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## Silent conversion to anti-statism: Historical origins of the belief in market superiority

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Tim Engartner

**Silent Conversion to Anti-Statism:  
Historical Origins of the Belief  
in Market Superiority**

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# **Silent Conversion to Anti-Statism: Historical Origins of the Belief in Market Superiority**

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## **Abstract**

Despite severe economic turmoil within the last decade the stock diagnosis for most market insufficiencies has been: the state must be “slimmed down”. Satisfying social needs through the free market under the slogan of “less government is good government” has been a constitutive feature of economic policy since the rise of neoliberalism in the 1980s. But even as the deregulation of the markets and the “downsizing” of the state causes growing social turbulences – especially in the context of the current financial and economic meltdown – politicians, scholars and the media still cling to the idea of an omnipotent market. Deep-rooted and widely-spread anti-statism still fulfils the role of a creed serving to legitimize the necessity of market-centred “reforms”.

**JEL classification:** A11, B22, B26, L3, N20, P16

**Keywords:** anti-statism, free-market economy, laissez-faire, lean state, liberalism, neoliberalism, Mont Pèlerin Society

## **Introduction**

Since the commercialization of the grain trade in late-nineteenth-century Chicago it has been common knowledge that the impact of market forces is nowhere more effective, and sometimes fateful, than on the floors of the exchanges. But – as governments all over the world implement packages costing billions to save distressed companies, reassure anxious citizens and prevent their economies from sliding into the worst calamity since the Great Depression of 1929-32 – it is still strange to find the erstwhile advocates of largely deregulated and unfettered capital transactions suddenly demanding a strong state to take matters in hand. Governments of all colours acquired stakes in the former giants of the financial world: Goldman Sachs and JP Morgan in New York, RBS and Lloyds/HBOS in London, Dexia and Fortis in Brussels.

This development represents quite a U-turn, given that for more than a quarter century the “control deficits of the state and within the state” have been endlessly reiterated and the benefits of the “lean state” held high (Jänicke 1993: 65). Under that logic state interventions to correct market outcomes or overall economic planning to pursue society-wide or social policy aims cannot be anything other than alien interference. For numerous liberals such interventions represent a “usurpation of knowledge” that ultimately ends in totalitarianism (Hayek 1975). But although the current tempest in the international capital markets now causes even the “market believers” to cease their public demands for “humility before the market’s unpredictability” (Hayek 2001: 47), anti-statism must still be regarded as an immensely influential intellectual current whose principles and tenets define the international frame of reference for social and economic policy. Thus the transformation of the Keynesian welfare state into a “Schumpeterian workfare state” (Jessop 1993) in pursuit of a supposedly urgent need to secure international competitiveness continues unabated in most developed

industrial states. From a political-economy perspective, this article tries to expose an array of the most persistent historical arguments for slimming down governmental influence.

### **Hegemony of Anti-Statism**

In order to understand the role of the state in neoliberalism it is worth taking a look back at its origins. The term “neoliberalism” was coined at the Colloque Walter Lippmann, held in August 1938 in Paris (Walpen 2000: 1068). But it was another half a century before the neoliberal doctrine was able to establish itself as the predominant paradigm of political economy. First under Margaret Thatcher in Britain and Ronald Reagan in the United States and subsequently in most of the states of continental Europe there has been - in Gramscian terms – a “counter-reformation”. Ideas of the welfare state, pillars of public services and historically evolved sectors of state economic activity that had once been matters of public consensus came under a barrage of criticism from all sides. Although the concrete details of the neoliberal societal model remained vague for a long time, its ambitions were quickly apparent. Even before aforementioned colloquium of 1938, the French economic theorist Louis Rougiers wrote to William E. Rappard that the declared goal was to set in motion “an international crusade for a constructive liberalism” (Walpen 2000: 1071). At the latest by the end of the “short century” as Eric Hobsbawm named the era of “real existing socialism” from 1917 to 1989 (1995: 20), the efforts of the neoliberal think tanks and conservative free-market media to implement market doctrine not only as the roadmap for efficient economic policy but also as the solution to social and ecological ills had been rewarded. For two decades now the very tangible and visible outcome has been a widely accepted dominance of neoliberal political models: “Neoliberalism is now perceived as the all-purpose panacea to address economic and social ills” (Pasha 2000: 71; Mitrović 2005).

