



**The Difficult Relationship Between Historical Ordoliberalism and Adam Smith**

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# The Difficult Relationship Between Historical Ordoliberalism and Adam Smith

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**Abstract:** Ever since the global financial crisis of 2008, interpreted by some observers as a foreseeable failure of “unfettered” capitalism, the German intellectual tradition of ordoliberalism has been meeting with increased interest. Its emphasis on good government, appropriate rules and institutions makes it attractive. Welcome as this may be, however, that trend may impact the reception of the works of Adam Smith in a problematic way, since the key historical figures of ordoliberalism reject his theory vigorously, even though, from today’s perspective, their concerns and policy recommendations look very parallel to his. Their common hope is human flourishing. Just like the Scot, the broad scope of their vision encompasses society as a whole, not just the market; they are concerned with ethics, not just economics. But what, then, can solve the puzzle of this implausible rejection, by which the ordoliberals contribute to a deep-rooted prejudice against Smith? In this paper, Karen Horn takes stock of their concrete criticisms, which turn out to be based on a narrow understanding of Smith’s work. She suggests that it is religion that stands at the root of the explanation, though situational elements may also play a role. The essential contentious point seems to be what the ordoliberals take for the Scot’s naïve belief in natural harmony, the sources of which they see in his stoicism and possible deism. The deeper problem for them with Smith is the pagan flavour and the systematic normative relativism of an essentially evolutionary approach to human values.

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## I Introduction

Ever since the financial and economic crisis that spread around the globe from 2008 onwards, the German intellectual tradition of ordoliberalism has been meeting with increased interest. It was a situation of deep uncertainty and intellectual stupor, the effects of which can still be felt today. As numerous political commentators lashed out against “unfettered” laissez-faire capitalism, which they deemed to be the deeper source of the clash, it became fashionable to turn toward this more “moderate” body of liberal thought which insists on the necessity of good government, appropriate rules and institutions in order to make markets work.<sup>2</sup> The alleged market failure<sup>3</sup> which had led into what was essentially a severe debt crisis was to be prevented in the future by a more interventionist, “strong state”, so the conclusions went.

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<sup>2</sup> See e.g. Stiglitz 2008. For the German debate, see in particular Schirrmacher and Strobl 2010. Wagenknecht (2011) is also telling; this German politician (“Die Linke”) presents an intellectually non-trivial extreme left-wing usurpation of ordoliberal thinking.

<sup>3</sup> There is a vast literature pointing out that the culprit was state failure, not market failure, see e.g. Sowell 2009. The link between the functioning of the market and the role of the state may in fact be more complicated than this duality implies, and it resides, incidentally, at the heart of the ordoliberal program.

If capitalism was not to be thrown out altogether, but to be saved from its inherent tendency to self-destruction, as the more moderate critics argued, then democratically legitimized politics needed to regain control over the anonymous market forces which, as a result of a nefarious neoliberal ideology, seemed to have gone wild. It came handy that a “third way” concept was already on the table, laid out by the German “ordoliberals” in the first half of the 20<sup>th</sup> century.

Ordoliberalism can be described as a political world-view based on a specific scholarly analysis and theoretical concept; it genuinely encompasses both an academic and a political program. While seeking to preserve the free interplay of economic agents and to strengthen the efficiency of relative price signals in a competitive marketplace, these thinkers focus on the legal framework, on an adequate set of “rules of the game”<sup>4</sup>, to be determined and guaranteed by the state in such a way as to keep the efficiency-generating, beneficial forms of competition alive. Today, this agenda resonates both with critics of capitalism who feel that the state has been irresponsibly idle and those who argue that governments, quite to the contrary, have been overactive regulators of markets, but in a misguided way.

The climate of the public debate after 2008 had a striking resemblance with the gloomy mood of the Twenties and Thirties, when Walter Lippmann, a Pulitzer-prize winning journalist and author, hit a nerve with his 1937 book “The Good Society”.<sup>5</sup> It contains three ferocious critiques – (1) one of classical liberalism, which Lippmann reduces to a doctrine of oversimplified “laissez-faire” which he accuses of having failed dramatically; (2) one of the totalitarian, liberticidal regimes in Italy, Germany and Russia in those days; (3) and one of the New Deal in the U.S. which created a slippery slope towards an overblown, unsustainable welfare state. Lippmann calls for a renewal of liberalism, for its proper “reconstruction” (1937/2005, p.157). “A hundred years after Adam Smith published the Wealth of Nations, the liberal philosophy was decadent”, he laments.<sup>6</sup> “At some point in its development the liberal philosophy became scientifically untenable, and [...] it ceased to command the intellectual respect or to satisfy the moral conscience of the leaders of thought” (ibid., p. 184).

Complacent and enamoured with the aesthetic beauty of their economic system which they believed to be naturally harmonious and self-enforcing, he writes, the liberals had neglected the urgent “task of exploring the legal, psychological, and social circumstances which obstructed and perverted the actual society” (ibid., p. 185). A purely economic, genuinely socialist narrative – holding drastically that large-scale pauperization was a consequence of an industrialization which had only come about due to the classical liberal ideology of unbridled markets – wouldn’t have gone down well with the future ordoliberal crowd.<sup>7</sup> But on the backdrop of the Great Depression, of hyperinflation, mass unemployment and poverty, Lippmann could spell out what many disenchanted liberal thinkers more or less secretly felt:

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<sup>4</sup> „What are the rules of the game?“, asks Eucken 1939/1992, p. 81.

<sup>5</sup> See e.g. Goodwin 2014, pp. 233ff.

<sup>6</sup> His language is not exactly precise here – it is quite evident, however, that what Lippmann means by “philosophy” is a political doctrine. Such sloppiness however is quite typical for this debate at the intersection of the academic and the political sphere, now as much as then.

<sup>7</sup> The controversy on this connection was then in full swing, see e.g. Oppenheimer 1912/1919, Hutt 1926 and Hayek 1954.

The logics of economics seemed to have broken loose from the other important questions of society, and thus something crucial seemed to be missing. A fresh start was needed.

Lippmann's book gave the impulse and set the tone for an international conference in Paris, organized by Louis Rougier in 1938: the Colloque Lippmann. Two out of the three German thinkers I will be focusing on in this paper were present at the Paris conference, Wilhelm Röpke and Alexander Rüstow. It was there and then that the new paradigm was born, as well as its label "neoliberalism".<sup>8</sup> Unlike in its almost exclusively pejorative uses in the future, this term was then meant to designate common scholarly efforts to create a better, more viable, socially and morally invigorated political program of liberalism. Such a program would need to keep a sound distance from the failed permissive night-watchman state associated with *laissez-faire*, a system and doctrine that let the "dark and brutal spirit of the 19<sup>th</sup> and 20<sup>th</sup> century sweep through the economy", as Rüstow (1949/2008, p. 427) later writes.

To cut a long story short:<sup>9</sup> World War II soon ended the international debate. The German version of neoliberalism, later to be baptized "ordoliberalism",<sup>10</sup> went its own, idiosyncratic way. More than Walter Lippmann, the ordoliberals struggle with the Scottish enlightenment philosopher and founding-father of modern economics. Lippmann's formulations allow for the interpretation that he strives to reorient liberalism back toward Adam Smith, rather than away from him. In Lippmann's account, the perversion of classical liberalism had to do with Ricardo and those who came after him, not so much with Smith himself (*ibid.*, pp. 196ff).

While Lippmann argues for carrying on the intellectual tradition that the Scot had founded, and for continuing in the vein of leading the way toward "necessary reform" (*ibid.*, p. 202), the ordoliberals for the most part conflate Smith's thinking with that sort of either careless, ill-conceived, or corrupted "*laissez-faire*" that they want to see overcome without any further delay.<sup>11</sup> This comes as quite a puzzle: The concept of a humane order as it later emerges from their writings seems to be substantially compatible with Smith's work, both in terms of the normative scope and the practical policy recommendations. One is therefore led to ask: What are the deeper sources of the ordoliberals' disagreement with Smith? What makes them so allergic to him? Is this problem due to a misunderstanding or is it conceptually inevitable?

It seems necessary to clarify this precisely because the writings of the ordoliberals have now moved back onto the intellectual stage, even beyond Germany. The political credibility of

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<sup>8</sup> The label was brought up – though not first invented – by Alexander Rüstow. See Centre international d'Études pour la Rénovation du Libéralisme 1939, Horn 2010, pp. 27 ff and Audier 2012, pp. 69 ff.

<sup>9</sup> For more, see Horn 2010 and Audier 2012.

<sup>10</sup> This denomination came up only as late as in the Fifties, drawing on "Ordo", an academic yearbook initiated by Walter Eucken and Franz Böhm in 1948. They chose this name as a reference to medieval scholasticism. It is meant to imply a complete order allowing for a life in liberty, responsibility and solidarity. Vanberg (2011, p. 7, and 1997) however explains that the "apparent natural law connotations [...] can be separated from such connotations and be interpreted in the straightforward sense of an order that is desirable for the human beings who inhabit it." See also Horn 2010, p. 23.

<sup>11</sup> And this misconception will spread. Erich Welter, founding editor-in-chief of *Frankfurter Allgemeine Zeitung* and an important figure for the post-war success of ordoliberalism, perpetuates it still in the middle of the Fifties when he repeats, in a piece on Eucken, the prejudice about the bulk of the classics: "Der folgenschwere Irrtum der Klassiker lag in der Annahme, dass man [...] nichts zu tun brauche, als die Wirtschaft sich selbst zu überlassen (The grave error of the classics resided in their assumption that one needed to do nothing but leave the economy to itself; my translation)(Welter 1956/57, p. 506). On Welter see Mussler 2008.

these historical figures is remarkable, given not only their opposition to the Hitler regime or in exile,<sup>12</sup> but also thanks to Germany's "economic miracle" in the aftermath of World War II and the "social market economy" which they helped to make possible. This may explain why their thinking is being referred to, if not usurped, from many sides.<sup>13</sup> If controversy arises about them, the issues concern their outdatedness in terms of analytical toolkits and a certain dogmatism of their more recent followers.<sup>14</sup> But as such, ordoliberalism can be qualified as one of the widely shared founding narratives of the Federal Republic, and the key thinkers as its patron saints. If they so bluntly reject Smith, chances are that this verdict will stick.<sup>15</sup>

In this paper, I will proceed as follows. In chapter II, I will introduce three of the key thinkers of ordoliberalism, Walter Eucken, Wilhelm Röpke and Alexander Rüstow, and the core of their program. I will review and assess important passages in their writings where they either refer expressly to Smith or where they deal with *laissez-faire*, a concept they attribute to him directly.<sup>16</sup> Among the three, Eucken's attitude is the most sober one. Rüstow devotes the most elaborate effort to explaining his disagreement, using his time in exile to look more closely into the history of thought. Röpke's rejection of Smith goes through different stages and experiences varying emotional degrees, with a net surplus of vitriol. In chapter III, I will suggest how, beyond the evident political parallels between the two programs at hindsight, it should be possible to build a bridge toward ordoliberalism by favouring a more system(at)ic reading of Smith. Several contentious points – regarding the necessary scope of analysis, the image of man, the notion of natural harmony, and the requirements of competition – can be cleared up this way. Only one will remain: the place of God. This is the one divergence that seems hardly bridgeable. Chapter IV will nevertheless conclude with an optimistic note, hoping that the times will soon be over when students feel encouraged by the ordoliberals in their impulse to disregard Smith "because he is a deist and believes in the invisible hand".

