Neoliberalism, Neoclassical Economics, and Foucault: Dominant Schools of Economic Thought in American Anarcho-Liberalism and German Ordoliberalism

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1. Introduction

Neoclassical economics remains the dominant perspective in economics education, the profession, and in policy. Its key assumptions of perfect competition and perfect rationality remain the underpinnings of the basic model of economics, i.e. the basic neoclassical market model of supply and demand without imperfections (Colander, Holt, and Barkley 2004; Mankiw 2018; Mirowski 2013). In this most basic model, the market delivers perfect outcomes, and intervention by the government only distorts this process. Such a perspective quite naturally advocates for neoliberalism, which "denotes new forms of political-economic governance premised on the extension of market relationships" (Larner 2000, 5).[1] In such a political-economic environment, can the dominant basic economic model be based on a basic model with assumptions divergent from perfect competition and perfect rationality? Has a school of economic thought with a divergent basic model been able to rise to dominance in a similar political-economic environment as today? If so, what were the unique historical conditions that allowed for its rise?

This paper examines the historical role of the neoliberal political-economic environment in the United States and Germany in the shaping, legitimation, and rise of the dominant school of economic thought in their respective countries. The analysis focuses on the basic economic model of the respective schools, since the basic model of a school of economic thought represents the assumptions, perspective, and metaphors of the profession. In other words, it represents the fundamental thinking of the dominant school of thought in its most distilled form.

The paper finds that the school of economic thought that has risen to dominance in the American neoliberal environment closely aligns and even validates the assumptions and conclusions of the neoclassical school of economics. This alignment partly explains the intertwinement with American neoliberalism and neoclassical economics. However, in the German neoliberal environment, a divergent school from neoclassical economics rose to dominance in policymaking due to factors such as a unique political environment. The basic model of this school is based on the assumption of pure rather than perfect competition. Through analyzing this unique historical case, the paper draws conclusions about the conditions under which a school divergent from neoclassical economics can rise to dominance in policymaking in a neoliberal political-

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economic environment. Further research could indicate the extent to which the German neoliberal school of economic thought became dominant beyond policymaking.

This paper's analysis of American and German neoliberalism is based on Michel Foucault's influential lecture series, *The Birth of Biopolitics* (2008) and expanded with more recent literature.[2] Foucault's work focuses on the intricate relation between power and knowledge and how they form the cultural framework that shapes our thinking. The dominance of neoclassical economics is the result of a deep interplay between established power and knowledge, which Foucault can help us to understand. The audio recordings of his lecture series on neoliberalism, given at Collège de France in 1978 and 1979, were translated and published posthumously in 2008. In these lectures, Foucault analyzes how, in both the United States and Germany, governmental policy and rationality became based on a new form of neoliberal "governmentality" (Foucault 2008). Governmentality, a complex term with multiple definitions, can be defined as "the organized practices (mentalities, rationalities, and techniques) through which subjects are governed" (Mayhew 2015, 226). In Foucault's analysis, neoliberal governmentality in the United States and Germany refers to the introduction of the logic of the market in the wording, thinking, and acting of all forms of governmental practices. In other words, in both countries the introduction of neoliberal governmentality led to the implementation of economic analysis and thinking in all governmental practices.

The literature on *The Birth of Biopolitics* consists of several analyses of Foucault's examination of American and German neoliberal governmentality (e.g., Flew 2012; Lemke 2001; McNay 2009; Tribe 2009) and includes assessments of economic issues using Foucault's methodology and concepts (e.g., Davies 2010; Hay 2004; O'Malley 2000). However, the current literature does not include analyses that focus purely on the economic aspects of *The Birth of Biopolitics*: the differences related to the economic thinking in American and German neoliberalism as expressed by their basic models. Furthermore, most analyses use Foucault's complex terminology and method of analysis, which makes them difficult for economists to access. This paper adds to the literature an analysis of the economic aspects of *The Birth of Biopolitics* that is more accessible to economists.

This paper is structured as follows: Section 2 summarizes Foucault's analysis of the origin of the concept of competition and defines pure and perfect competition in line with Chamberlin (1933). Section 3 summarizes and extends Foucault's analysis of American neoliberalism, focusing on its relation to the basic neoclassical model. The section furthermore answers a research question proposed by Foucault, describing the history and influence of vested business interests in American neoliberalism in the period 1930-1980. Section 4 summarizes Foucault's analysis of German neoliberalism. Section 5 summarizes and concludes by describing the unique historical conditions that led a school based on pure rather than perfect competition to rise to dominance in post-World War II Germany.

