

# Neo-Liberalism, 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 “neo-liberalism”, which “denotes new forms of political-economic governance premised on the extension of market relationships” (Larner 2000, 5).<sup>1</sup> 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 neo-liberal political-economic environment in America and Germany in the shaping, legitimation, and rise to dominance 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, 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 neo-liberal environment closely aligns and even validates the assumptions and conclusions of the neoclassical school of economics. This alignment partly explains the close intertwinement with American neo-liberalism and neoclassical economics. However, in the German neo-liberal environment a divergent school from neoclassical economics rose to

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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 instead of perfect competition. Through analysing 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 neo-liberal political-economic environment. Further research could indicate the extent to which the German neo-liberal school of economic thought became dominant beyond policymaking.

The analysis in this paper of American and German neo-liberalism is based on

Foucault's influential lecture series, *The Birth of Biopolitics* (Foucault 2008), expanded with more recent literature.<sup>2</sup> The work of Michel Foucault focuses on the intricate relation between power and knowledge and how these form the cultural framework which 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 audiorecordings of his lecture series on neo-liberalism, given at Collège de France in 1978 and 1979, have been translated and published posthumously in 2008. In these lectures, Foucault analyses how in both America and Germany governmental policy and rationality became based on a new form of neo-liberal "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, neo-liberal governmentality in America 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 America and Germany the introduction of neo-liberal governmentality led to the implementation of economic analysis and thinking in all governmental practices.

The literature on *The Birth of Biopolitics* (Foucault 2008) consists of several analyses of Foucault's analysis of American and German neo-liberal governmentality (e.g. Flew 2012, Lemke 2001, McNay 2009, Tribe 2009). It also includes various papers assessing economic issues using Foucault's methodology and concepts (e.g., Davies 2010, Hay 2004, O'malley 2000). However, the current literature does not seem to include any analyses that focus purely on the economic aspects of Foucault's *The Birth of Biopolitics*: the differences related to the economic thinking in American and German neo-liberalism, as expressed by their basic models. Furthermore, most analyses use Foucault's complex terminology and method of analysis, which makes them difficult to access for economists. This paper adds to the literature an analysis of the economic aspects of Foucault's *The Birth of Biopolitics* that is accessible to economists.

The structure of the paper is as follows. Section 2 summarises Foucault's analysis of the origin of the concept of competition and defines pure and perfect competition in line with Chamberlin (1933). Section 3 summarises and extends Foucault's analysis of American neoliberalism, focusing especially 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 neo-liberalism in the period 1930-1980. Section 4 summarises Foucault's analysis of German neo-liberalism. Section 5 summarises and concludes by describing the unique historical conditions which led a school based on pure instead of 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 not based 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, the efforts of merchants and needs, and the ability to pay of consumers.<sup>3</sup> There was furthermore a form of distributive justice in the market, for the rules were shaped such that the poorest could also buy necessities 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 the above-described site of justice to a place where competition is allowed to operate freely. Such a transformation was the result of the change in the object of government from creating justice in the market to maximizing utility.<sup>4</sup> Foucault explains that in the perspective of the dominant economic schools during this period, the Physiocrats and (early) Classical Political Economists, total utility is maximised 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 purely one 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 which 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 the view of Foucault, 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 practice 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 becoming a site of truth (since it determined the “true” prices by the process of supply and demand) allowed the market to become a site of verification of governmental practice. The next section demonstrates that American neo-liberalism extended this economic analysis and power over governmental practice from purely economic to noneconomic, social phenomena.

## ***2.2. Pure and Perfect Competition***

Two types of competition are commonly used by economists, pure and perfect competition. These terms and their differences are clearest defined in a non-mathematical way by Chamberlin (1933), which is the influential definition used throughout this paper.<sup>5</sup> Chamberlin (1933) defines pure competition as “competition unalloyed with monopoly

elements” (Chamberlin 1933, 6). In this prerequisite, the absence of monopoly is separated by Chamberlin 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” (Chamberlin 1933, 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” (Chamberlin 1933, 25).

Building on his definition of pure competition, Chamberlin (1933) defines perfect competition as “perfection in many other respects than in the absence of monopoly” (Chamberlin 1933, 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” (Chamberlin 1933, 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 neo-liberalism in the next two sections.

