stanford 1999)? Indices and ratings are social constructions for discursive and political purposes. The critical use of indices needs to address the purposes for which they have been crafted.

Beyond the results achieved by the own civil society-based effort of the economic freedom movement it is important to discuss the wider influence of neoliberal economic 'freedom' reasoning in other indexes and rankings, which are arguably more influential in the assessment and transformation of economic governance than the Economic Freedom Indices themselves. As one scholar looking at the two most important legal indicator projects, the Ease of Doing Business Index and the Worldwide Governance Indicators argues: "these reproduce a narrow neoliberal conception of law as a platform for

private business and entrepreneurial activity, and institutional support for a system of *laissez faire* markets” (Krever 2013: 131) In addition to the numerical difference Bettina Heintz has explained we need to recognize the institutional difference. It matters which private or public institution generates data and turns it into standards and conditions of the interaction between the public and the private sphere. Contrary to Heintz’s particular emphasis on communication, it is necessary to insist on the relevance of social networks and their relevance at the interface of generation and communication of data. The links between the economic freedom movement and the World Bank effort also suggests to keep an eye on the institutional conditions of successful communication.

In addition to the necessary emphasis on “institutional difference” when it comes to global performance indicators, this chapter has demonstrated the ways in which the original neoliberal conceptions of economic freedom and market institutions have been created and strategically advanced. It thereby uncovers a hitherto missing link between the rise of neoliberalism and the rise of global performance indicators. It sheds light on the ongoing competition between different sets of performance indicators, and the ongoing competition of states *through* different sets of indicators in this age of neoliberal transformation.

More research is needed to assess the competition between progressive and neoliberal indicator systems. Even if it is more right than wrong to speak of a neoliberal era, the ideas, concepts and normative leanings of neoliberal agents and agencies are not universally accepted and subject to criticism of countervailing forces, as evidenced by rival indices produced by the Human Development Project or the Real Progress Indicator Project. Yet in spite of such competition, so far, a comprehensive attack on narrow neoliberal economic governance projects and their indicators is largely absent.

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