2. The Origin and Definition of Competition

2.1. The Origin of Economic Competition

Foucault (2008) explains how, between the Middle Ages and the sixteenth and seventeenth centuries, the market was not ruled by a natural, competitive process. Instead, the market was ruled by governmental regulation that was based not on efficiency, but on what was considered to be "just." Strict regulations were in place regarding production and the process of selling, and prices were fixed by the state. These fixed prices represented a "just" price, based on a relationship between the work performed by craftsmen, efforts of merchants, and needs and the ability to pay of consumers.[3] There was, furthermore, a form of distributive justice in the market, for the rules were shaped so that the poorest could also buy necessities such as food products.
Lastly, the market was regulated to protect the buyer from bad goods and fraud by the seller.

In the middle of the eighteenth century, the market changed from this site of justice to a place where competition is allowed to operate freely. Such a transformation is the result of the change in the object of government from creating justice in the market to maximizing utility.[4] Foucault explains that in the perspective of the dominant economic schools during this period, the Physiocrats and (early) Classical Political Economists, total utility is maximized when the natural mechanism of the market is unrestricted. He further explains that this process leads to the spontaneous emergence of a price based on the relationship between supply and demand, seen by these schools as the "true" or "natural" price. Such a price does thus not represent a price that is considered to be just, but one purely based on the "relationship between the cost of production and the extent of demand" (Foucault 2008, 31). In other words, the market moves from a site of justice to a site of truth that shows us the "true" prices of products and services.

These "true" prices allow us to assess which government practices have a positive effect on the economy and which have a negative effect (i.e., whether they increase or decrease total utility). In Foucault's view, these (theoretical) economic effects of governmental practices are assessed by economists who thereby gained profound power over governmental practices. Based on their assumptions and conclusions, schools of economic thought assess governmental practices differently. For instance, the Physiocrats and (early) Classical Political Economists claimed it would decrease utility if the government were to interfere in the market or would directly set a different price. However, the market determines which governmental practices are actually valid or invalid by showing the positive or negative effects on total utility through changes in prices. Foucault refers to this process when he explains that the market's becoming a site of truth (since it determined the "true" prices by the process of supply and demand) allowed it to become a site of verification of governmental practice. The next section demonstrates that American neoliberalism extended this economic analysis and power over governmental practice from purely economic to noneconomic social phenomena.

2.2. Pure and Perfect Competition

Economists commonly refer to two types of competition: pure and perfect competition. These terms and their differences are most clearly defined in a non-mathematical way by Chamberlin (1933), which are the definitions used throughout this paper.[5] Chamberlin defines pure competition as "competition unalloyed with monopoly elements" (6). In this prerequisite, Chamberlin separates the absence of monopoly into two elements: "In the first place, there must be a large number of buyers and sellers so that the influence of any one or of several in combination is negligible. […] Secondly, control over price is completely eliminated only when all producers are producing the identical good and selling it in the identical market" (7). In other words, pure competition "requires only the absence of monopoly, which is realized when there are many buyers and sellers of the same (perfectly standardized) product" (25). Building on his definition of pure competition, Chamberlin defines perfect competition as "perfection in many other respects than in the absence of monopoly" (6). In other words, perfect competition requires the absence of monopoly elements and "is concerned with other matters as well: mobility of resources, perfect knowledge, etc." (25). Perfect competition thus requires perfection of the competitive process of the market, whereas pure competition only requires the absence of monopoly elements. In pure competition, unlike in perfect competition, the market does not reach a state of competitive perfection. These differences have important implications when used as the basic assumptions of economic modelling, as discussed in the context of the basic model of economics in American and German neoliberalism in the next two sections.

3. American Anarcho-Liberalism and the Spread of Neoclassical Thinking

Foucault refers to the term American neoliberalism as both American anarcho-liberalism and American anarcho-capitalism.[6] The rest of this paper, therefore, refers to American neoliberalism as American anarcho-liberalism. Furthermore, Foucault defines the "the economists of American anarcho-liberalism" as the economists of the Chicago School, demonstrated by statements like "[it is] American neoliberalism which gives rise to the anarcho-liberalism of the Chicago School, Milton Friedman, etc." (Foucault 2008, 161).[7] Similarly, when referring to the economists of American anarcho-liberalism, this paper refers to the economists of the Chicago School.