## II The ordoliberals' reading of Smith

### II.1 Ordoliberalism

Whoever talks about ordoliberalism needs to look at the German city of Freiburg, at the outskirts of the Black Forest. This is where everything originates, centered round a closely-knit group of university teachers of different disciplinary backgrounds. Their joint path begins in the late Twenties with the growing disenchantment regarding what they perceive as unbridled "*laissez-faire*", mass democracy<sup>17</sup> and social "massification" in general,<sup>18</sup> which

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<sup>12</sup> See Horn 1996 and Goldschmidt 2005.

<sup>13</sup> Including the far left and the far right.

<sup>14</sup> See e.g. Bachmann 2011.

<sup>15</sup> This would perpetuate "that distorted image of Smith [...] which came to be canonized in the twentieth century and remains the standard understanding of Smith today in mainstream economic textbooks and daily newspapers" (Sen 2011).

<sup>16</sup> The order will be chronological. I concentrate on the published books as the major source of academic output in the days of the ordoliberals. Only exceptionally will I include relevant considerations from articles. I leave aside personal notes and letters; while those have are indispensable and instructive when it comes to pinning down the ethical backgrounds (see e.g. Zweynert 2008, p. 9), they don't add much on the specific Smith issue.

<sup>17</sup> In this context, see Böhm, Eucken and Großmann-Doerth 1937/1989.

they share with foreign thinkers such as José Ortega y Gasset.<sup>19</sup> Politically, as Tribe (2014, p. 4) has summed up, “these academics were National Conservatives, opponents of Weimar, critics of Versailles”, rather skeptical about democracy.<sup>20</sup> In those days, after the collapse of the empire, the liberal paradigm was very much in flux, and many of the tenets that seem evident today were still to be discovered and learnt.<sup>21</sup> Their journey culminates in the opposition to the Hitler regime during the late Thirties and the beginning Forties, and it continues during the decisive years after World War II, as they join intellectual forces to help establishing a new liberal, competitive and humane order in Germany and in Europe.

The central figure is the economist Walter Eucken,<sup>22</sup> whose concept of a competitive order with its set of timeless criteria still serves as a political benchmark today,<sup>23</sup> followed by the influential legal scholar Franz Böhm,<sup>24</sup> known, i.a., for his view on competition as a means to prevent the accumulation power. Together with Hans Großmann-Doerth, another legal scholar,<sup>25</sup> these three scholars constitute the nucleus of the ordoliberal “Freiburg school”, holding a joint seminar at Freiburg University since the winter of 1933/34.

Their publication series under the title “Ordnung der Wirtschaft” (economic order), which begins in 1937, can be seen as the launch of the Freiburg school. In their preface under the programmatic title “Our task”, they declare that it is their aim to foster an understanding where the economic order is viewed as an all-encompassing decision about the constitution of national economic life, which implies that the legal order must be conceived as an economic constitution.<sup>26</sup> And such a constitution must obey essential ethical principles. They also take their distances from the Historical School (historicism), their own academic upbringing.<sup>27</sup>

In a broader definition, the group of the ordoliberals is not confined to Freiburg but stretches out to areas way beyond the Black Forest, even as far as to Turkey, where the economists Alexander Rüstow and Wilhelm Röpke find refuge at Atatürk’s modern University of Istanbul<sup>28</sup> during Germany’s long darkest hour. These three figures, Eucken, Rüstow and Röpke, bound together by strong personal friendships as much as by shared religious and political beliefs, will stand at the center of the following analysis.<sup>29</sup>

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<sup>18</sup> Philosophically, this fear of massification derives from the value attributed to autonomy, a Kantian notion relevant for individual liberty. Practically, however, many authors have cast doubt on the pertinence of this fear of mass society’s tending toward individual isolation and uniformity; Rieter (2010) hints at the much bigger plurality and differentiation in large societies.

<sup>19</sup> See Ortega y Gasset 1929.

<sup>20</sup> See e.g. Lorch 2014, p. 54.

<sup>21</sup> See the absolutely excellent book by Hacke 2018.

<sup>22</sup> See Goldschmidt 2008.

<sup>23</sup> See Horn 1996.

<sup>24</sup> See Vanberg 2008.

<sup>25</sup> See Hollerbach 2008. Großmann-Doerth became a problem later, not taking enough of a distance from the Nazi regime (see Dathe 2015, p. 13).

<sup>26</sup> Böhm, Eucken and Großmann-Doerth 1937/1989.

<sup>27</sup> Böhm, Eucken and Großmann-Doerth (ibid.); see also Vanberg 2011.

<sup>28</sup> In order to raise the standards of Turkey’s academia, Atatürk opened the borders for a great number of refugees from Germany; see Nicholls 1994, Gregg 2010, p. 77 and Möckelmann 2013, p. 31-46, 183-91.

<sup>29</sup> Of course there are nuances that differentiate the three in terms of their scholarly work, political program and personalities. As far as their core topics are concerned, Eucken focuses on power, while Rüstow and Röpke concentrate on the phenomenon of mass society and what it entails. See also Zweynert 2008, p. 11.

## II.2 Walter Eucken

Walter Eucken (1891-1950) is the son of the philosopher Rudolf Eucken, a Nobel laureate in literature, and the painter Irene Eucken, née Passow. He studies history, public policy, economics and law at the universities of Kiel, Bonn and Iena, Germany.<sup>30</sup> Academically, he is a product of the Historical School, a heritage which he later aims to shed at least in part; he writes his habilitation thesis in a historicist manner on global nitrogen supply. He briefly teaches at the University of Tübingen before moving to Freiburg in 1927, where he spends the rest of his days. Eucken is known as a scholar for developing a theory of economic “order”, i.e. of distinguishable types or forms of constitutional arrangements regarding the economy.

With this sort of a typology, he means to overcome the tension between the Historical School and modern theoretical economics as brought up by the Austrians. His philosophical thinking owes much to his father Rudolf Eucken<sup>31</sup> and to Immanuel Kant. Eucken is usually considered a “Neo-Kantian”. When he quotes the philosopher from Königsberg paraphrasing that “it is the task of the state to find a form in which living together in a community is compatible with the largest possible leeway for the free deployment of individual capacities” (Eucken 1952, p. 360), he very much describes his own political point of view and program.

At the University of Freiburg, Eucken repeatedly stands up against the philosopher Martin Heidegger who serves as the head of faculty during the Hitler regime and who supports the persecution and ousting of the Jews from the academic world. A member of the “confessional church”, an underground organization in opposition to the official protestant church forced into line, Eucken is also active in several circles of the academic opposition to Hitler, some members of which are close enough to the perpetrators of the unsuccessful tyrannicide attempt on July 20, 1944. Even after a critical memorandum on the prospects for a post-war constitutional order, co-authored by Eucken, is found by the Gestapo (the Nazi secret police) at a hiding place in the Black Forest, he is so fortunate as to be spared prison and trial.<sup>32</sup>

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<sup>30</sup> See Klinckowstroem 2000.

<sup>31</sup> In his portrait of Smith, Rudolf Eucken (1905, pp. 373-81) concentrates on WN; he ignores TMS. The contentious point, for him, is that Smith “extends the principle of competition to the whole of civilized life” (ibid., p. 378) and that his system “debases life in all its individual fields such as religion, science, education” (ibid., p. 380). Eucken has no systematic reading of Smith; he defends the long established notion that anything purely and exclusively economic is not really dignified. His son will, at times, pick this up.

<sup>32</sup> Horn 1996, p. 98-114. Tribe (2014, p. 3) doubts, on the basis of Ptak (2004), just how dangerous these activities really were, and qualifies the ordoliberals as adopting “a position that in France would have placed them at best as representatives of Vichy, at worst as collaborators – certainly not linked to the Resistance”. What drew them into oppositional groups, in his assessment, was primarily the “attack on their church” (p. 4). Wörsdörfer (2014, p. 9) sees this quite differently: “Eucken risked his life in fighting Nazi ideology”. The question how he could avoid persecution is also unresolved, especially on the background of his marriage to his half-jewish wife Edith, a circumstance which already exposed him to closer scrutiny by the regime. Explanations range from sheer luck to Eucken’s national notoriety as a scholar; none of them seems satisfactory.

Apart from his thesis, some smaller booklets or brochures and a host of articles, notes and letters, Eucken wrote four monographs<sup>33</sup>, two of which can be considered his major works: the “Foundations of Economics” (1941/1950) and his “Grundsätze der Wirtschaftspolitik” (Principles of Economic Policy), published posthumously in 1952 under the auspices of his widow, Edith Eucken-Erdsiek, herself an independent scholar and an author in cultural philosophy. Rather surprisingly, the “Principles” remain untranslated until this day<sup>34</sup>. In that very accessible book, Eucken develops a detailed agenda for public policy, based on his concept of a “competitive order” rooted in ideas developed as early as 1932.<sup>35</sup>

Competition is not a goal in itself; it is part and parcel of an economic and social order designed in such a way “as to enable man to live his life after ethical principles” (Eucken 1952, p. 199). Eucken’s key idea is that competition must imperatively be maintained in order to prevent the accumulation of power, and in order to accomplish this, it is crucial to keep the price mechanism working. The signals sent out by the changes of relative prices are key indicators of scarcity, better than any other, and it is wise to keep their signaling power intact.<sup>36</sup> It is the duty of the state to ensure this. Eucken proposes seven “constitutive” and four “regulating” principles that should prevail in any good economic constitution.