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

Besides using the term American neo-liberalism, Foucault also refers to American neo-liberalism as both American anarcho-liberalism and American anarcho-capitalism.<sup>6</sup> The rest of the paper therefore refers to American neo-liberalism as American anarcho-liberalism. Furthermore, Foucault defines the “the economists of American anarcho-liberalism” as the economists of the Chicago School, demonstrated by statements as that it was “American neoliberalism which gives rise to the anarcho-liberalism of the Chicago School, Milton Friedman, etcetera” (Foucault 2008, 161).<sup>7</sup> When referring in this paper 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 the difference between the analysis of labour by the school of Classical Political Economy and American anarcho-liberals. In most of the analyses of Classical Political Economy, labour is analysed as an *abstract* concept on a *macro-economic* scale. To Foucault this perspective of Classical Political economists can best be illustrated by Ricardo’s labour theory of value, where labour is reduced to a quantitative, homogeneous unit of labour time. He argues that Classical Political economists focus on the abstract input of labour on a macro-economic scale. They do not analyse why an individual labourer makes the concrete choices he or she does on a micro-economic scale. According to Foucault, this analysis is in contrast to the perspective of the American anarcho-liberals of the Chicago School, who analyse labour as a concrete concept on a micro-economic scale. The American anarcho-liberals focus not on abstract concepts as labour-time expressed in quantitative units, but on “the way in which individuals allocate these scarce means to alternative ends” (Foucault 2008, 222).

Furthermore, economists of the Chicago school such as Gary Becker extend their economic analysis of the market to non-economic, social phenomena to explain individual and social behaviour from the perspective of rationality. In other words, American anarcho-liberals assume people to be a *homo oeconomicus* and thus act rationally in social situations.

In such situations, *homo oeconomicus* uses formal reasoning to strategically find “the optimal allocation of scarce resources to alternative ends” (Foucault 2008, 269). Foucault names several examples, such as the formation and use of human capital, the contract of marriage, and how richer families choose to have a smaller number of children. Each of these can be formulated as a market in which individuals have limited means which they try to optimally allocate amongst alternative ends.

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

Foucault does not link the conclusions of the analyses by the American neo-liberals to the assumption of perfect competition or perfectly working markets and subsequently the neoclassical model. He does recognise the social implications of the extension of the marketmodel in the economic analysis of the American neo-liberals. However, Foucault does not analyse how this extension of the market-model links to the extension of the neoclassical model. Nor does he analyse how these markets are perceived in a perfectly competitive state by the economists of the Chicago school. The remainder of this sub-section therefore expands Foucault's analysis by analysing these topics.

The economists of the Chicago school validate the use of the assumption of perfect competition or perfectly working markets through their analysis of the behaviour of homo œconomicus in economic and non-economic situations. More specifically, their analysis based on perfect rationality concludes that the market can resolve all issues without requiring governmental intervention beyond the night-watchman state, i.e. only providing 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 American anarcho-liberals can best be demonstrated by discussing one of Becker's most controversial analyses a non-economic, social phenomenon: discrimination (Becker 1971). The model used in this analysis expresses discrimination as a premium on top of wages which employers are willing to pay to hire workers of their preferred group of ethnicity, religion, etc. If this preference is general, discriminating employers have a higher wage cost than nondiscriminating employers. If agents are rational only the lowest-cost firms can survive in the long run, which implies that only non-discriminating employers can survive. This analysis 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 the analyses of the economists of American anarcho-liberalism of the behaviour of homo œconomicus in economic and noneconomic situations: The market can resolve all issues without requiring governmentintervention 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 any form of interference by an outside entity as the government would perturb this perfection. This conclusion relates to some extent to the definition of perfect competition given by Chamberlin (1933).<sup>8</sup> He defines perfect competition as not just requiring 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 respects necessary for perfect competition (such as instantaneous adjustments) are achieved by the market in all analyses by the economists of the Chicago school. However, the analyses do seem to conclude that the market as long as not intervened in work perfectly. Therefore, the analyses of economists of the Chicago school do seem to presume that a form of perfect competition is achieved by the market naturally. In other words, by assuming perfect rationality, the analyses by the economists of the Chicago school seem to presume that a form of perfect competition emerges spontaneously from the market. The economists of the Chicago school thus link perfect rationality with perfect competition or a perfectly working market. Viewing these social phenomena from this perspective legitimises the application of the basic neoclassical model to explain non-economic, social phenomena.