3.1. Foucault's Analysis of American Anarcho-Liberalism

Foucault's analysis of American anarcho-liberalism starts with how its view of labor differs from that of Classical Political Economy. In Classical Political Economy, labor is typically seen as an abstract concept on a macroeconomic scale. To Foucault, this perspective is best illustrated by David Ricardo's labor theory of value, in which labor is reduced to a quantitative, homogeneous unit of labor time. He argues that while Classical political economists focus on the abstract input of labor on a macroeconomic scale, they do not analyze why an individual laborer makes the concrete choices he or she does on a microeconomic scale. According to Foucault, this analysis contrasts with the perspective of the American anarcho-liberal economists of the Chicago School, like Gary Becker, who see labor as a concrete concept on a microeconomic scale. Rather than analyzing abstract concepts like labor-time expressed in quantitative units, they focus on "the way in which individuals allocate these scarce means to alternative ends" (Foucault 2008, 222).

Foucault further explains that the Chicago School economists extend their economic analysis of the market to noneconomic social phenomena to explain individual and social behavior from the perspective of rationality. In other words, the Chicago School economists assume each person to be a *homo œconomicus* who acts rationally in social situations, using formal reasoning to strategically find "the optimal allocation of scarce resources to alternative ends" (Foucault 2008, 269). Foucault offers several examples—such as the formation and use of human capital, the contract of marriage, and the choice by wealthier families to have fewer children—that can each be formulated as a market in which individuals have limited means that they try to allocate optimally among alternative ends.

3.2. American Anarcho-Liberalism and the Extension of the Neoclassical Model

Although Foucault does not link the conclusions of the American anarcho-liberal economists' analyses to the assumption of perfect competition or perfectly working markets, and subsequently the neoclassical model, he does recognize the social implications of the market model's extension in their economic analyses. However, he does not analyze how this extension of the market model is linked to the extension of the neoclassical model. Nor does he analyze how these markets are perceived in a perfectly competitive state by the Chicago School economists. The remainder of this subsection, therefore, expands Foucault's analysis by exploring these topics.

The anarcho-liberal economists of the Chicago School validate their assumption of perfect competition or perfectly working markets by analyzing the behavior of *homo œconomicus* in both economic and noneconomic situations. Their analysis, based on perfect rationality, concludes that the market can resolve all issues without requiring government intervention beyond the "night watchman state," i.e., a government that provides only the military, police, and courts to protect the rights of citizens (Nozick 1974).

The extension of the basic neoclassical model to social phenomena by the economists of the Chicago School can be demonstrated by discussing one of Gary Becker's most controversial analyses of a noneconomic social phenomenon: discrimination (Becker 1971). The model he uses expresses discrimination as a premium on top of wages that employers are willing to pay to hire workers from their preferred ethnic, religious, or other group. If this preference is general, discriminating employers have a higher wage cost than nondiscriminating employers. If agents are rational, only the firms with the lowest costs can survive in the long run, which implies that only nondiscriminating employers can survive. Becker concludes that the market can resolve the issue of discrimination itself without requiring government intervention; such intervention would only result in a disruption of the market and its ability to automatically resolve the issue of discrimination.

The perfection of markets is the general conclusion of American anarcho-liberal analyses of the behavior of *homo œconomicus* in both economic and noneconomic situations: the market can resolve all issues without requiring government intervention, and any form of intervention would lead to inefficient outcomes. In other words, these analyses show that the market is in a state of perfection naturally and that any form of interference by an outside entity, such as the government, would perturb this perfection. This conclusion relates to some extent to Chamberlain's definition of perfect competition (1933).[8] Perfect competition is not just the absence of monopoly elements, but "perfection in many other respects than in the absence of monopoly" (Chamberlin 1933, 6). Although most are achieved, not all elements necessary for perfect competition (such as instantaneous adjustments) are achieved by the market in all analyses by Chicago School economists. However, their analyses seem to conclude that the market works perfectly as long as no external entity intervenes in it. Therefore, Chicago school economists seem to presume that the market achieves a form of perfect competition naturally. They thus link perfect rationality with perfect competition or a perfectly working market. Viewing social phenomena from this perspective legitimizes the application of the basic neoclassical model to explain noneconomic social phenomena.