Among the seven constitutive principles, the (1) functioning price mechanism is central, surrounded by (2) stable money, (3) open markets, (4) private property, (5) freedom of contract, (6) economic liability and (7) the reliability of public policy. If needed to support such a system, the state can additionally rely on the four regulating principles, or corrective tools: (1) competition policy in order to counter the tendency toward cartels and monopolies, (2) income redistribution in order to make up for undeserved unequal opportunities, if these stifle market participation, (3) internalization of external effects in order to substitute for not fully informative prices, and (4) minimum wages in order to correct for anomalies in labour market supply.<sup>37</sup> While the “Principles” are essential for assessing the practical consequences of the ordoliberal program, the “Foundations” address essential analytical questions. It is here that the author can best be seen grappling with his historicist upbringing which he tries to shed by building a bridge toward the modern, deductive – theoretical – economic paradigm.

## II.2.1 “Kapitaltheoretische Untersuchungen” (1932)

Eucken opens his book on capital formation and interest, “Kapitaltheoretische Untersuchungen” (Inquiries into the theory of capital) with a propaedeutic chapter on economic methodology, informed by the history of economic thought. He couches his criticism of the Historical School in a comparison of two approaches, the “rationalist” and the “empiricist”. The latter, he holds, fails to grasp the relationships and interdependencies that characterize

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<sup>33</sup> Eucken’s papers are currently being prepared for publication and will provide a lot of new material for research, possibly including the question under review in the present article.

<sup>34</sup> All quotes from this book are therefore my translation.

<sup>35</sup> Eucken 1932.

<sup>36</sup> „The competitive order is able to coordinate investment correctly over time. With the price mechanism this order disposes of an instrument which helps to pin down disproportionalities and to subsequently correct them. This is in which this order is superior to all other types.” (Eucken 1952, p. 288)

<sup>37</sup> Eucken 1952, chapters 16 and 17. See Horn 2010, chapters 4 and 5.

reality (1932, p. 50). If empirical observation comes with a rejection of theoretical reasoning, it leads nowhere. The famous “Werturteilsstreit” clearly in the back of his mind, Eucken mentions Smith in a passage on a problem that he perceives with rationalist theorizing, i.e. the sloppily drawn separation between “is” and “ought”. He views Smith as having initiated this “odd mixture”, and he explains this by Smith’s taking observed reality for nothing but the expression of God’s natural order, allegedly blinding him for notorious contradictions between the two (ibid.). Eucken’s other mentions of Smith in this book relate to the division of labor, a theory which he admittedly admires, and the accumulation of capital.

## II.2.2 “Nationalökonomie wozu?” (1938)

In his introductory booklet „Nationalökonomie wozu?” (Economics what for?) published in 1938, Eucken mentions Smith only once. He defines the period of classical economics as stretching from Quesnay and Smith to Mill; and he urges the reader to at least bother himself with reading chapters 1-9 of Book 1 and 1, 2, 8 and 9 of Book 4 in WN – a frugal diet. He equates Smith with the other classics in several respects. He views them all, while disposing of analytical skills and common sense, as having lost the “full understanding for historical development”<sup>38</sup>, as “underestimating the plurality of economic reality” and as focusing too exclusively on the particular case of “complete competition” (1938, p. 21f).<sup>39</sup>

As for the first of these verdicts, it attacks Smith in something that lies beyond his purpose. “Full understanding” is of course a value judgment, a matter of degree that may be up to personal taste, but it is only with great difficulty that Smith can be accused of not taking historical development into account, given how often he draws on historical illustrations for the arguments he brings forth. In fact, Smith uses history in two ways: He either comes up with conjectural history, as in his account of how money came about (WN I.iv), or with real historical anecdotes aimed at corroborating his theoretical points.<sup>40</sup> This use of history serves an essentially illustrative purpose in view of universal laws, while what Eucken – and his colleagues coming out of the tradition of the Historical School – has in mind is something very different: an analysis of economic laws in a specific, and therefore not necessarily generalizable, historical situation. This however is simply not Smith’s endeavor.

Does Smith underestimate the “plurality of economic reality”? This is again a value judgment, but given the universality of the Smithian approach, with his very general premises about human behavior (see chapter III) and his description of abuses of monopoly power, it is hard to find him “guilty” here. And the same holds true for the claim that the classics all focused only on “complete competition” – Smith is very aware of the tendencies toward cartelization.

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<sup>38</sup> His father Rudolf Eucken makes the same point earlier and argues that, on top of this, Smith’s own theory is conditional on the historical backdrop of his writings, see Eucken 1905, p. 373.

<sup>39</sup> The somewhat difficult notion of „complete competition“ differs from „perfect competition“ as it is used in modern neoclassical models, and it is also not equivalent to “efficiency competition”; see e.g. Vanberg 2009, p. 62f. Not procedural in nature, it seems to hint in the direction of a result of the market process under adequate competition policy.

<sup>40</sup> Griswold (1999, p. 256) argues that there is a tension between Smith’s empiricism and the attempt to discover natural laws. This is a criticism directed at the whole of the Scottish Enlightenment, in fact, because this precisely describes their endeavor.

His famous passage about “people of the same trade” is, perhaps not coincidentally, lacking in Eucken’s reading recommendation. It is in chapter 10 of book one in WN that Smith writes about “a conspiracy against the publick, or in some contrivance to raise prices” (WN I.10.27) and asks that the state should, at any rate, do nothing to foster “combinations” of this kind.

Eucken’s remarks are telling in the sense that while they reveal a rather superficial, unsatisfactory assessment of Smith, they also demonstrate how important it is for him to position himself pragmatically between historicism and the new, abstract modern approaches which he finds scientifically fruitful. The tension between the two is what he names “the great antinomy” (1938, p. 17ff). He makes clear that both, in isolation and carried to extremes, tend to excesses. Economics ought to be instead a “theoretical as well as historical science” (ibid., p. 23). Overcoming this “great antinomy” is of paramount importance to him, and his recipe is the most concrete concreteness in observation, “anschaulichste Anschauung” of economic systems and market forms, as he calls it, which doesn’t preclude, but quite to the contrary will guide the way toward proper theory (ibid., p. 26).

### **II.2.3 “Foundations of Economics” (1941)**

In the “Foundations”, published three years later, Eucken essentially tells a similar story but also adds a relevant new aspect to his criticism. He now concedes that “the classics” – whom he still puts in one basket, from the French physiocrats to Mill – did know a lot about history. He specifically mentions Smith’s WN as a “work of history giving the reader a social and historical survey of the world from England to China and South America” (1941/1950, p. 47) and thus defends him, rather exceptionally, against the criticisms voiced by the historicists.<sup>41</sup> At this stage, Eucken locates his fundamental problem with the classics – and thus with Smith – elsewhere: “Well aware of the peculiarities of individual men and peoples, its [the Age of Reason’s] questions were clearly not basically concerned with individuals, but with the universal, God-given, rational ‘natural’ order and its ‘natural’ laws” (ibid., p. 48).

In this he sees Smith as essentially no different from the other classics whose “aim was not to describe the economic life of a particular people at a particular moment in all its uniqueness, say, for example, the Chinese economy [...]. The classical economists looked among the variety of actual historical economic systems for the one natural system, and found it in the competitive one” (ibid.). While this is certainly true, it does not follow that this perspective must entail a lack of interest for specific historical circumstances and developments, and Eucken is the first to acknowledge this. If he nevertheless makes this point so strongly, the reason is once again his own project of establishing a middle ground between the historical and the theoretical. His research program takes into account that “only if one knows what pure basic forms have been, or are, realized in any economic system, is it possible to decide what parts of the theoretical apparatus are to be used.” (ibid., p. 239).

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<sup>41</sup> See Klump and Wörsdörfer 2010, p. 30.

#### II.2.4 “Principles of Economic Policy” (1952)

It is in his posthumous work, the “Principles” – even though this is the book that is the most clearly directed toward concrete policies and not so much to the history of ideas – that Eucken deals the most extensively with Smith. And it is here, too, that he qualifies his definition of “laissez-faire” which, now, he no longer supposes to simply mean “an economy free of state” (1952, p. 26). All sorts of legal regulations were actually present in the age of laissez-faire, he remembers, and they were based on a fundamental decision on the economic order in general. This fundamental decision as such wasn’t wrong. What was fatally missing in this era – which Eucken dates between the middle of the 19<sup>th</sup> century until 1914 – was surveillance and control. His greatest economic concern is that laissez-faire let companies free to cooperate, to collude, to merge and to thereby abolish competition and harvest inefficient rents. Almost in Smithian parlance, Eucken realistically speaks of a natural “propensity to form monopolies” – “a fact that all economic policy has to take into account” (ibid., p. 31).

However, as he notes, the classics reckoned that it would suffice to get rid of the numerous inefficient regulations, price caps, duties, import and export restrictions, prohibitions and mandatory corporations that were inherited from the middle ages and also from the days of mercantilism. Why were the classics dupe? Because their reasoning was, fatally in Eucken’s view, limited to the notion that “the forces and the logic which God had endowed things and the economy with were supposed to be brought to fruition” (ibid., p. 27). No wonder that this “metaphysical justification” eventually lost its shine – after which, Eucken complains, things only got worse. While hanging on to the original idea of laissez-faire, government grew more and more interventionist. He calls this an “era of economic policy experiments” (ibid., 28).

Eucken seriously grapples with the “spontaneous order” notion of the Scottish Enlightenment, most famously expressed by Smith’s contemporary Adam Ferguson (1782, p. 1): “Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design.” Eucken is not at all ready to accept what he perceives as the – all too simple and deterministic – metaphysical aspect of this. Here therefore writes: “According to Smith, for example, people have, by acting spontaneously, brought into existence the division of labour, exchange, thrift, money and competition, and the free individual forces lead to the exact formation of prices via supply and demand. The wisdom of nature thus permeates all economic processes, with the ‘invisible hand’ working through inherent laws. For these economic politicians, economic freedom therefore has a double meaning: It is the foundation for the personal, dignified life of every individual, and it also allows for the divine plan of creation to come true, from which flow certain laws of nature regarding the economy” (1952, p. 53).

For Smith, human dignity is indeed what ought to distinguish human exchange relationships from “a puppy [that] fawns upon its dam, and a spaniel [that] endeavours by a thousand attractions to engage the attention of its master who is at dinner, when it wants to be fed by him”. This difference explains why it is not only advantageous, but also more respectful, to rely not on “the benevolence of the butcher, the brewer, or the baker, that we expect our

dinner, but from their regard to their own interest” (WN I.ii.2). As far as “the divine plan of creation” is concerned, however, Eucken seems to largely overestimate the determinism in Smith’s system. Yes, Smith does refer to religious instances all the time, to Providence, to Jupiter, to the Divine Creator, to the Master of the Universe etc. Yet, throughout his life, he takes great pains not to reveal his personal position toward religion, and he carefully constructs his theory so that religion doesn’t matter – not his own, and not in general.