Foucault does recognise the link between the Chicago school and neoclassical economics, although he does not emphasise specifically the extension of the basic neoclassical

model to social phenomena. He recognises this link when he states that, related to the generalization of homo oeconomicus to non-economic phenomena,

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, Foucault does not analyse how the assumption of perfect rationality leads the Chicago school 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 neo-liberalism (Foucault 2008, 193). To examine this question, Foucault recommends to focus on the role of Austrian economists who emigrated to the United States as Friedrich von Hayek (Foucault 2008, 193). Through expanding Foucault's research, this sub-section examines the historical context of American anarcho-liberalism since the 1930s. Relative to the existing literature on this topic, especially on the role of Hayek in American anarcho-liberalism (e.g., Van Horn and Mirowski 2009, Van Horn 2009, Phillips-Fein 2009), this sub-section takes a longer historical focus.

The origin of American anarcho-liberalism can be traced back as the reaction of wealthy businessmen to the New Deal in the 1930s. The Great Depression in the 1930s quickly shattered the former positive image of the business world and its CEO's in the eyes of the public. Furthermore, the issues caused by the Great Depression created acceptance amongst the public for more extensive government intervention in the form of Roosevelt's New Deal (Wapshott 2011). Although some businessmen were favourable to the program, others were more hostile. One of the more prominent figures of the latter group, Irénée du Pont of DuPont, went so far as to call the New Deal in a letter to a friend in 1935 "nothing more or less than Socialistic doctrine called by another name" (Du Pont as cited in PhillipsFein 2010, 16). Both businessmen favourable and antagonistic to the New Deal tried to revive the shattered image of business. However, businessmen antagonistic to the New Deal attempted to revive the image by providing the public with a libertarian counter-message. The economic content of this message was very similar to today's American anarcho-liberalism. The message was communicated to the public through newly-found organizations such as the American Liberty League and established organisations as the National Association of Manufacturers (NAM). However, the efforts to convince the public of the libertarian perspective were largely unsuccessful. Jim Farley, the chairman of the Democratic Party, in a speech in 1936 went as far as to say 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" (Farley as cited in Blanc 2016, 64).

These unsuccessful attempts led to a change in strategy. The libertarian countermessage was linked to religion and promoted in the form of Christian libertarianism by organisations as Spiritual Mobilization (Kruse 2015, Phillips-Fein 2010). Such Christian libertarianism was heavily influenced by Austrian economics (Kruse 2015). Spiritual Mobilization tried to spread this message through media as a monthly newsletter, pamphlets, and a radio channel to ministers. These ministers would then spread the message amongst the

public through including it in their sermons. Spiritual Mobilization also had connections with the businessmen who supported the American Liberty League and the National Association of Manufacturers. Spiritual Mobilization was more successful than the latter two organisations in convincing the public of its libertarian message; especially post-World War II, the perspective started to become more accepted amongst the American public. Such success was partly the result of the increase of importance of religion amongst the public, a result of the governmental promotion of religion (Kirby 2017). The reason for this promotion was the Cold War: Propaganda by the American government tried to 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 from the Eisenhower administration, many religious ceremonial practices were established amongst a wide range of governmental institutes and practices. Examples of these are the National Prayer Breakfast in 1953 and the establishment of the official American motto as “In God We Trust” in 1956 (Kruse 2015), which contributed to the religious revival amongst the American people. Furthermore, the anticommunist rhetoric in religious messaging was a factor in the rise of the Christian Right (Kirby 2017, Kruse 2015). The ideas of the Christian Right today are similar to the Christian libertarianism promoted by organizations as Spiritual Mobilization.

It was during this period that Hayek came to the United States to promote his now most famous book, *The Road to Serfdom* (Hayek 1944). The book was an unexpected success. Lecture halls were packed full during the promotion tour (Phillips-Fein 2010). In October 1948, Hayek established a position at the University of Chicago, paid for by funds from the libertarian Volcker fund (Kitch 1983). Another famous Austrian economist, Von Mises, emigrated to the United States in 1940. He obtained a position at New York

University in 1945, also paid for by the Volcker fund (Ebeling 2008). These kinds of funds, both of small and large size, were established by American businessmen to promote libertarian ideas and had great influence on politics and public perception (Mayer 2017, Phillips-Fein 2010). With money from similar funds and help from businessmen such as Jasper Crane, Hayek organised the first meeting of the now-famous Mont Pelerin Society in 1947. The message was subsequently promoted through organizations such as the American Enterprise Association (AEA)<sup>9</sup> and books like Ayn Rand’s *Atlas Shrugged* (Phillips-Fein 2010, Rand 1957).