Although Foucault recognizes this link between the Chicago School and neoclassical economics, he does not specifically emphasize the extension of the basic neoclassical model to noneconomic social phenomena. Regarding the generalization of *homo œconomicus* to noneconomic phenomena, he states:

> The most important stake is no doubt the problem of the identification of the object of economic analysis with any conduct whatsoever entailing an optimal allocation of scarce resources to alternative ends, which is the most general definition of the object of economic analysis as defined, roughly, by *the neo-classical school* [emphasis added] (Foucault 2008, 268).

However, he does not discuss how the assumption of perfect rationality leads American anarcho-liberal economists to conclude that markets are in a state of perfection.

3.3. The History of American Anarcho-Liberalism, 1930-1980

Foucault proposes further research on whether American anarcho-liberalism is an endogenous phenomenon in the United States or a diffusion of German neoliberalism (2008, 193). To examine this question, he recommends focusing on the role of Austrian economists who emigrated to the United States, such as Friedrich von Hayek (193). This subsection expands Foucault's research by examining the historical context of American anarcho-liberalism since the 1930s and, relative to the existing literature on this topic (e.g., Van Horn and Mirowski 2009; Van Horn 2009; Phillips-Fein 2009), takes a longer historical view, especially on Hayek's role.

The origin of American anarcho-liberalism can be traced back to wealthy business owners' reaction to President Franklin D. Roosevelt's New Deal in the 1930s. The Great Depression shattered the positive image of the business world and its CEOs in the eyes of the public. Furthermore, the issues caused by the Great Depression increased public acceptance of more extensive government intervention (Wapshott 2011). Although some business owners were in favor of the New Deal, others were hostile. In 1935, a more prominent figure of the latter group, Irénée du Pont, described the New Deal in a letter to a friend as "nothing more or less than Socialistic doctrine called by another name" (quoted in Phillips-Fein 2010, 16). Some business owners who opposed the New Deal attempted to revive their image by providing the public with a libertarian countermessage, the economic content of which is similar to today's American anarcho-liberalism. They communicated their message to the public through new organizations such as the American Liberty League and established organizations such as the National Association of Manufacturers. These efforts were largely unsuccessful. In a 1936 speech, Democratic Party Chair Jim Farley noted that the American Liberty League should be called the "American Cellophane League" because "first, it's a DuPont product and second, you can see right through it" (quoted in Blanc 2016, 64).

The business owners' unsuccessful attempts to convince the public of their libertarian perspective led to a change in strategy. They began to link their countermessage to religion, promoting it in the form of Christian libertarianism, which was heavily influenced by Austrian economics, through organizations such as Spiritual Mobilization (Kruse 2015; Phillips-Fein 2010). Spiritual Mobilization targeted ministers through various media, including a monthly newsletter, pamphlets, and a radio channel. These ministers would then disseminate the message to the public in their sermons. Although connected to business owners who supported the American Liberty League and the National Association of Manufacturers, Spiritual Mobilization was more successful in convincing the public of its libertarian message, which gained even greater acceptance after World War II. Their success resulted partly from the increase of the importance of religion among the public, which itself was a result of the U.S. government's promotion of religion during the Cold War (Kirby 2017). U.S. government propaganda cast the Cold War with the Soviet Union as a battle between a good, religious, and capitalist state versus an evil, atheist, and communist state. Starting with President Dwight Eisenhower's administration, many religious customs and beliefs were formalized in a range of U.S. government institutions and practices. Examples include the National Prayer Breakfast, established in 1953, and the official national motto "In God We Trust," adopted in 1956 (Kruse 2015), which contributed to the religious revival among the American people. Furthermore, the anticommunist rhetoric in religious messaging was a factor in the rise of the Christian Right (Kirby 2017; Kruse 2015), whose current ideology is similar to the Christian libertarianism promoted by organizations like Spiritual Mobilization.