One narrative in Smith scholarship is that, over his lifetime, he takes his distances from the faith of his youth, having suffered greatly at the university of Oxford (see WN V.i.g), where a generous stipend, the Snell competition, sent him for studies so that he could become an Episcopalian priest; eliminating lengthy religious passages in later editions of his works; and praising, in a letter to his editor William Strachan, his avowedly atheist friend’s, David Hume’s, admirably poised passing.<sup>42</sup> But even if Smith, as a private man, was indeed estranged from the protestant faith of his upbringing and surroundings – wouldn’t it be worthwhile to consider his theory as such, abstracting from this question, to see if it can stand on its own? This seems to be what Smith hoped and strived for, and it is definitely the sort of tribute that Eucken and his ordoliberal friends are not willing or able to pay him.

Up front, the reasons Eucken gives for his rejection of this approach are purely economic: It is inefficient, it doesn’t work. The results aren’t good. Liberty, left to its own devices, may generate private economic power which will end up destroying that very same liberty. “And even a free, natural order doesn’t come into being by economic policy simply leaving its own realization to the course of things – but only when it is itself geared in this direction” (ibid., p. 53). But he insists that it is the confidence that Smith shared with the other classics in the spontaneous self-realization of natural order that was crucially mistaken (ibid., p. 195).

Further down in his “Principles”, Eucken engages in the well-known controversy about the “invisible hand” that allegedly directs individual self-interest acting toward the common good. One can also sense his profound unease here with self-love as an anthropological premise. Eucken doesn’t enter into the exact definitions of notions such as self-love, self-interest, selfishness, egotism and the like. Quite to the contrary, by a vigorous stroke of the pencil, he pulls the ethical and the economical apart at this point. He insists on a clear-cut separation of the spheres of analysis,<sup>43</sup> suggesting that it is more pertinent to speak of the “economic principle” that individuals need to obey, every day, each and every person in his or her own given context (ibid., p. 353ff).<sup>44</sup> Depending on the economic order and on the incentives that come with it, this may lead to harmony or conflict between the individual and the common good. This is quite straightforward, as a simple example may show: a monopolist may follow the economic principle by raising prices beyond the equilibrium level, but this

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<sup>42</sup> Smith 1776, and see e.g. Kennedy 2009 and 2013.

<sup>43</sup> This is not to say that Eucken had no ethical motivations, very much to the contrary. But those preceded the analytical work. He paid great attention to sobriety in his economic analysis. See Zweynert 2008.

<sup>44</sup> „This permanent mix of ‚selfishness‘ and ‚economic principle‘ is really the cancerous evil of the whole debate about this important complex of problems“, he writes (Eucken 1952, p. 352). “Cancerous evil” is a drastic term that Röpke, a writer not shying away from pathos, likes to use as well, and indeed does use in the same context, aiming at what he considers to be the “latent and persistent disharmony between the private interests of the producers and the general welfare” in an economy based on the division of labour (Röpke 1937/1963, p.68).

will of course hurt the consumers who will be confronted to artificial scarcity. And that is not even the monopolist's moral fault, as Eucken the Neo-Kantian explains in a typical sentence: "We must not demand from men what only the economic constitution can deliver: to produce a harmonious relationship between individual and public interest." (ibid., p. 386)

In this passage,<sup>45</sup> Eucken doesn't take the time to burden himself with a definition of the common good; in his view, real life is sufficiently full of examples where individually rational behavior in view of the economic principle generates results that diminish the economic potential for the community. When such a tension between the two occurs, it must be due to inadequate – or entirely missing – rules of the game. His judgment is categorical: "The invisible hand doesn't generate by itself the forms where individual and common interest will be aligned" (ibid., p. 360). Eucken inquires, pressingly: "Didn't the proponents of laissez-faire see this conflict?" (ibid., p. 356). For an answer, he goes on to quote Smith as a striking example of naiveté, choosing the trickle-down passage in TMS, in fact the only time the Scot mentions the invisible hand there.<sup>46</sup> This is a surprising and challenging passage, indeed, and it certainly has disappointed many readers who overlook that Smith is merely speaking of the "necessaries of life" and nothing more. But that story is a complex one nevertheless. As will be explained later, man's happiness in life doesn't consist in wealth for Smith, but in "tranquility" and "peace of mind", notions borrowed from ancient Greek philosophy, mostly from the stoics.<sup>47</sup> So things aren't as straightforward as they may perhaps appear at first sight – and it is quite striking to realize that Smith's larger picture seems to escape Eucken.

### II.3 Alexander Rüstow

Alexander Rüstow (1885-1963) is the son of an officer of the Prussian army and a pietist mother. Between 1903 and 1908, he studies classical philology, philosophy, mathematics, physics, law and economics at the universities of Göttingen, Munich and Berlin. In these student days, he meets Eucken, and they stay friends ever since.<sup>48</sup> Rüstow's thinking owes much to the heterodox influence of Franz Oppenheimer – who is to inspire the future German chancellor Ludwig Erhard<sup>49</sup> – and is firmly couched in (Neo-)Kantian ethics. Rüstow first works for a renowned publisher of classical texts and writes his doctoral dissertation on the

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<sup>45</sup> Eucken seems to borrow a lot – quite literally – here from Röpke's first book on the "Economics of a Free Society" (1937, p. 68).

<sup>46</sup> In this passage, Smith explains how the rich "are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants" (TMS IIV.i.10). This passage encompasses two trickle-down mechanisms: one via the consumption of the rich, which gives work to the poor, and one via their investment, which improves the productivity of labor and thus also benefits the poor. In the end, "the houses, the furniture, the cloathing of the rich [...] become useful to the inferior and the middling ranks of people" (WN II.iii.39).

<sup>47</sup> See Maier-Rigaud 1996, p. 6 and Horn 2017b. This notion however even appears to escape Eucken the father, who describes Smith's ethics as "flat" 1905, p. 373. Interestingly, Smith retains from stoic thought, with which he has a complicated – and not all-endorsing – intellectual relationship, only those tenets that are compatible with the rivaling epicurean philosophy, to the effect that his notion of duty is relatively weak. It depends on common sense and on the outcome of the interactive generation of social norms as described in TMS.

<sup>48</sup> See Dathe 2015.

<sup>49</sup> See Commun 2003.

paradox of the Cretan liar. Upon his return from World War I, while working at the ministry for economic affairs, he joins various socialist underground groups preparing a revolution.<sup>50</sup>

In 1924, having taken his distances from socialism and being recognized meanwhile as a staunch defender of economic competition, Rüstow switches sides professionally and joins an industrial business association, the VDMA,<sup>51</sup> where he is in charge of cartel issues and leaves a mark fighting against the concentration of economic power.<sup>52</sup> A speech of his at the 1932 conference of the Verein für Socialpolitik, the German Economic Association, grows famous: Calling for “a strong state, a state above the economy, above the interests, where it belongs”,<sup>53</sup> Rüstow presented a concept for an economic constitution that would minimize ongoing state intervention while at the same time attributing to government the task of designing and guaranteeing this constitution – closely in line with his personal friend Eucken.

As Rüstow is part of a shadow cabinet opposing Hitler, he decides to leave the country when the Nazis win the elections in 1933. Passing through Switzerland, Rüstow relocates to Turkey where a chair for economic geography as well as economic and social history is created for him at the University of Istanbul. While he often complains about the lack of access to relevant academic literature there and about the poverty of the intellectual exchange available to him,<sup>54</sup> especially after Wilhelm Röpke leaves for Geneva, Rüstow stays in Turkey until 1949 and pens the bulk of his three volume opus magnum “Ortsbestimmung der Gegenwart” (literally: Localization of the Present), published in 1952 in German.<sup>55</sup> It is in this culturally critical work that the most significant hints at his reading of Smith can be found. Upon his return to Germany, Rüstow succeeds Alfred Weber at the University of Heidelberg.

### **II.3.1 “Sociological Causes of the Economic Disintegration“ (1942)**

This paper by Rüstow, published under the somewhat bulky full title “General sociological causes of the economic disintegration and possibilities of reconstruction” as an appendix to Wilhelm Röpke’s book “International Economic Disintegration”<sup>56</sup>, is a first more in-depth discussion of liberalism and its economic consequences from the perspective of the history of

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<sup>50</sup> See Hegner 2000, p. 18, drawing on Rüstow 1981.

<sup>51</sup> The acronym stands for “Verband der deutschen Maschinen- und Anlagenbau“, the association of the German machinery industry.

<sup>52</sup> See Hegner 2000, p. 21, and Dörr 2017, p. 14.

<sup>53</sup> Rüstow 1932. Röpke (1942, p. 181) paraphrases this: “There should be a strong state, aloof from the hungry hordes of vested interests.”

<sup>54</sup> See Meier-Rust 1993, S. 68.

<sup>55</sup> This book is translated into English in an abridged version under the title “Freedom and Domination” in 1980.

<sup>56</sup> It is somewhat intricate to give a precise date for this essay which Rüstow, doubtless due to circumstances, only managed to get published in bits. The first traces, as he himself explains, are to be found in two short essays published in 1938 and 1939, as well as in his contribution at the Colloque Lippmann in 1938 (Rüstow 1942, p. 267). A longer version was prepared for a conference in Geneva organized by Wilhelm Röpke in 1939 which however fell flat due to the beginning of World War II. Rüstow was the only participant who still managed to get to Geneva. His paper was then published as an appendix to Röpke’s 1942 book on the theme of the conference, international economic disintegration. In early 1945, Rüstow published a longer version in Istanbul which made its way to Germany in 1949, where it was still further expanded and published in the *ORDO* review. A second edition of the 1945 version came out in 1950 under a more catchy title, “The Failure of Economic Liberalism” (see Maier-Rigaud and Maier-Rigaud 2001). The early parts from 1938 do not, however, contain the history of thought elements of the later versions, which are of interest in the present paper.

thought. Rüstow discusses Smith's writings and their logical as well as practical implications in some detail and will further elaborate on that later in his opus magnum "Freedom and Domination". He hardly ever quotes Adam Smith directly; in this paper, there is not a single detailed reference. The one reference that he does give is to Wilhelm Hasbach's 1890 study on the philosophical foundations of political economy as created by Quesnay and Smith.<sup>57</sup> It seems that Rüstow – and probably Röpke, too, with whom he worked in symbiosis in Istanbul – owes a lot to him.<sup>58</sup> Rüstow quotes Hasbach with a passage that anticipates the ordoliberal's critique of Smith and the allegedly ensuing "liberal fanaticism": "Liberalism grew [...] harmful by putting on the dress of the law of nature, as a consequence of which, firstly, the doctrinaire, unhistoric foundation of the stoic law of nature entered into the minds and sentiments of the great masses, and secondly, the present and limited necessities of the moment received an endorsement as god-given claims valid for all times and all peoples."<sup>59</sup>

Rüstow begins by paying tribute to Adam Smith, "whose breadth of vision and balance of judgment provoke again and again our admiration" and in whose writings, as he somewhat condescendingly concedes, "there are numerous germs of ideas which, if further developed, would have prevented the fatal development" of liberalism (Rüstow 1942, p. 268). Rüstow shares the general ordoliberal diagnosis that classical liberalism went astray. According to him, the problem is not merely that "its fundamental concepts were applied essentially only in the economic sphere"; the problem is that liberalism "as a science" (sic!) focused too much on its discovery of "the automatism of the market economy, of the self-adjustment which takes place in the competitive system by means of the mechanism of supply and demand, and of the harmony which is established and maintained by means of this subconscious adjustment between the egoism of the individual and the greatest welfare of all." The key notions of the ordoliberal Smith critique couldn't be spelt out more clearly: it's all about a supposed automatism, economism, and the premise of individual egoism.