If we are not satisfied with the stated claims of the authors of neoliberal economic and societal concepts and their concrete implementation, but instead search for an explanation for the victorious march of neoliberalism, deeper questions have to be answered: What were the driving forces that helped neoliberal economic policy to achieve its breakthrough in society, i.e. to achieve acceptance across the obvious traditional (party) political boundaries? Were the years of reiterating the necessity to reduce state spending and business overheads all it took to clear the way for neoliberal ideologies to worm their way into the various spheres of society – true to the neoliberal creed of decentralization? Why did the macroeconomic and political framework change in such a way as to foster the paradigm shift in very different nation-state economies? Why is it thought, at the beginning of the twenty-first century, at the national and international levels, that there is no alternative to free-market positions? Did neoliberalism experience its renaissance because it blazed a trail of historical inevitability, as numerous theorists of liberalism would claim?

### **Driving Forces: Crisis of Keynesianism, Flexibility and Apparent Modernity**

One obvious explanation why liberalism was able to return with such vehemence is the oil price shock of 1973 and the ensuing recession, the worst since the Great Depression, which led to stagflation, currency turbulence, a drastic drop in consumption and investment, worsening deficits in social security systems, and finally to a huge jump in unemployment rates. Growing functional deficiencies of Western economies accompanied by a deliberate discrediting of state interventions led to a delegitimation of Keynesianism. The traditional mechanisms of state action, including demand-side management, were increasingly regarded as inadequate. Here the “Waterloo of Keynesianism” (Willke 2003: 32) is sometimes explained in terms of the political actors finding themselves in a dilemma, at least subjectively, because of rampant stagflation: while raging inflation demanded a restrictive monetary policy on the part of the central banks, a situation of stagnating economic growth appeared to indicate state-initiated growth programmes. Under the assumption that restrictive monetary policy and expansive economic policy were mutually exclusive, the crucial political decision-makers declared that the Keynesian approach was stymied for that period – not least because the dilemma was interpreted primarily as a crisis of state control as a consequence of over-regulation.

Another reason why neoliberalism was apparently able to achieve societal and cultural hegemony by stealth appears to lie in its adaptability and versatility: “There is nothing in the principles of liberalism to make it a stationary creed, there are no hard-and-fast rules fixed once and for all. The fundamental principle that in the ordering of our affairs we should make as much use as possible of the spontaneous forces of society, and resort as little as possible to coercion, is capable of an infinite variety of applications” (Hayek 2001: 17). This quote reveals that neoliberal positioning occurs not in the framework of a coherent, static body of theory, but latches as required into specific aspects of the life of society. Because neoliberalism deviates from rigid neoclassical model-based thinking, it is able to realign itself quickly and flexibly to fit with prevailing social and political constellations. This “universalism of particularisms” accounts for a large part of the success of neoliberal strategies (Walpen 2004: 277). In order to account for the pluralistic character of the term “neoliberalism” – i.e. the breadth of the neoliberal model “from the laissez-faire approach (anarcho-capitalism) to comprehensive state interventionism” – prominent authors speak of “neoliberalisms” (Walpen 2000: 1066–7). Following Bernhard Walpen and Ralf Ptak, who regard a sharp definition as a lost cause and emphasize the importance of a historical approach (Walpen 2004: 63; Ptak 2004b: 9–22), it must be noted that the term can only be understood in the context of its concrete, mostly country-specific origins. Interpreting neoliberalism as a “doctrine with many faces” (Pasche and Peters 1997: 205), is imperative if the popularity of neoliberal theories is to be understood. In order to dissolve this blurry terminology I suggest that we use the term ‘anti-statism’ instead to describe a mindset that is deeply rooted in general state skepticism.

While analytical methods ranging from rational choice theory to game theory offer one approach to understanding the mechanisms that allowed core liberal demands to resurface in



new contextualized forms, another would be to consider the publications of the Mont Pèlerin Society, probably the most influential network of anti-statism. Since its establishment in 1947 this think tank has operated as a hothouse of neoliberal theory production – not least thanks to its star-studded cast of founding members including Walter Eucken, Milton Friedman, Ludwig von Mises, Michael Polanyi, Karl R. Popper, William E. Rappard, Wilhelm Röpke and Friedrich A. von Hayek.