During this period, Hayek came to the United States to promote what would become his most famous book, *The Road to Serfdom* (1944). It was an unexpected success, and lecture halls were packed during its promotional tour (Phillips-Fein 2010). In October 1948, Hayek established a position at the University of Chicago, paid for by the libertarian Volcker Fund (Kitch 1983). Another famous Austrian economist, Ludwig von Mises, emigrated to the United States in 1940 and obtained a position at New York University in 1945, also paid for by the Volcker Fund (Ebeling 2008). These kinds of funds were established by American business owners to promote libertarian ideas and were significantly influential on politics and public perception (Mayer 2017; Phillips-Fein 2010). In 1947, with money from similar funds and help from businessmen such as Jasper Crane, Hayek organized the first meeting of the now-famous Mont Pelerin Society. Its message was subsequently promoted through organizations like the American Enterprise Association, later renamed the American Enterprise Institute,[9] and books like Ayn Rand's *Atlas Shrugged* (Phillips-Fein 2010; Rand 1957).

Other influential think tanks advocating for the libertarian economic perspective, such as the Heritage Foundation and the Cato Institute, were founded in the 1970s. They still receive significant funding from foundations established by billionaires, such as the Scaife Foundations, the Olin Foundation, the Bradley Foundation, and the Koch family foundations (Mayer 2017). These think tanks and foundations exert enormous influence on public perception, governmental policy, and academia, especially related to economics.

Another important vehicle for spreading the libertarian interpretation of economic theory has been the Republican Party, especially since the end of Eisenhower's presidency in 1961, when its conservative wing slowly started taking over from its more moderate and progressive wings (Kabaservice 2012; Krugman 2007; Dionne Jr. 2016). Although conservative business owners liked the fact that Eisenhower decreased the regulatory role of government and promoted public religion, they were upset that he did not roll back the New Deal welfare state that they despised (Kruse 2015). In a 1954 letter to his brother, Eisenhower said, "Should any political party attempt to abolish social security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear of that party again in our political history" (quoted in Kruse 2015, 86).

By capturing most of the Republican Party machinery, the conservative wing managed to nominate Barry Goldwater as its presidential candidate in 1964. Goldwater, the author of *The Conscience of a Conservative* (1960), was both economically and morally conservative. He even opposed the Civil Rights Act of 1964 on the grounds that it was an unconstitutional infringement on individual rights of citizens and businesses. Although Goldwater lost in a landslide to Lyndon Johnson, his candidacy firmly established the conservative wing of the Republican Party, marking a profound change in its trajectory. The party was riddled with internal conflict in the 1960s and 1970s, which the conservatives effectively won in the 1980s with Ronald Reagan's presidency (Kabaservice 2012).

4. German Ordoliberalism and Pure Competition

Foucault uses the term German neoliberalism, and sometimes refers to it as Ordoliberalism, which the remainder of this paper follows. Emphasized in this section relative to Foucault's analysis is the link between German Ordoliberalism and pure competition. Similar to the ongoing influence of American anarcho-liberalism on policymakers in the United States, German Ordoliberalism continues to influence policymakers in the European Union (Blyth 2013; Dullien and Guérot 2012; Hien 2013).[10]

Foucault's analysis of German Ordoliberalism begins with its influence on the post-World War II founding of the new German state at a time when "there are no historical rights, there is no juridical legitimacy, on which to found a new German state" (Foucault 2008, 82), as both were illegitimized after World War II. Ordoliberalism, therefore, advocated that the new state would be based not on an institutional framework that exercises sovereignty, but on a framework that guarantees a space of economic freedom. If an individual voluntarily agrees to participate in this economic space, consent is implied to governmental decisions required to establish this economic freedom. The German Ordoliberals therefore validate and thus legitimize governmental practice that establishes and maintains this space of economic freedom. The period during which the Ordoliberals' policies were implemented in West Germany was referred to as an "economic miracle" (*Wirtschaftswunder*; Spicka 2007); therefore, government practices advocated by the Ordoliberals were validated by the market.