As the sources of these problems Rüstow identifies the physiocratic concept of the "ordre naturel", going back to "a vestige of Pythagorean mysticism", the "logos of Heraclitus and the Stoics and the Tao of Lâo-tse, except that it is converted into the Christian anthropomorphic language of deism" (ibid., p. 270). He writes: "It is the task of man to comprehend – with insight, gratitude, and reverence – these divine laws which govern economics; to remove the obstacles which stupid traditionalism or unenlightened selfishness has put in their way and which prevent them from having their beneficial effects; and to realize thereby, to the advantage of all, the highest possible benefit which a benevolent providence has provided".

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<sup>57</sup> Wilhelm Hasbach (1849-1920) was a philosopher, historian and economist who had studied under Adolph Wagner and Gustav Schmoller in Berlin and later held a chair at Kiel University. He was solidly anchored in the tradition of the Historical School and, writing more and more about political issues in his later years, an outspoken skeptic regarding parliamentary democracy. In his study of Smith and Quesnay, he rather polemically treats him not only as a proponent of "the mathematical method" (sic!, p. 172), but also as a good pupil of Shaftesbury insofar as both consider that "all social evil is the consequence of disorder in the human soul" (ibid, p. 152) and that "the ethical is but a social product" (ibid., p. 153); something that many a good Christian must grapple with. He also draws a line to Locke. While Hasbach acknowledges that Smith not only mixes inductive and deductive methods in his scientific approach, with a slight dominance of induction (which must please this Schmollerian), he ridicules what he considers to be Smith's merely decorative use of history (ibid., p. 175).

<sup>58</sup> See also Lorch 2014, pp. 30ff.

<sup>59</sup> Ibid., pp. 31f.

What bothers Rüstow is not only the negativity, the passivity that seems to be implied by this. He also castigates the “care-free optimism and pusillanimity” which this “theological optimism” allegedly brought with it; the blindness to the losers of the game of the market economy; the psychological damage done by breeding greedy winners and bad losers (ibid., p. 271); the “boundless over-evaluation of economics” at the cost of the overall “vital situation [...] compatible with human dignity (ibid., p. 279f). The coexistence of self and common interest, he explains, depends on “certain sociological and institutional conditions” – and it is noteworthy here that he speaks of coexistence only while “it was the great accomplishment of classical liberalism to have discovered [...] their] coincidence” (ibid., p. 274).

With regard to concrete policies, Rüstow calls for a “strict limitation of the freedom of the market to pure efficiency competition” instead of “cut-throat competition”.<sup>60</sup> He continues: “Efficiency competition alone places the selfish interests of the producer inevitably in the service of the consumer and leaves him no other means of gaining an advantage over his competitor than by supplying the consumer with better or cheaper goods”. In order to ensure this, the state needs “the force and independence necessary to fulfil its rigorous duties of policing the market”, and it was a terrible mistake to think that “as weak a state as possible was the ideal state for liberalism” (ibid.). “A free economic system needs a market police, with strong state authority for its protection and maintenance” (ibid., p. 281).

In his view, the liberal ideal of a “weak and at the same time neutral and independent state” ran counter to the “sociological (sic!<sup>61</sup>) truth that the strength and the independence of a state are interdependent variables”, to the effect that it “succumbed under the attacks of pressure-groups, whose lust for subsidies knew no bounds” (ibid., p. 276). Rüstow may have thought of his experience at VDMA, an industrial pressure-group in Berlin. In the framework of his “liberal interventionism”, he charges the state with fiscal measures that minimize frictional losses during processes of structural change, countercyclical policies to combat and overcome crises,<sup>62</sup> and the creation of a situation of “equal opportunity and just initial conditions for all” in efficiency competition by taxing away unequal inheritance. Property rights are certainly to be guaranteed, but only once such a level playing-field has been prepared (ibid., p. 281).

### **II.3.2 Freedom and Domination (1952)**

Rüstow’s opus magnum, an impressive piece of erudition, is clearly the best source when it comes to analyzing the origins of the ordoliberalists’ difficulties with Adam Smith. While his overall aim is the definition of an order for a free society that would withstand the totalitarian temptations from all sides, he couches his narrative in a far-reaching and ambitious analysis of history and the history of ideas. He devotes several passages to the Scot, the origins of his system and his influence. Exactly like Hasbach before (and probably borrowed from him), he

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<sup>60</sup> In “Freedom and Domination”, he will pay tribute to Smith as having been the first to notice the difference between the two in TMS II.ii.2.1. That he traces back this passage to Chrysippus and Cicero serves him as one more proof of Smith’s stoicism (Rüstow 1952, II, p. 389).

<sup>61</sup> This is another example of terminological (and perhaps conceptual) sloppiness. What Rüstow is talking about seems to have much more to do with politics than with social stratification.

<sup>62</sup> He even refers to John Maynard Keynes, otherwise the “bête noire” of the ordoliberalists, with whose idea on countercyclical measures “we are in complete agreement” (Rüstow 1942, p. 281).

places Quesnay and Smith in the same box, with the uniting features of Enlightenment philosophy, stoicism, deism, (excessive) optimism and rationalism. “In a brilliant synthesis, the sober Scot combined this deistic-Stoic tenet with Mandeville’s Epicurean-Hobbesian view of egoism as the motive force of economics”, Rüstow (1952/1980, p. 313) writes, having a good intuition here but not differentiating between the categories of egoism and self-love.

Such imprecision repeats itself and is in fact systematic, as reveals a paragraph in which Rüstow complains that Smith and the proponents of economic liberalism based on his writings considered individual egoism as “fully legitimate und even sacred thanks to its most beneficial effects, instead of denigrating it”, thus contributing to the “Umwertung der Werte” – a Nietzschean expression about fundamental values being reinterpreted and perverted – in which the 19<sup>th</sup> century culminates (Rüstow 1952, III, p. 192). As liberalism spread and politicians heeded Smith’s calls, “a competition-lashed economic race for technical progress set in”, carried by an endless “belief in progress” (ibid., p. 66f). This political and spiritual liberation with regard to the economic field indeed “led to the kind of unprecedented upswing in world economics he had predicted. The same development, however, contrary to Smith’s parallel prediction, did not lead to universal social harmony, but to its direct opposite” (ibid.).

Overall, it is Adam Smith’s “stoical confession” (ibid., II, p. 379) and his deism, “the proper religion of the Enlightenment” (ibid., p. 378) that Rüstow cannot seem to put up with. He explains how this “mostly peaceful and tolerant antique-pagan creed” managed to usurp enlightened liberal Protestantism, with the result that the latter could be called an “evangelical denomination of neu-stoic deism” (ibid., p.379). It is not just a factual description but an sarcastic accusation when Rüstow writes that “the normal, educated and enlightened German protestant of the 19<sup>th</sup> and 20<sup>th</sup> century was in fact a new-stoic deist whose pantheism enabled him to maintain the tradition of his creed, benevolently cleaned and interpreted, and the rejoice from an emotion derived from their sentimental values fed by childhood memories”. He doesn’t follow up on the fact that this stands in contrast to a difference between stoical deism and Christianity, which he does himself mention in a footnote, the first being idealistic and optimistic, the latter sin-stricken and pessimistic, an affliction of Christianity even made worse by the reformers Luther and Calvin (ibid.).

## II.4 Wilhelm Röpke

Wilhelm Röpke (1899-1966) is the son of a medical doctor in a rural area in Northern Germany. He studies law and economics at Göttingen, Tübingen and Marburg, Germany. Aged 24, he gets a chair for economics in Iena, from where he moves on to Graz and Marburg. A pious protestant, later in life drawn toward conservative catholic milieus,<sup>63</sup> philosophically influenced by (Neo-)Kantian ethics, Röpke wouldn’t hold back his criticism of the Nazis and got chased from his chair as early as 1933. After some time spent hoping for other options, he finally joins Rüstow in Istanbul. Feeling culturally estranged in Turkey, Röpke takes the first opportunity to leave, accepting a chair at the Institut Universitaire des

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<sup>63</sup> See Solchany 2015, pp. 434-57, see also Allit 1993, pp. 21-23.

Hautes Etudes Internationales (HEI) in Geneva as soon as 1937. This is where he stays until his death. Over time, he becomes more and more a conservative public intellectual and activist. Together with Friedrich August von Hayek, he initiates the Mont Pèlerin Society, which holds its first meeting in Switzerland in 1947. A prolific writer, he is ceaselessly active in the public debate, publishing essays and letters to the editor in renowned newspapers.<sup>64</sup>

Röpke's oeuvre begins with some early pieces on business cycles and the – almost Keynesian – possibility of the state of fighting a “secondary depression”.<sup>65</sup> This is followed by a book written during his time in Istanbul, “Die Lehre von der Wirtschaft” (Economics of the Free Society),<sup>66</sup> published in 1937; while it already contains the core cultural musings that Röpke will develop later, this volume can still be qualified as an economic textbook. Submerged by a depressing feeling of generalized crisis, Röpke then turns toward broader societal issues that worry him, producing the trilogy “Gesellschaftskrisis der Gegenwart” (The Social Crisis of our Time) in 1942, “Civitas Humana” (The Moral Foundations of Civil Society) in 1944 and “Internationale Ordnung heute” (International Order and Economic Integration) in 1954. This is followed by “Jenseits von Angebot und Nachfrage” (A Humane Economy) in 1958.<sup>67</sup> In all these books, Röpke lashes out against what he calls massification, economism and a new proletarianism; he rejects collectivism, materialism and the “cult of the colossal”. He castigates socialism and the welfare state; he deplores secularization as much as the break-up of traditional family ties and village structures. And he finally comes up with a romantic vision of life in small-scale, decentralized, federal, “humane” entities where morality can survive and happiness flourish. His ideal is one of “liberalism from below” (Sally 1998).