In the “Statement of Aims” formulated at the founding meeting we read that the representatives of this reconstituted liberalism wished for a “redefinition of the functions of the state” and “re-establishing the rule of law” (MPS 1947). The vagueness of the formulation that functioning competition, a free market and a guarantee of private property had to be the “indispensable foundations of economic prosperity and the bastion of a libertarian social order” (Meier-Rust 1993: 43) established a modicum of unity among the disparate “renewers of liberalism”, while the great bandwidth of the basic tenets permitted swift – even preemptive – responses as political developments unfolded (especially in the United States, Chile and Britain). Of course, an understanding that the term “liberal” – as stated in a note to the founding declaration – was used “in its European sense, broadly epitomized by a preference for minimal and dispersed government” (MPS 1947), left open a multitude of potential trajectories. All the founders agreed from the outset on the significance of liberty in society, as the *conditio sine qua non* of an efficient competition-based market, and also on the exclusivity of the neoliberal doxa and rejection of any form of collectivism: “Les participants seront tous des universitaires liés par le credo: moins d’Etat, peu d’Etat, mieux d’Etat; accomplissement de l’individu; contre la vocation messianique des masses, contre le keynesianisme et le marxisme” (Busino 1990: 214).

These fundamentally conservative forces quickly adopted the insignia of modernity. Citing conventional economic explanations they discredited as outdated and thus obsolete political models that refused to make private economic criteria the yardstick for state activity. Those who continued to uphold social and civilizing achievements such as the right to free education now saw themselves painted as backward traditionalists refusing to abandon an antiquated political agenda. Pierre Bourdieu believes that the biggest factor behind the increased global acceptance of neoliberal dogma is that the curbing of the “visible hand” of the state appears in the guise of modernity: “This new type of conservative revolution appeals to progress, reason, and science to justify restoration and seeks in this way to dispatch progressive thought and action to an archaic past.” (2008: 288).

### **Concepts of Universalizing the Market**

Ralf Ptak rightly notes that the “neoliberal ideology-formation” is to be interpreted as an “attempt to attain socio-cultural hegemony by stealth” (2004a: 23). But economization concepts based on privatization permeated the different spheres of society not just quietly and subtly, but mostly openly and brashly. Anti-statist concepts gained traction through the busting influence of think tanks on media, politics and business, given that there were “no

work and no authors to deal a death-blow to the old teachings to replace old pillars with new” (Flassbeck 1982: 75). Both Hayek’s *The Road to Serfdom* (1944) and Popper’s two-volume *The Open Society and Its Enemies* published a year later (1945) had an enormous and unforeseen impact on the field of social theory, but they did not bring about a paradigm change in economic, financial and social policy.

The midwives of anti-statism were quick to recognize that effecting lasting change in the political culture would require a generous window of opportunity for the assertion of strategic influence. This assessment was also shared by Richard Cockett, who noted that the *modus operandi* of the Institute of Economic Affairs (founded in 1955 in Britain at Hayek’s initiative) meant “that they [the neoliberals] had to fight and win the intellectual battle over the course of twenty or more years without regard to the short-term political situation” (1995: 139).

Based as it is on classical liberalism and – at least in its origins and leanings – neoclassical theory, the economic policy of neoliberalism (and also its social philosophy) aims to minimize the influence of the state. The neoliberal discourse cherry-picks fundamental ideas from the classical liberalism of Adam Smith, Jeremy Bentham and John Stuart Mill, regurgitating them to fit the changed circumstances of the political economy. Unlike the “old” *laissez-faire* liberalism that emerged in opposition to protectionist mercantilism, neoliberalism regards economic interventions as necessary to ensure functioning markets, true to the spirit of “liberal interventionism” (Rüstow 1963: 253).

With the goal of the broadest possible realization of the ideal of total competition intervention in the economy was now to be “in exactly the opposite direction, namely concurrent with the laws of the market rather than against them” (Rüstow 1963: 252–3). Rüstow, who taught at Istanbul University as a German exile from 1933 to 1949, is much more explicit in the immediately preceding passage: “The much-maligned Manchester capitalism has at least revealed a much more manly and courageous attitude than those whiners who immediately get the public authorities to stick the biggest possible plaster on the slightest scratch” (1932: 251). Although from the 1960s neoliberal circles redoubled their efforts to coopt the term “liberalism” itself, the above quote shows that as a system of ideas neoliberalism was about more than a resurrection of traditional liberalism: namely, a fundamental realignment of social and economic policy.