The German Ordoliberals propose a radically different role for the government relative to American anarcho-liberals. Foucault explains this role by contrasting German Ordoliberalism with the Austrian school of economics, which influenced both Ordoliberalism and American anarcho-liberalism. The influence of Austrian economics on German Ordoliberalism can be seen, for instance, in the similar attitude against planning. However, there are important areas of divergence between the two groups: the Ordoliberals propose a far more extensive role for the government than the Austrians. The Austrian school of economics, similarly to American anarcho-liberalism, views the market as a spontaneously emerging natural construct. The German Ordoliberals maintain a contrary perspective, seeing the market as an artificial construct that is to be established and maintained by the government. For German Ordoliberals, unlike Austrian economists, there is a role for the government in establishing and maintaining a competitive market. Furthermore, when discussing nineteenth- and twentieth-century marginalists and neo-marginalists (with which Foucault refers to thinkers of the Austrian school such as Von Mises and Hayek), Foucault states that "since the market can only function through free and full competition, the state must therefore refrain from altering the existing state of competition and carefully avoid introducing elements that will alter this state of competition through phenomena of monopoly, control and so forth" (Foucault 2008, 119). In other words, the government must not interfere in the naturally emerging competitive market in the perspective of the Austrian school of economics. While American anarcho-liberalism has a similar perspective, the perspective of Ordoliberalism diverges. To the Ordoliberals,

> competition as an essential economic logic will only appear and produce its effects under certain conditions which have to be carefully and artificially constructed. This means that pure competition is not a primitive given. It can only be the result of lengthy efforts and, in truth, pure competition is never attained. Pure competition must and can only be an objective, an objective thus presupposing an indefinitely active policy. Competition is therefore an historical objective of governmental art and not a natural given that must be respected (Foucault 2008, 120).

In other words, the Ordoliberals view the competitive market as an artificial construct that is in a state of pure instead of perfect competition. Through the government's setting of the right conditions for the market, the level of competition moves closer to a state of perfect competitiveness. The Ordoliberals therefore validate governmental practices that the Austrians and American anarcho-liberals would invalidate. The policies of the Ordoliberals reveal the basic model of the Ordoliberal school of economic thought in which there is a place for governmental practices.

Since the Ordoliberals presume pure instead of perfect competition or perfectly working markets, which governmental practices bring the market closer to a state of more perfect competition?[11] Chamberlin (1933) defines pure competition as "competition unalloyed with monopoly elements" (6), which can be separated into two conditions: "In the first place, there must be a large number of buyers and sellers so that the influence of any one or of several in combination is negligible. […] Secondly, control over price is completely eliminated only when all producers are producing the identical good and selling it in the identical market" (7). Except for a portion of the second condition, "all producers are producing the identical good" (7), German governmental practice is validated by the Ordoliberals based on these two conditions. Furthermore, the Ordoliberals believe that government practices *which intervene in the market* have negative effects on the economy. Such practices disrupt the competitive process and thus the price mechanism. The Ordoliberals advocate to bring the economy closer to a state of pure competition through governmental practices *which set the right conditions for the market*. Such practices can best be illustrated by contrasting the opinion of the Ordoliberals with the Austrian school of economics on the subject of how to achieve the first condition of pure competition.

To achieve the first condition of pure competition, monopolies or monopolistic elements have to be absent in the competitive market. In the perspective of the Austrian economists—which Foucault demonstrates through the reasoning of Von Mises—monopolies, as long as they are not created by the government through regulation or law, do not disrupt the competitive process and are not considered an issue. Foucault explains how Von Mises reasons that a monopoly has to apply a price close to the price under pure competition or face competitors and lose its monopolistic status. Since the monopoly charges the same price as under pure competition, the monopoly does not disrupt the price mechanism. However, government intervention in the economy would disrupt the competitive price mechanism and lead to inefficiencies. The Ordoliberals agree with the above analysis and thus with the Austrians that, as long as competition is allowed to run freely, monopolies are not an issue. In other words, the Ordoliberals agree with the Austrians that government intervention that intervenes in the market has negative effects on the economy. However, the Ordoliberals disagree with the Austrians on whether the government should set the right conditions for the market. In the words of Foucault:

> Non-intervention is necessary on condition, of course, that an institutional framework is established to prevent either individuals or public authorities intervening to create a monopoly. And thus you find an enormous anti-monopolistic institutional framework in German legislation, the function of which is not at all to intervene in the economic field to prevent the economy itself from producing the monopoly, but whose function is to prevent external processes from intervening and creating monopolistic phenomena (2008, 137).

To achieve the second condition of pure competition, an "identical market" (Chamberlin 1933, 7) has to be created. The identical market is created by two types of governmental practices. The first is for the government to set the right conditions for the market, which Foucault refers to as "regulatory actions." As explained above, Ordoliberals advocate "not to intervene on the mechanisms of the market economy, but on the conditions of the market" (Foucault 2008, 138).