#### **II.4.1 “Economics of the Free Society” (1937)**

In his “Economics of the Free Society”, Röpke's first book, Adam Smith finds only cursory mention. Once in a footnote on the value paradox, where Röpke lumps him together with the other classics (1937/1963, p. 17), and once, ever so briefly, with a correct, though incomplete reference, in a chapter on the connection between population and market size. He warns that Smith's “law on market size” – according to the famous quote that „the division of labour ... must always be limited by... the extent of the market (WN I.iii.1) – must not be misunderstood as a geographic metric or an amount of people, at least not in a restrictive sense. What counts, Röpke explains, is purchasing power (ibid., pp. 17, 107).

Another time that Röpke expressly refers to Smith, he honors him with an epitaph on a chapter on markets and prices (ibid., p. 142), featuring a long direct quote on how difficult it must be for a member of parliament to oppose the (trade) monopolists and stand up for free imports and exports (WN IV.ii.43). Given, firstly, how much this quote is out of context, and given, secondly, that Röpke doesn't reveal the exact reference, this seems to be a case either of sloppiness or of decorative name-dropping – or both. The last instance where Röpke refers to Smith is in a footnote on foreign trade, taking him as a witness, or referring to his authority

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<sup>64</sup> See e.g. Hennecke 2005, Solchany 2015 and Peukert 2008.

<sup>65</sup> See Gregg 2010, pp. 104.

<sup>66</sup> The title of the English version, coming out in 1963, is no longer neutral, but programmatic: It now indicates, quite adequately, that Röpke has a world-view to defend.

<sup>67</sup> See also Horn 2011a.

in order to argue that there may be political reasons referring to a nation's defense that may run counter to the free trade recommendations of scientific theory (ibid., p. 219). Again, he doesn't provide the exact reference (which should be WN IV.ii.24, 29 and 30, where Smith deals – and bears – with the Cromwellian Acts of Navigation).

What about the classics as a whole, and the idea of *laissez-faire*? What is Röpke's take on this larger complex? Well, he does indeed deal with several aspects of classical theory (value, price, wages, trade etc.), but he bans this discussion to his footnotes. "It would be an error to believe that classical theory is a collection of sterile fallacies", he writes (ibid., p. 18) in a falsely charitable tone: "The acumen which enabled the classical school, in spite of its false foundation and its tortured constructions, to come to useful conclusions deserves admiration." What he rejects most is "the stiff classical machinery of 'natural laws'" which led to "premature economic policy conclusions [...] (*laissez-faire* liberalism)". When he concludes the passage writing that "classical theory was philosophical in character while modern theory is primarily instrumental in character", the translation is too friendly: In the German original, it is "weltanschaulich" (1937/1946, p. 39), which is more properly translated as "ideological". Obviously, the famous "Werturteilsstreit", regarding the proper positioning of economics along the spectrum between "is" and "ought", is still lurking in the background.

At this stage, it seems that what Röpke finds unacceptably ideological is that the classics, Smith included, ignored what he considers to be the fundamental and "irreconcilable antagonism between individual and general welfare, between the interest of the individual and the interest of the commonweal", the fact that "an economy based on the division of labor [...] is marred by a latent and persistent disharmony between the private interests of the producers and the general welfare." (1937/1963, p. 68).

In his chapter about the "third way"<sup>68</sup> that he recommends for economic policy, Röpke depicts "*laissez-faire*" as a poor, strictly negative approach, where government abstains from action (ibid., p. 251). This system, according to him, is bound to degenerate and end in an intolerable degree of unproductivity, corruption and injustice. In what follows, he anticipates much of what he will write later on the importance of morality, religion and culture and what Eucken (1952, p. 14) has explained regarding the "interdependence of orders": "There is no doubt about the fact that our economic system needs a complete 'overhaul' [...] To accomplish this, something more is required than a mere freeing of the system from 'nonassimilable' interventions of the state. [...] The structure of the market economy is not nearly as simple as its friends, as well as its enemies, have maintained. We now know that its functioning depends upon a whole series of economic, juridical, moral, psychological, and political conditions, none of which are simply 'given', and which, in any event, must be largely restructured to fit the changed needs of the present." (ibid.) This also sums up what stands at the heart of the ordoliberal endeavours: the project is an interconnected one, it concerns all spheres of life. Nothing sums it up more neatly: "Order and incentive in the economy – these, then, are the two cardinal problems around which everything revolves" (ibid., p. 253).

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<sup>68</sup> Oddly translated as „third road“, p. 251. In Röpke (1944/2002, p. 193), it morphs into "third course". The term "dritter Weg" was invented by Franz Oppenheimer (1933).

## II.4.2 “Social Crisis of the Present” (1942)

This book, written in Switzerland during the first half of World War II, is less the result of a scholarly project than of an ardent desire, on the face of disaster, to shake up the all too complacent.<sup>69</sup> Röpke, embittered already, observes an “unequalled moral and intellectual decadence” (1942a, p. 6), and he bemoans the “continuous process of secularization until finally the power of faith [...] began to flag” (ibid., p. 7) and an “unnatural” individualism developed (ibid., p.52). In the beginning of the book, when he describes what has led the world into the “social crisis”, he spends a full chapter on the “seed and harvest of two centuries”; the gist of which is that rationalism, the evil spin-off of the Enlightenment, is responsible both for the political and the economic catastrophes of the present, and the reason is its “offspring”, to be sure: misguided political and economic liberalism.

This he describes as follows, referring to Adam Smith: “It was seriously believed that a market economy based on competition represented a world of its own, an ‘order natural’ [sic], which had only to be freed from all interference in order to stand on its own feet. And it is miraculously directed by the ‘invisible hand’ mentioned by Adam Smith, which in reality is nothing but the ‘divine reason’ of deistic philosophy, men have only a negative duty towards it, namely to remove all obstacles from its path – laissez faire, laissez passer. Thus the market economy was endowed with sociological autonomy and the non-economic prerequisites and conditions which must be fulfilled if it is to function properly, were ignored.” (ibid., p. 51f.) Here, he makes clear what bothers him most: It is in Smith’s deism<sup>70</sup> that Röpke sees the root cause of the erroneous policy precepts of laissez-faire.

In a long chapter on “The splendor and misery of capitalism”, Röpke explains that there are things that money can’t or shouldn’t buy; that “man’s nature” sets limits to the market, capitalism and competition, lest they become “intolerable” (ibid., p. 119). Competition, if not channeled, will be a “social explosive” (ibid., p. 181). He worries about the “de-personalizing and mechanizing effects of the old large-scale industrial enterprise”. Röpke’s ideal consists of “a strong state, aloof from the hungry hordes of vested interests, a high standard of business ethics, an undegenerated community of people ready to co-operate with each other, who have a natural attachment to, and a firm place in society” (ibid.).<sup>71</sup> Note that his wording is almost identical here with Rüstows from the latter’s speech at Verein für Socialpolitik in 1932.

As regards state intervention in the economy, he dreams of “constructive intervention” which “neither wants to dam the natural course of development by the concrete walls of intervention for preservation [...] nor does it wish to turn it into the wild falls of laissez-faire” (ibid., p. 187). Röpke calls for a political and societal system that is “as far removed from socialism as

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<sup>69</sup> In this sense, the book is comparable to Hayek’s “Road to Serfdom” published two years later. Röpke’s language, however, is more polemical and sometimes outright cynical. In fact, after this, he will hardly be able to sober up in his writings ever again, which all tell the same story, to the difference of Hayek who remains perfectly capable of developing new ideas and keeping his countenance in scholarly work.

<sup>70</sup> Another instance of this can be found in Röpke 1942b, p.67.

<sup>71</sup> Solchany argues that the call for a strong state has actually two components: the protection against the self-destruction of the competitive order, on the one hand and on the other, “a contamination of German liberal thought by authoritarian concepts that are on the rise in the chaos of the dying Weimar Republic” (Solchany 2015, p. 236).

it is from the old brand of liberalism” (ibid., p. 21). The name he suggests for this program is “‘constructive’ or revisionist’ liberalism”, “economic humanism” or “third way” (ibid., p. 27). “Constructivism” hasn’t yet fallen and become a bad word in the ears of the lovers of liberty.

Röpke rehashes the – by now familiar – idea of a deep inherent conflict of interest in the economy, a “tragic error” (ibid., p. 127): “The historical liberalism of the nineteenth century ... engendered that optimistic doctrine of the harmony of economic interests which has caused so much mischief”, which he then qualifies, interestingly: “not least because its untenability has finally led us to overlook the partial truth it contains” (ibid., p. 124). But what does this “untenability” consist of, exactly? “One would have to shut one’s eyes to the world and to history in order not to see that individuals, classes and nations have always enjoyed an easy conscience and untroubled prosperity while indulging in cheating, in selling, the other fellow short, in exploitation, yes, even spoliation”, Röpke writes accusingly. “This they do, not burdening themselves with the thought that after them would come the deluge which sooner or later would destroy such a society without distinguishing between the just and the unjust” (ibid., p. 129). Man is wicked. And Röpke takes it for granted that this outcome is one that the classics in their blinding abstraction – and specifically Smith in his deism – didn’t fathom.

#### **II.4.3 “Moral Foundations of Civil Society” (1944)**

In his “Moral Foundations”, which he dedicates to the “Genio Genavae”, the spirit of Geneva, Röpke doesn’t add any fresh ideas but goes into more detail in his complaints about rationalism, borrowing much from Hayek who, in the meantime, has published his “Counterrevolution of Science” (1941) and “Scientism and the Study of Society” (1942/1943/1944). Röpke speaks of the “hubris of the intellect” (1944/2002, p. 45), of the “now rare representatives of historic Liberalism, of the laissez-faire school” who, in their “blundering rationalism”, held that “Market Economy regulated by competition represents a self-dependent cosmos in no way bound to sociologico-moral conditions, a ‘natural order’, in regard to which men have only the negative duty of clearing all impediments out of its way” (ibid., p. 49). He castigates their “sociological blindness and dogmatism” (ibid., p. 53).