Such think tanks and foundations were of profound importance in spreading the libertarian interpretation of economic theory in the United States, especially during and after the 1970s. Besides the American Enterprise Institute, other influential think tanks today that were founded in the 1970s advocating the libertarian economic perspective are the Heritage Foundation and the Cato Institute. These kinds of think tanks have received and still receive today large sums from foundations set up 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 have enormous influence on public perception, governmental policy and academia, especially related to economics.

Another important vehicle for spreading the libertarian interpretation of economic theory was the Republican party after being taken over by its conservative wing (Kabaservice 2012, Krugman 2007, Dionne Jr 2016). After Eisenhower’s presidency from 1953 to 1961, the conservative wing slowly took over the Republican party from the moderate and progressive wings. To the liking of conservative businessmen, Eisenhower did promote public religion through the establishment of ceremonial practices amongst government. However, although he did decrease the regulatory role of government, he did not roll back the welfare state established by the New Deal so despised by conservative businessmen (Kruse

2015). In a letter to his brother in 1954, Eisenhower even went as far as to say that “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” (Eisenhower as cited in Kruse 2015, 86).

It was with a similar perspective that progressive and moderate Republicans viewed the conservative presidential candidate of 1964 of their party, Barry Goldwater (Kabaservice 2012). Through capturing most of the Republican Party machinery, the conservative wing managed to nominate Barry Goldwater at the Republican Primaries of 1964. Goldwater, the author of *The Conscience of a Conservative* (Goldwater 1960), was both economically and morally conservative. His conservatism can be well-observed in his opposition to the Civil Rights Act of 1964, which he based on the argument that it was an unconstitutional infringement of private property. Although Goldwater lost in a landslide to Lyndon Johnson, the candidacy of Goldwater profoundly changed the Republican party by firmly establishing the conservative wing in the party. The Republican party was riddled with internal conflict between the progressive, moderate and conservative wing of the Republican party in the 1960s and 1970s, which was effectually won by the conservative wing in the 1980s with the presidency of Ronald Reagan (Kabaservice 2012).

#### **4. German Ordoliberalism and pure competition**

Besides using the term German neo-liberalism, Foucault also refers to German neoliberalism as Ordoliberalism which the remainder of this paper follows. Emphasised in this section relative to Foucault’s analysis is the link between German Ordoliberalism and pure competition. Similarly to how American neo-liberalism still holds a major influence today on the economic thinking of American policy-makers, German Ordoliberalism has enormous influence on policy-makers in the European Union (Blyth 2013, Dullien and Guérot 2012, Hien 2013).<sup>10</sup>

Foucault’s analysis of German Ordoliberalism starts with the influence of German Ordoliberalism on the post-World War II founding of the new German state. The problem faced at this time is that “there are no historical rights, there is no juridical legitimacy, on which to found a new German state” (Foucault 2008, 82), for both were illegitimised after World War 2. Ordoliberalism therefore advocated to base the state 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 legitimise governmental practice that establishes and maintains this space of economic freedom. Since the period during the policies of the Ordoliberals were implemented in West-Germany is referred to as an “economic miracle” (“Wirtschaftswunder”) (Spicka 2007), the governmental practices advocated by the Ordoliberals are validated by the market.

The German Ordoliberals proposes 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 for instance be seen 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 which is to be established and maintained by the government. For German Ordoliberals, unlike Austrian economists, there is a therefore role for the government in the establishing and maintaining of 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 setting 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?<sup>11</sup> Chamberlin (1933) defines pure competition as “competition unalloyed with monopoly elements” (Chamberlin 1933, 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” (Chamberlin 1933, 7). Except for a portion of the second condition, “all producers are producing the identical good” (Chamberlin 1933, 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 which 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. (Foucault 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 the Ordoliberals through two types of governmental practices. The first practice advocated by the Ordoliberals 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). The primary objective of the Ordoliberals 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, of which Foucault gives the examples of changing the discount rate, using foreign trade to change the credit balance, and moderate changes in taxation. The instruments used in economic planning must not be used, of which Foucault names “price control, support for a particular sector of the market, systematic job creation, or public investment” (Foucault 2008, 139).