Their primary objective is price stability, understood as control of inflation. All other objectives are secondary. The instruments used to achieve stability of prices are pure market instruments, such as changing the discount rate, using foreign trade to change the credit balance, and moderate changes in taxation. The instruments used in economic planning such as “price control, support for a particular sector of the market, systematic job creation, or public investment” (Foucault 2008, 139) must not be used.

The second type of governmental practice advocated by the German Ordoliberals is to change the “framework” in which the economy operates, which Foucault refers to as “organizing actions.” Foucault explains Ordoliberal “framework policies” through the example of Germany’s agricultural market in 1952, which was not integrated into the market economy because of protective customs. Foucault refers to several noneconomic factors: “population, technology, training and education, the legal system, the availability of land, the climate” (2008, 141). Ordoliberals modify these “technical, scientific, legal, geographic, let’s say, broadly, social factors” (2008, 141) and thus the “framework” in which the market operates “for agriculture to be able to function as a market” (Foucault 2008, 141).

5. Conclusion and Discussion

To answer whether historically under which conditions a school divergent from neoclassicism has risen to dominance in a neoliberal political environment, this paper conducts a historical analysis of American and German neoliberalism based on *The Birth of Biopolitics*. Foucault explains how historically the market moved from a site of justice to a site of truth as the mechanism of the market became used to determine prices. Market processes enable economists to analyze the effects of governmental policies, based on which economists gained the power to validate and invalidate governmental practices.

For American neoliberalism, or American anarcho-liberalism, the paper finds, based on Foucault’s analysis, that this school of economic thought that became dominant closely aligns with the assumptions of the basic neoclassical model. Furthermore, through analyses conducted by Chicago School economists like Becker (1971), American anarcho-liberalism extends the assumptions and conclusions of the basic neoclassical model to noneconomic social phenomena. Since these analyses show that these “markets” can resolve all issues without requiring governmental intervention, they illegitimize governmental intervention in both economic and social phenomena. By extending Foucault’s historical analysis of American anarcho-liberalism, this paper furthermore shows how vested business interests shaped, maintained, and helped American anarcho-liberalism rise to dominance. Extending Foucault’s analysis also answers a research question he posed, demonstrating American anarcho-liberalism to be mostly an endogenous phenomenon in the United States rather than a diffusion of German neoliberalism. Lastly, this extension shows and explains the intertwinement between American anarcho-liberalism and neoclassical economics.

For German neoliberalism, or Ordoliberalism, the paper finds that due to factors such as a unique political environment, a school divergent from neoclassical economics was able to rise to dominance in policymaking. After World War II, the German state could not be established on the basis of historical rights or juridical legitimacy. The Ordoliberals argued to establish the state based on a framework that guarantees a space of economic freedom, thus validating the governmental actions and policies that established and maintained this space. Key to this argument is that the Ordoliberals, unlike the American anarcho-liberals, assumed the market to be an artificial construct to be established and maintained by the government. Since the market is neither assumed nor concluded to be perfect, governmental intervention is validated, which brings the market closer to a state of more perfect competitiveness. The Ordoliberals agree with the American anarcho-liberals that intervention in the market has negative economic effects. However, the Ordoliberals argue in favor of governmental intervention that sets the right conditions for the market. Foucault's analysis focuses less on Ordoliberalism as a school of economic thought and more on its prescribed system of policy. Further research could assess the extent to which Ordoliberalism replaced neoclassical economics beyond policymaking.

From Foucault's analysis of Ordoliberalism, we can conclude that the unique requirement of establishing the state not on historical rights or juridical legitimacy led to the dominance of a school of economic thought in policymaking based on pure instead of perfect competition. As concluded from Foucault's analysis of American anarcho-liberalism, if a perfectly working market is presumed, then any form of governmental intervention in the economy leads to suboptimal outcomes. If the dominant school of economic thought was based on perfect competition in post-World War II Germany, all forms of governmental intervention would have been invalidated. By basing their economic models instead on pure competition, Ordoliberals legitimized the German state by creating a role for the government in the constructing and ensuring of a space of economic freedom.

Notes

[1] Venugopal (2015) explains, however, that the overuse of the word *neoliberalism* has made it a "controversial, incoherent crisis-ridden term" (2015, 166). This paper, therefore, stays within the authoritative conceptual framework as established by Foucault (2008) and other papers considered seminal in the field to avoid becoming entangled in this issue.