Again, it is the supposedly religious background that irks him: “If this historical Liberalism in complete confidence in the ‘natural order’, in the ‘Invisible Hand’ (A. Smith) which guides egoisms freed from all limitations to the aim of greatest happiness of the greatest number in blind disregard of the political, social and moral factors and embarks on a positive crusade to obtain freedom for the laws of the market to function, it is clear that we may attribute the responsibility in the first instance to the theological-metaphysical conception of a Divine Wisdom doing all for the best but Whose beneficent rule is recognized only by the enlightened and to question which would be impious and wrong”.

This he links to a mistaken “absolute optimism as regards humanity’s natural virtue and wisdom”, which “belongs to the fundamental errors of rationalism which, in the rationalistic state and educational doctrine, in economic liberalism and in socialism, has led to such fatal results and well merited disappointments, just as its dogmatic counterpart, pessimism, has up to now brought about the corresponding medley of reactionary doctrines typified by Hobbes, de Maistre or Haller.” (ibid.) Gregg (2010, p. 169) nails it: “The weakest part of Röpke’s

analysis was his oscillation about Smith's place in economic liberalism's association with rationalism". Röpke seems to have realized, at times, that he didn't do Smith justice.

In a chapter on the "congestion and proletarianisation of society", Röpke speaks about social structures. He almost sounds like Smith ("...the distinction of ranks, and the order of society", TMS I.iii.2.3) when he – Röpke – talks about the necessity of social ordering, holding that "a genuine community must possess not only a firm horizontal but also a vertical structure" (ibid., p. 133). "It is of necessity pyramidal and hierarchical" (ibid., p. 134f), he posits, but then goes on to deplore the terrible "decay of occidental society" which "is fundamentally nothing but the collapse of this arch", coming with an "estrangement from nature" as well as "processes of decay and dissolution in the spiritual and moral spheres", with the "disruption of the Family" and a "wrongly directed democratization of intellectual life" (ibid.).<sup>72</sup>

#### **II.4.4 "A Humane Economy" (1958)**

This is, as Röpke himself announces in his foreword, "a book full of apprehension, bitterness, anger, and even contempt for the worst features of our age". In a sense, it goes to the heart of the matter: It is, at its core, a desperate complaint about people falling from (Christian) faith and ethics. Oddly enough, he again uses Smith for an endorsement of his own interest in these ethical questions; after all, the Scot "not only became the founder of economics due his 1776 book on 'The Wealth of Nations' but also published a book on 'The Moral Sentiments' [sic] still noteworthy today" (1956, p. 3, and, in a similar vein 1958/1960, p. 92). It is here that he further develops his ideas on the ordering of society. It seems that his attention has been drawn to the corresponding aspects in Smith's work in the meantime, since he quotes a passage from WN where Smith elaborates on criteria for the recognition of a man's superiority in social hierarchy, i.e. probity, rank and public service (WN IV.ii.43).

What follows is a high-pitched elitist plea that also indirectly reveals, once more, Röpke's skepticism regarding democracy: "We need a natural nobility whose authority is, fortunately, readily accepted by all men, an elite deriving its title solely from supreme performance and peerless moral example and invested with the moral dignity of such a life. Only a few from every stratum of society can ascend into this thin layer of natural nobility. The way to it is an exemplary and slowly maturing life of dedicated endeavor on behalf of all, unimpeachable integrity, constant restraint of our common greed, proved soundness of judgment, a spotless private life, indomitable courage in standing up for truth and law, and generally the highest example. This is how the few, carried upward by the trust of the people, gradually attain to a position above the classes, interests, passions, wickedness, and foolishness of men and finally become the nation's conscience. To belong to this group of moral aristocrats should be the highest and most desirable aim, next to which all the other triumphs of life are pale and insipid. No free society, least of all ours, which threatens to degenerate into mass society, can subsist without such a class of censors." (ibid., p. 130f)

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<sup>72</sup> Note and mind Röpke's use of capital letters; sometimes they serve as an emphasis, sometimes they are meant ironically.

## II.5 Summing up: The gist of the ordoliberalists' critique

There are of course nuances in the ordoliberalists' critique of Smith and the historical laissez-faire system that they see as deriving from his work, as the review of the literature has shown, but the common denominator is evident. It refers to the philosophical background as much as to the practical policy program derived from it. These are the main points, which overlap each other to some extent:

*Scope:* In a broader social science perspective, the ordoliberalists criticize the economism of a narrow theoretical and political approach that focuses on individuals in the marketplace instead of taking their cultural and social embeddedness – and needs – into account. The scope of the social sciences must be vast due to the interrelatedness of all aspects of life in society. If this isn't taken seriously, not only will uncontrolled competition in the market, as recommended by Smith, fail economically (and abolish itself) – it will make man unhappy.

*Man:* The ordoliberalists shiver at the anthropological premise of self-love in Smith's writings, which, foregoing further inspection, they equate with narrow self-interest, or mere selfishness. They view this as a dramatically impoverished image of man which, to add tort to prejudice, will end up forming him: If we understand man as a naturally selfish creature, being looked upon this way will eventually make him so.

*Harmony:* The ordoliberalists reject as unpalatable the idea of a "invisible hand", doubting that the wisdom of nature could by itself align individual and common interest. They reject the notion of "natural harmony" as they see a systematic a priori incompatibility given the economic incentives under which individuals operate in markets; such incompatibility can only be overcome through an adequate regulatory framework and monitoring. In political terms, they consider that a naïve belief in natural harmony implies a dangerous passivity both of men and government. They call for a strong state, not the night-watchman. It is not enough to do away with impediments to free market interaction; "liberal interventionism" is needed.

*Competition:* In the more narrow field of economic policy, the ordoliberalists' greatest concern is the lack of a "market police", the complacency toward monopolies and cartels that, in their view, seems to have been the inevitable outcome of a laissez-faire ideology based on Smith. The necessity of controlling and monitoring competition, a task assigned to government, derives from the distinction between "efficiency competition" that serves the consumer's interest in the longer run instead of ruinous "cut-throat competition" that creates no value.

*God:* Philosophically, the ordoliberalists take issue with the perceived traces of stoic thought in Smith's system, especially with the idea that everything in this world, if only sufficiently understood, is arranged to perfection by a watchmaker Deity. They deride what they perceive as the deterministic optimism and the "stiff machinery" of the pagan natural laws that they interpret as a necessary consequence of this philosophical tradition. The ordoliberalists also insist that "man shall not live on bread alone" and deplore the lack of Christian morality not only in Smith's system, but in the bulk of the Enlightenment literature<sup>73</sup>. According to them, a

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<sup>73</sup> It is interesting to see that Friedrich Hayek, a close friend of the ordoliberalists, arrives at a much more refined perception of the different trends within the Enlightenment, grasping the "antirationalist reaction" of the Scots

philosophical system that doesn't provide room for the interaction of the individual with God, a core human need, must break down.

### **III Building bridges**

These criticisms are, for the most part, vastly overblown. The concerns that the ordoliberalists were voicing should have made Smith their close friend, not their declared enemy.<sup>74</sup> In the following paragraph, I will suggest a more systematic reading of Smith's work that would, perhaps, have made it easier for these historical figures to avoid or to overcome their prejudice. An analysis of the conceptual analogies in Smith's two major works, TMS and WN, may highlight the strong heuristic features in his overall approach, which, at least in some respects, should have been able to serve the ordoliberalists' scientific interests very well – as a logically rigorous framework for reflection, as an intellectual instrument, without necessarily implying all the normative consequences that they take so much for granted.

Once these structures are clarified, I will ask whether this system is universal and powerful enough to provide answers to the concrete ordoliberal concerns. After all, such seems to be the most fruitful approach to analyzing classical texts: Is the system developed in them robust enough to stay in place even if some assumptions are being relaxed? What are its essentials; and what are the core assumptions that cannot so easily be changed? Is it possible to abstract from the contemporary background without the theory falling into self-contradiction or obsolescence? If the building blocks of a system are plausible, and if they feed into a logical chain of causalities, chances are good that the system in question holds lasting potential.

#### **III.1 A system(at)ic reading of Smith**

The systematic analogies between TMS and WN are striking. In both cases, Smith, placing much importance on “the real chains” of nature (HA IV.76), analyzes dynamic, a priori never-ending processes of social coordination. He constructs his overall project in such a way that he can follow a guiding question, and he then deploys an almost mechanical research strategy.

In TMS, his question is: How do individuals reach moral judgments upon others and themselves? And, even though this is not explicit in TMS, one may add: How does it come that, as they do this, individuals automatically generate, in an ongoing feedback process, some moral common sense of society – without intending so?<sup>75</sup> In WN, Smith's question just changes its object: How do individuals behave economically and how do they, as they engage in work and trade, help to generate some wealth for the society at large, without explicitly

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against cartesian rationalism. He also arrives at a better understanding of the Smithian system as such. Of course Hayek's own theory of the spontaneous order is inspired by the Scottish Enlightenment philosophers, to whom he pays tribute several times. See Hayek 1967/2003.

<sup>74</sup> Klump and Wörsdörfer (2010, p. 30) speak of “unconscious parallels”.

<sup>75</sup> The fourth edition of TMS has this project spelt out in the subtitle: “The Theory of Moral Sentiments, or an Essay towards an Analysis of the Principles by which Men naturally judge concerning the Conduct and Character, first of their Neighbours, and afterwards of themselves.”

intending so? These two sets of questions guide Smith in his analysis of the unintended consequences of individual decision-making and action within a framework of social interaction, once in the moral, once in the economic sphere. This separation is analytical; the two are interrelated.

In order to answer his questions, Smith works with two key premises regarding the nature of man: self-regardedness and other-regardedness. This is the minimal – and at the same time plausibly universal – anthropological endowment that his theories require. That these two features are “natural” implies no value judgment, they are simply empirical.<sup>76</sup> The term I use here, self-regardedness, refers to “self-love”, the word Smith uses a lot. The demarcation of self-love from self-interest and selfishness is important. Smith actually uses all of these terms, but in different contexts and with different meanings. In his parlance, self-love and self-interest are technical terms; selfishness however is a term implicitly provoking moral disapprobation; it is one that he, like most people, uses negatively. For example, he speaks of the “natural selfishness and rapacity” of the rich (TMS IV.i.10); conceding however that even with these character flaws, under the right circumstances, the well-to-do are still capable of contributing to the common good without even intending so.

For one, the assumption of self-love serves a heuristic purpose: It helps to determine the conditions for cooperation if people do not systematically act counter to their proper interest. Speaking in modern modelling language, this assumption rules out irrelevant alternatives. When Smith speaks of the butcher, the brewer and the baker from whose self-interest we expect our dinner (WN I.ii.2), this contains neither a moral approval nor an encouragement of selfishness, but the description of a setting which allows for cooperation through exchange. As for the substance of self-love, Heath (2013, p. 239) has made clear that Smith inherited much of this concept from Joseph Butler who used it to describe the direction of individual perception and attention; not so much as a motive. Viewed this way, self-love encompasses the individual’s care and concern for family and friends, closer than others (TMS IV.ii.1).