On the basis of the neoclassical equilibrium theory – developed in the last third of the nineteenth century out of classical economics – according to which the market possesses efficient incentive, control and penalty mechanisms, the supporters of the neoliberal turn argued for the primacy of the economy, for an economic policy of antistatism. Satisfying society’s needs through the market represents the be-all and end-all of neoliberal ideology put into practice, the central motto being “less government is good government” (Moore 1983: 93).

Setting aside various sectoral, regional and historical variations, neoliberalism's aim is "dethroning politics" (Bellamy 1994): competition and individualization through comprehensive deregulation of the economic and social order, liberalization and privatization of public services and publicly owned businesses, tax cuts in tandem with cutting state spending, and restrictive monetary policy. "It is about pruning back excessive state regulation and reducing the crippling burdens on economic life. The insidious hypertrophism of the welfare state has laid a tangled web of rules, regulations and taxes over the economy like mildew. The neoliberal project aims to shape society and the economy in such a way that the individual's 'striving for happiness' can be realized with minimum state relementation and maximum individual self-determination." (Willke 2003: 21). Ultimately this means tying the states hand's except where it serves to safeguard free-market mechanisms and the concomitant power relations.

But how can the universality of the free-market principle be justified, the broad-brush fixation on the market as the central instance of coordination? Gary S. Becker, who won the 1992 Swedish Riksbank Prize in Economic Sciences (often referred to as a "Nobel prize" although it is awarded in memory of Alfred Nobel rather than by his foundation) formulated the benefits of the free-market principle in terms of its universal validity: "Indeed, I have come to the position that the economic approach is a comprehensive one that is applicable to all human behavior, be it behavior involving money prices or imputed shadow prices, repeated or infrequent decisions, emotional or mechanical ends, rich or poor persons, men or women, adults or children, brilliant or stupid persons, patients or therapists, businessmen or politicians, teachers or students" (1978: 8). The originators themselves described the universalization of the free market, expressed in the desire to apply cost/benefit considerations to all spheres of society, as "economic imperialism"(Boulding 1973: 118), strikingly highlighting the messianic dimension of this redefined liberalism.

Charles E. Lindblom sees the superiority of the market over a system of central coordination grounded in the former's evolutionary potential: "Market systems encourage thousands and millions of initiatives. They are turbulent, open-ended systems that can change or grow at any of innumerable points. They allow great room for invention and improvisation, individual and local resourcefulness, a multitude of challenges and potential responses" (1980: 77). Market economies are claimed to be extraordinarily adaptable evolutionary systems driven by competition as the central coordinating mechanism (Weizsäcker 2000: 2-3; Knieps 2000: 7-22; Donges 2002: 7-11).

The supporters of intense competition at all levels from individual to international claim that it solves the innovation problem by functioning as "abstract knowledge management" (Schui and Blankenburg 2002: 102); businesses competing with one another in pursuit of profit (which represents the result of a competitive advantage) drives technical progress, inducing growth, innovation and growing market share. Competitive structures are also regarded as significant in resolving motivation problems through the mechanism whereby performing adequately in the market earns companies' profits whereas inefficiencies lead to losses and in the longer term elimination from the market.

The view that “the free market filters out the best methods and behaviour” (Schui and Blankenburg 2002: 101), is not restricted to competition between businesses, but also encompasses competition between nation-states (Standortwettbewerb). In short: competition functions as a regulatory principle acting to order and channel market forces. At the same time competition – in the opinion of those who regard it as the only driving force of general well-being apart from self-interest – can only express its ordering powers if it is managed and institutionally secured by the state.<sup>1</sup> The market must not just be permitted but much more permanently facilitated. Ultimately, historical experience shows that the free play of market forces alone could not be expected to produce a market order of economic processes, but that instead the state had to guarantee the survival of competition on the field of competing interests as a “robust umpire” (Röpke 1979: 310) rather than just a “night-watchman” (Lassalle 1919: 195).