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 the agricultural market in Germany in 1952, which was not integrated into the market economy because of protective customs. Foucault refers to several non-economic factors: “population, technology, training and education, the legal system, the availability of land, the climate” (Foucault 2008, 141). Ordoliberals modify these “technical, scientific, legal, geographic, let’s say, broadly, social factors” (Foucault 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 if historically under which conditions a school divergent from neoclassicism has risen to dominance in a neo-liberal political environment, this paper conducts a historical analysis of American and German neo-liberalism based on *The Birth of Biopolitics* (Foucault 2008). 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. Markets processes

enable economists to analyse the effects of governmental policies, based on which economists gained the power and to validate and invalidate governmental practices.

For American neo-liberalism, or American anarcho-liberalism, the paper finds based on Foucault's analysis that the school of economic thought that became dominant closely aligns with the assumptions of the basic neoclassical model. Furthermore, through analyses conducted by Chicago economists such as Becker (1971), American anarcho-liberalism extends the assumptions and conclusions of the basic neoclassical model to non-economic, social phenomena. Since these analyses show that these "markets" can resolve all issues without requiring governmental intervention, they illegitimate 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 in the rise to dominance of American anarcho-liberalism.

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 instead of a diffusion of German neo-liberalism. Lastly, this extension shows and explains the close intertwinement between American neo-liberalism and neoclassical economics.

For German neo-liberalism, or German 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. Post-World War II, the German state could not be legitimised on the basis of historical rights or juridical legitimacy. The Ordoliberals therefore argued to base the state on a framework that guarantees a space of economic freedom, thus validating governmental actions and policies which 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 favour of governmental intervention which sets the right conditions for the market. Foucault focuses in his analysis of the economic aspects of Ordoliberalism more on its prescribed system of policy and less on Ordoliberalism as a school of economic thought. Further research could assess the extent to which Ordoliberalism replaced neoclassical economics beyond policymaking.

From Foucault's analysis of Ordoliberalism can be concluded that the unique requirement of legitimising 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, the Ordoliberals legitimised the German state by creating a role for the government in the constructing and ensuring of a space of economic freedom.

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<sup>1</sup> Venugopal (2015) explains however that the overuse of the word neo-liberalism has made it a "controversial, incoherent crisis-ridden term" (Venugopal 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.

<sup>2</sup> 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 neo-liberalism can be compared in such a way.

<sup>3</sup> 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).<sup>4</sup> Foucault first uses the term "utility" in the context of philosophical radicalism and continues using this term when discussing the 18<sup>th</sup> century Physiocrats and early Classical Political Economists as Adam Smith. This 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 19<sup>th</sup> century by economists as David Ricardo and John Stuart Mill (Duignan and West 2020). To keep consistency with Foucault (2008), this paper uses the term "utility" as intended by Foucault.

<sup>5</sup> Simultaneously with Robinson (1933), Chamberlin (1933) established the concept of imperfect competition based on this definition of pure and perfect competition. For a more extensive discussion of its historical importance, see Bellante (2004) and for a more extensive discussion on defining perfect competition see Stigler (1957).

<sup>6</sup> Foucault seems to use "American anarcho-liberalism" and "American anarcho-capitalism" as synonyms.

<sup>7</sup> 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 Hands

1998a, b). This paper however follows Foucault and equates American neo-liberalism with the Chicago Economics Department.

<sup>8</sup> The economists of the Chicago School strongly disagree with Chamberlin for methodological reasons on using monopolistic over perfect competition (Archibald 1961, Freedman 2016). The argument of the Chicago economists is that a hypothesis should be judged for its predictive abilities. In their perspective, 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 therefore argue for the usage 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 used and arguments in this paper.

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

<sup>10</sup> Ordoliberalism refers to the school of economic and political thought as developed by economic and legal experts at Freiburg University in the volumes of *ORDO* (Bonefeld 2012, Vanberg 2004). Foucault analyses 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 stems likely from Foucault's earlier arguments in *The Birth of Biopolitics*, discussed at Section 2.1. Foucault argues economists gained power through validating and invalidating governmental practices by analysing 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 the school of political and economic thought largely ebbed into German society through these successful policy systems. Since Foucault focuses on the intricate relation between power and knowledge, this explains why Foucault focuses in his analysis of the economic influence of Ordoliberal on systems of policy. Foucault's analysis of the political thought of Ordoliberalism 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).

<sup>11</sup> One could infer from this that the basic model of the Ordoliberals is one in which competition works perfectly, that is 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.