[2] Based on Foucault (2008) and the secondary literature and discussions it generated (e.g., Lemke 2001; Ptak 2009), this paper presumes that American and German neoliberalism can be compared in such a way.

[3] For a historical discussion on the complexity of the concept of just price based on the work of Thomas Aquinas, see De Roover (1958). Of interest is how this perspective relates to and contrasts with that of the Objectivists, to whom only the market mechanism of supply and demand can create a just price (Duignan 2014).

4 Foucault first uses the term *utility* in the context of philosophical radicalism and continues using it when discussing the eighteenth-century Physiocrats and early Classical Political Economists, such as Adam Smith. This usage is similar in both the original French transcription and its English translation (Foucault 2004). Foucault seems to refer to utility in a Benthamite sense as used by the philosophical radicals, i.e., the greatest good to the greatest number. However, this is problematic since utility only became extensively used in economics during the nineteenth century by economists such as David Ricardo and John Stuart Mill (Duignan and West 2020). To remain consistent with Foucault (2008), this paper uses the term *utility* as intended by Foucault.

5 Simultaneously with Robinson (1933), Chamberlin (1933) established the concept of imperfect competition based on these definitions of pure and perfect competition. For a more extensive discussion of its historical importance, see Bellante (2004). For a more extensive discussion on defining perfect competition, see Stigler (1957).

6 Foucault seems to use American anarcho-liberalism and American anarcho-capitalism as synonyms.

7 Three distinct schools of neoclassical economics have been identified in the literature: the

Chicago Economics Department, the Cowles Commission, and Massachusetts Institute of Technology (e.g., Mirowski and Hands1998a, b). This paper, however, follows Foucault and equates American neoliberalism with the Chicago Economics Department.

8 For methodological reasons, the Chicago School economists strongly disagree with Chamberlin on using monopolistic over perfect competition (Archibald 1961; Freedman 2016). They argue that a hypothesis should be judged for its predictive abilities. In their view, monopolistic competition is preferred by many economists over perfect competition because of its more realistic assumptions. However, the simpler assumption of perfect competition (to which Marshallian monopoly elements can be added if required) works as well or better than monopolistic competition (Archibald 1961). The Chicago economists argue for the use of perfect over monopolistic competition. It seems unlikely that the Chicago economists would disagree with Chamberlin's definition of pure and perfect competition. Disagreements between Chamberlin and the economists of the Chicago School, therefore, do not cause issues for definitions and arguments in this paper.

9 The American Enterprise Association (AEA) is today known as the American Enterprise Institute (AEI), an influential conservative think tank (Phillips-Fein 2010).

10 Ordoliberalism refers to the school of economic and political thought developed by economic and legal experts at Freiburg University in the volumes of ORDO (Bonefeld 2012, Vanberg 2004). Foucault analyzes the economic influence of Ordoliberalism in *The Birth of Biopolitics* more as a system of policy than as a school of economic thought. The focus on policies likely stems from Foucault's earlier arguments in *The Birth of Biopolitics* discussed in Section 2.1. Foucault argues economists gained power through validating and invalidating governmental practices by analyzing their economic impact. Each school of economic thought assesses a governmental practice differently based on the ideology and knowledge each school accepts as valid. Based on the accepted ideology and knowledge, approved systems of policy are created by a school of economic thought, consisting of the governmental practices considered valid by the school.

The power of Ordoliberalism in German post-World War II society largely stems from its shaping of approved systems of policy. The knowledge and ideology of this school of political and economic thought flowed into German society through these successful policy systems.

Since Foucault focuses on the intricate relation between power and knowledge, this explains why he examines systems of policy in his analysis of Ordoliberalism's economic influence. His analysis of Ordoliberalism's political thought in *The Birth of Biopolitics* is beyond the scope of this paper and extensively available in the literature (e.g., Flew 2012; Lemke 2001; McNay 2009; Tribe 2009).

11 One could infer from this that the basic model of the Ordoliberals is one in which competition works perfectly, i.e., a model closer to perfect than pure competition. However, key to the Ordoliberal perspective is that the market is an artificial, imperfect construction, which requires governmental intervention to move closer to perfection. Such an ideological perspective would, therefore, view a model based on the idea of perfect competition to be incomplete: it would not capture the needed role of government to achieve this perfect market.

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