### **Weighty Borrowings from Neoclassicism**

One central pillar of neoclassical economics – on which numerous neoliberal arguments are at least implicitly based – is the theory of equilibrium, according to which the market is automatically self-optimizing (i.e. its allocation function always tends towards equilibrium). Many representatives of the economic fraternity regard Adam Smith’s oft-quoted quasi-religious metaphor of the “invisible hand” as “perhaps the major intellectual discovery in the whole history of economics” (Buchanan 1986: 17). Here the metaphoric expression stands for the condition that is generally understood as the spontaneously price-controlled order of market events.

Hayek’s implicit equilibrium of a market order that forms spontaneously of itself describes a market emerging as the coordinating instance by securing interaction of the economic subjects, regardless whether this is the labour, commodity or capital market (1969). Although Adam Smith’s striking image pertinently illustrates the way the coordinating effect of the market is often hidden from view, the theoretical concept of neoclassical economics has come in for criticism not only as a metaphorical exaggeration but even as a “gap in economic theory” tending towards “economic theology” (Baeker 2002: 610).

James M. Buchanan and Gordon Tullock responded to this criticism with an economics orientated on the “world as it is” rather than the “world as it should be”. Their public choice theory, which must be regarded as further evidence of the immense breadth of variation and versatility of neoliberal theory, became one of the most influential economic theories of the past century. The constitutive feature of the theory, also known as “new political economy”, is the application of the rational choice approach of neoclassical economics (which holds that the goal of maximizing utility determines individual decision-making calculations) to phenomena in the political sphere.

Buchanan's academic reputation is grounded in his contribution to a "free-market reconception of the state" (Walpen 2004: 252), in the sense of a critique of the (welfare) state couched in terms of political economy; unlike most contemporary protagonists of a neoliberal turn, the thrust of his argument is not to attack nation-state socialism, but instead to make what liberal economists felt was the "mushrooming" welfare state the starting point of his critique, "Socialism Is Dead But Leviathan Lives On" (Buchanan, 1990). The award-winning economist declared the absence of free-market principles and the utility maximization of politicians to be the causes of state bureaucracy. Thus Ralf Dahrendorf's call to banish "the talk of a good society" from the vocabulary of the social sciences because openness and liberty in a society were "absolutely adequate goals" (2000: 15) finds a broad echo among neoliberals. By contrast they regard any orientation on the common good as "preceptorially imposed virtuousness" (Willke 2003: 68).

### **Idolizing Liberty and Absolutizing Market Mechanisms**

Although the term "neoliberalism" is occasionally used as a sledgehammer criticism of the economic developments of our age, this ideology does undoubtedly form the backdrop to modern capitalism. In the popular context neoliberalism is indeed sometimes referred to as "vulgar liberalism" because it overstates a lopsided version of liberty and treats coordinates maintained by the state with few exceptions as a kind of "institutional deprivation of liberty" (Roß 2000: 37–46). Its one-sided fixation on market freedom (cf. Friedman 1962) exposes it to the charge that it lacks moral and political substance. The financial markets of Latin America (Mexico, Argentina, Brazil, Chile) and the crises they have suffered since the 1990s are in a certain respect emblematic for such lapses of neoliberalism, which at its heart represents a modernized and radicalized variant of classical economic liberalism. But in other markets too, the crisis of the neoliberal project that emerged from the demise of Fordism produces failings that result from the one-sided orientation of a state that sees itself solely as the guarantor of national competitiveness.

In the neoliberal understanding of politics the market represents a system of rules that excludes the application of categories such as justice and social acceptability (cf. Etzioni 1988). In fact the costs of social inclusion are simply never set in relation to the costs that ensue – in the form of criminality, ghettoization, squalor, drug addiction, etc – as a consequence of social turmoil and disparities. The historical roots of this short-sighted perspective are found in Hayek's famous statement about the Keynesian welfare state: "A social market economy is not a market economy, a social constitutional state not a constitutional state, a social conscience not a conscience, social justice not justice and, I fear, social democracy not democracy" (1979: 16).<sup>2</sup> Those who interpret the predicate "social" as a meaningless pleonasm or as a "weasel-word" (Hayek 1979: 16) and regard the free market as a moral concept consistently resist any subsequent correction of the results of the market, and especially any secondary redistribution to ease material inequalities.

However, the postulate that if the free market is to rule one must adapt to and fit in with it (Eucken 1952: 371) is subject to justified objections. Moderate and radical critics of deregulation and flexibilization remonstrate that the neoliberals are apologists for a new social Darwinism venerating the culture of “survival of the fittest”, and criticize both the rigorousness of the market and its anonymity. Whereas Richard Sennett, whose *The Corrosion of Character: The Personal Consequences of Work in the New Capitalism* analyses global capitalism’s demands on its subjects, sees the “profit imperative” as the reason for capitalism to rid itself of all responsibility (1998), others criticize the return to Manchester capitalism as sheer “market fundamentalism” (Giddens 1990), even if some of them – including Anthony Giddens himself – are not immune to rearticulating neoliberal positions themselves. Critics from ethical communitarian currents complain of the lack of state institutions to provide a social counterweight to the market when they see “individuals as quivering atoms abandoned to the chill of neoliberalism” (Reese-Schäfer 2001: 131). Harsher criticism of the reformatting of liberalism – widely lauded as *economia triumfans* – comes from those who identify destructive elements with respect to the development of society above and beyond the points of criticism already mentioned. They castigate “capitalism unmasked” (Chomsky 1999: 9) with reference to a secularized religious doctrine, the neoliberal utopia as a kind of “infernal machine” (Bourdieu 2008: 28) or condemn the “delegitimization [of the welfare state] by liberal conservatism” (Butterwegge 1998: 70). Whether claiming that the market is inherently stable is the same as a “quasi-religious message of salvation” may be a moot point, but it serves to illustrate a persistent criticism (Zinn 2005: 2). It is generally believed that “there is no alternative” to the course of economic renewal “that sets social romanticism to one side” (Sinn and Sinn 1993: 485). Until the current economic and financial crisis erupted even prominent sceptics eked out a marginal existence without any meaningful media resonance.

### **Discrediting and Eroding the (Welfare) State**

At the heart of anti-statist thought we find the idea of the state as a “boarder”, dismissing out of hand the tax revenues vital to funding the public sector as evidence of a state machinery colonizing society. But the postulated universality of this claim simply collapses under closer examination. True as it is that crowding-out effects and taxation of private wealth reduce the possibilities for private investment, the thesis that private spending is always more useful than public is equally untrue. In fact, private investment activity can only be assumed to be superior if it is exclusively compared to the “sovereign withdrawal” of private-sector value creation in the form of taxes (Hickel 1998: 152). But a proper verdict can only be reached if the consequences of public-sector activity are included in their totality.

Largely ignoring the cultural, historical, institutional and geographical individualities of countries and regions, the neoliberal strategy aims to cleanse capitalism of all social and welfare state impurities. Such a way of looking at things ignores decisive facets of the economic system that have matured over decades, sometimes centuries, into stabilizers of social, fiscal, environmental and transport policy. This reduction of complexity is one crucial

reason why the neoliberal perspective has found great resonance outside of academic debate and the scientific community. This simplification materializes for example in the offhand rejection of “state activity” (with all its immensely complex ramifications) in favour of a fundamental belief in the superiority of free-market principles in all spheres of the economy. Here the free market is elevated to mythical status and various exchange theories to the political ideal, even though the majority of the economic fraternity has long rejected the reduction of political economy to catallactics, or the theory of exchanges.

The mathematical fiction of neoclassical economic theory manifests itself in its recourse to “colossal abstraction” in the general theory of equilibrium (Bourdieu 1998): “Liberal economics had floated away into a kind of intellectual Disneyland inhabited by a multitude of industrious dwarfs, happily hammering away at their anvils and humming over their money bags, apparently untaxed, unexploited – and untempted by lust, avarice or power. Every story had a happy ending as it usually had only one character” (Staniland 1985: 77- 8).

Now that the erosion of the welfare state has fulfilled the expectations of the anti-statists that the harsh realities of an increasingly globalized world will lead to a return to the wobbly pillars of the “pure” market economy, free-market principles appear to have been immunized against any kind of moral, ethical or political questioning. Neoliberal critics of the welfare state deliberately confuse cause and effect when they declare the “overstretched” welfare state to be the cause of crisis. In fact exactly the opposite causality can be demonstrated: Economic and employment crisis undermined the foundations of the social security system. As the number of people who still had work or training fell and the pressure on their level of wages or income grew, contributions to the social insurance schemes fell, while significantly greater numbers had to make more use of the promises of benefits (and more often).

The origins of this development are to be found in the neoliberal transmutation of the idea of justice, where the danger of abuse of the welfare system (moral hazard) was systematically promulgated. The previously proclaimed concept of need-based redistributive justice was supplanted by an idea of “equality of opportunity” based on personal initiative and self-help and the turn to an intergenerational concept of justice (“generational justice”). Working from the assumption that free-market mechanisms would implicitly take care of aspects of justice, prominent social democratic political theorists pressed for the idea of equality to be revised. Among their number was Anthony Giddens, until 2003 director of the London School of Economics and Political Science and long-serving advisor to British Prime Minister Tony Blair. According to his view the contemporary left needs to develop a dynamic, life-chances approach to equality, placing the prime stress on equality of opportunity (2000: 85).<sup>3</sup>

Any concept of equality that manifests itself in the glorification of free competition and the perspective that “inequality is not regrettable, but highly welcome” (Hayek 1981: 38) would appear to be practically irreconcilable with the welfare state clauses found in many European constitutions. Those who are pushing forward the destruction of the welfare state under the pretence of reform fail to recognize that the welfare state, by defusing social contradictions, has made a decisive contribution to internal security and social peace and must ultimately be

regarded as the foundation of prosperity.

Granted, the authors of the neoliberal agenda were often setting out to write pithy and simply formulated statements. Indeed, the fundamentally positive comprehensibility of the theses often stems from the way the object of economic analysis is systematically expanded until all facets of human activity are simply a question of allocation of scarce resources. For example the expanded influence of economic principles subsumes the political and administrative system under market categories, only to reject it as absolutely inefficient. This way of looking at things results from the reduction of the individual to a rational economic decision-maker, who makes choices about family, relationships and career largely or even exclusively on the basis of cost/benefit considerations.

Already at the beginning of the twentieth century Hans Honegger – addressing Max Weber’s political economy – pointed out that attempts to order all aspects of society through the model of the market were misguided, even claiming that: “the economy is fundamentally rooted in politics, through which it must ultimately be explained” (1925: 135). And even in the writings of ordoliberal Wilhelm Röpke – who called at the founding meeting of the Mont Pèlerin Society in April 1947 for an economic order of “economic humanism” – we find an early hint of the criticism associated to this day with the (sometimes overused) concept of neoliberalism: “We know well enough that it would be foolish to suppose competition, the free market and the interplay of supply and demand to be mechanisms from which we can expect the best in all spheres under all circumstances. This general notion – which no-one should take more to heart than the friend of the free- market economy – leads us to the specific recognition that the market one-sidedly favours activity that is the source of profit, while arguments against such activity are disregarded in the market even though the general interest demands they should be given the greatest weight. This makes the market incompetent for the really important decisions” (1979: 200).

With the financial crisis triggered by the American subprime mortgage collapse leaving skid marks in growth and employment across the globe, it is time to stop worshipping the market and cease damning the state as an exploitative Leviathan. The great shake-out in the global financial casino simply demonstrates that global networking has made free markets much more volatile and therefore much more susceptible to crisis. The worst economic dislocation since the Great Crash of 1929-30 is a time to rethink the relationship between the state and the economy – and here or there readjust – after first setting aside the neoliberal philosophy of destatification. The neoliberal battle-cry since the end of the Bretton Woods system in 1973, that the state must withdraw from the commanding heights of the economy, is heard no more.



## Notes

1. Leonhard Miksch, an early proponent of German neoliberalism, described the free- market economy as a “Veranstaltung”, because the state appeared as an ordering instance to guarantee the functioning of competition (1937: 5 and 9).
2. While many observers regard Germany’s Social Market Economy as a highly ambitious and extremely successful (“economic miracle”) blueprint for a coordinated economy cum welfare state, the original conception was in fact designed in opposition to Keynesian and other ideas in favor of extensive state planning for economic and social purposes. At the same time the neoliberal founding fathers critiqued classical *laissez faire* liberalism in order to create considerable room for maneuvers needed to cut political deals with a strong socialist and trade union opposition in post WW II Germany.
3. In this context Giddens points out that social democrats must not only revise their approach to, but also their concept of, equality in the wake of the decline of socialism. From his point of view there is no future for the “egalitarianism at all costs” that absorbed leftists for so long. He quotes Michael Walzer that “simple equality of that sort is the bad utopianism of the old left” (2000: 85).

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