Self-love recommends everyone “first and principally to his own care” (TMS II.ii.2.2), it generates an interest in self-preservation and works together with the virtue of prudence. Yet, self-love must be controlled with the help of external and internal “spectators” in order not to degenerate toward the vices of selfishness and injustice, a risk always present due to the perception biases that are natural to all human beings.<sup>77</sup> As far as other-regardedness is concerned, this (also non-Smithian) term describes the fact that human beings are naturally oriented toward others – not just because they need them, but also because they are endowed with a communicative nature. In his Lectures on Jurisprudence, Smith speaks of the “principle to persuade [sic]” (LJ A, 221), a notion he drops later on.

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<sup>76</sup> As Lisa Herzog (2013, p. 25) points out, “some natural tendencies should be reinforced, while others should be curbed or channelled in certain ways”.

<sup>77</sup> When Smith mentions how we cannot stand the sight of a poor, but relish in the riches, e.g., he describes a perception bias that is similar to one discovered by modern behavioral economics and psychology: the loss aversion bias. People suffer more from financial loss than they enjoy gain. See Kahnemann and Tversky 1992.

In TMS and WN, these two aspects of human nature translate into more concrete descriptions of natural propensities. In TMS, Smith speaks of the “natural preference which every man has for his own happiness above that of other people” (TMS II.ii.II.1) and of the fact that, “how selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others” (TMS I.i.I.1). In WN, Smith builds on our “desire of bettering our condition” (WN II.iii.28) and “a certain propensity in human nature [...] to truck, barter, and exchange one thing for another” (WN I.ii.1). Interaction is then facilitated in each context by “sympathy”, a natural capability for “fellow feeling” or empathy.<sup>78</sup> Without this capability, people would neither be able to reach moral judgment nor to engage in any kind of market transaction. Sympathy allows them to put themselves in the other’s shoes, to sense his feelings, desires, hopes and needs. Smith is not implying that this capacity is given to everyone in the same intensity at all times; it can vary depending on context, situation and object. But human beings all have this potential. The variation is due partly to the need that sympathy has of imagination, which is often influenced and biased by external circumstances.

On the basis of these premises, Smith describes, in TMS, the emergence of individual moral judgment in an ongoing interactive feedback process between individual agents and their external and internal (impartial) spectators, and in WN, the emergence of economic wealth creation through an endogenous process of ever deeper specialization, productivity growth, accumulation and trade expansion. The impartial spectator is the individual’s conscience, “the tribunal within our own breast” (TMS III.ii.31) that forces him “to humble the arrogance of his self-love, and bring it down to something which other men can go along with” (TMS II.ii.2.1). Through this figure, Smith introduces moral equality into his system.<sup>79</sup> Given that the economic sphere cannot be separated from the moral, the impartial spectator necessarily comes in on two overlapping forms: as a moral check on self-preferment and as an economic check on greed, both forms of self-love degenerating into selfishness. These two appearances are simultaneous and work together, and they are both the result of an evolutionary process.<sup>80</sup>

In both cases, in TMS and WN, the social result is the unintended consequence of individual action, and the theory describes the feedback processes that make this happen. There can possibly be an optimistic determinism in such a layout, as Smith’s critics hold, but this is no necessity. Smith makes a modal claim here, describing a possible, but not necessary outcome of interaction.<sup>81</sup> Trying to explain how one action leads to another and how all interaction generates a pattern doesn’t mean that interaction inevitably goes well. Smith’s work is full of his worries about the traps – perception biases, faction, bad regulation, concentration of power, excesses of inequality – that might prevent a beneficial outcome of this coordination

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<sup>78</sup> Smith’s definition is ambiguous insofar as sympathy not only designates a capability but also a pleasurable feeling of agreement which this capability can ideally bring about.

<sup>79</sup> See Fleischacker 2004, 2006, and Horn 2017.

<sup>80</sup> See however the controversy on this aspect between Fleischacker 2004, 2006 and Otteson 2006. The fact that Fleischacker (2006, p. 3) rejects the evolutionary interpretation of the impartial spectator seems to originate in his understanding of evolution as a process that does not know a direction *ex ante*. Regarding the problem of such an understanding see Vanberg 1986 and Horn 2011a with respect to Hayek’s theory of cultural evolution.

<sup>81</sup> On this see Levy and Peart 2013b, p. 379.

game the patterns, or general laws, of which he works to pin down. Table 1 sums up the analogy in the systematic components of Smith’s research strategy in TMS and WN.

Table 1: Systematic analogies in Smith’s work

<b>Anthropological premises</b>	a) „Self-love“ (Self-regardedness) und b) „Principle to persuade“ (Other-regardedness) Man strives for self-preservation and is, at the same time, a social creature that only develops his potential in his relationship with others	
	<b>Sphere of the moral (TMS)</b>	<b>Sphere of the economic (WN)</b>
<b>Paraphrase of self-love (self-regardedness)</b>	„natural preference which every man has for his own happiness“ (TMS II.ii.2.2)	“desire of bettering our condition” (WN II.iii.28)
<b>Paraphrase of the principle to persuade (other-regardedness)</b>	„How selfish however man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others“ (TMS I.i.1.1)	„A certain propensity in human nature ... to truck, barter, and exchange one thing for another“ (WN I.ii.1)
<b>Net effect</b>	Man is made in such a way that, while caring about himself first, he is also capable of benevolence toward others.	Man is made in such a way that, while desiring goods for himself, he is capable of obtaining them peacefully
<b>Underlying capability</b>	Sympathy (TMS I.i.1.3)	
<b>Application</b>	Reactivity toward other people’s emotions	Reactivity toward economic incentives
<b>Consequence</b>	“Circles of sympathy”: We differentiate between more and less close fellow creatures because we cannot sympathize with everybody in the same way	“Circles of specialization” (division of labour): We specialize more or less deeply because we cannot produce everything ourselves
	Sympathy is limited by our imagination and the given knowledge about distant people	The intensity of the division of labour is limited by the extent of the market
<b>Individual striving</b>	Praise and praiseworthiness	Success in the short and long run
<b>Precondition</b>	Imagination	
	(How does the other feel?)	(What does the other want to sell/buy?)
<b>Correction of self-love at individual level</b>	Moderated by the desire of praise and praiseworthiness	Moderated by the desire of long run economic success
<b>Type of interaction</b>	Daily contact	Daily economic interaction
<b>Kind of interaction with other people</b>	Feedback processes of action and reaction	
	Example: A behaves badly toward B; B lets a know by avoiding him.	Example: A sells B a lemon; B will never again shop at A’s
<b>Sanction in the first round of interaction</b>	Approbation or disapprobation by the others (external spectators)	Continuing or lacking demand for one’s goods on offer in the market
<b>Sanction in the second round of interaction</b>	Approbation or disapprobation by one’s own conscience (impartial spectator)	Longterm survival in the market or failure (competition)
<b>Dynamics</b>	Endogenous: sympathy increases with one’s growing knowledge about remote people	Endogenous: Specialization => productivity↑ => market↑=> specialization ...
<b>Result after n periods, with n people</b>	Individual moral judgments and virtues; (momentary) social normative consensus	Individually successful business models; generalized wealth

Source: Horn (2017b)

This structure in mind, it may become easier to grasp the essential heuristic qualities of Smith’s approach: it helps to tackle social dynamics. Let’s now see if and how some of the ordoliberal’s points can be addressed by this system. The question is not so much whether Smith “would endorse” the ordoliberal’s position (that would be a vain question) but whether their concrete concerns can fit into the coordinates of his wider philosophical approach.

## III.2 Smithian answers to ordoliberal concerns

### III.2.1 Scope

As noted, the ordoliberals complain about the economism of the Smithian classical system as they perceive it, with an exclusive focus on atomistic individuals in the marketplace where the cultural and social embeddedness – and needs – of human beings are left out. The economic viewpoint is too “restrictive”, Röpke (1958/1960, p. 93) writes. The ordoliberals consider that society is a common project of its inhabitants, the outcome of which depends on a multitude of variables outside economics. They accuse the classical system of sociological blindness, by which they mean not so much a lack of scholarly interest for the stratification of society but rather the missing regard to cultural and social questions: the scope of the analysis must be broader. As Röpke (1958/1960, p. 98) opines, the market system depends on an ethical basis that it cannot provide and regenerate by itself – and the accusation is that Smith, together with all the other classics, simply didn’t see this interdependence. But “economically ignorant moralism is as objectionable as morally callous economism. Ethics and economics are two equally difficult subjects, and while the former needs discerning and expert reason, the latter cannot do without humane values” (ibid., p. 104). Therefore, the ordoliberals ask for a more holistic perspective encompassing all relevant areas of social interaction, given that all areas of public life overlap. The question now is, insofar as Smith’s writings are concerned, and not what his followers have made of them: Do the ordoliberals have a point here? No.

It is not just because Smith also wrote a “Theory of Moral Sentiments”, as Röpke (1956, p. 3) somewhat condescendingly acknowledges, that he can be “absolved” from his alleged economism. There simply is no economism, not even in his WN, if one approaches Smith’s theory systematically. As the preceding chapter has shown, his premises go well beyond economics. They are defined at an overarching anthropological level, merely consisting of self-regardedness and other-regardedness, the two going hand in hand. In the economic realm, this translates into economic interest, reactivity to economic incentives and acute perception regarding the interests of the (potential) transaction partner. On the basis of these two anthropological constants, Smith is able to analyze the emergence of moral judgment and values in TMS, and his reflections on jurisprudence are built on the same foundations. Smith’s approach is universal. As such, it can only be rejected on the basis of the twin premises of self-regardedness and other-regardedness or on the basis of the individual reactions to incentives that he takes for granted – and that seems hardly warranted.

Another reason why it is not necessary to refer to TMS in order to defend Smith against the accusation of economism is that WN is itself replete with caveats precisely against the simplistic economic world-view that the ordoliberals complain about. For example, Smith does care about (and analyzes) the effects of the division of labor upon the workers. Röpke is not alone in worrying about the “de-personalizing and mechanizing effects of the old large-scale industrial enterprise” (1942a, p. 181); Smith knows about the probability that more routinely, monotonous industrial activities will make people stupid – which is a problem in itself, but also with regard to its consequences for economic progress and societal stability: “In the progress of the division of labour, the employment of the far greater part of those who

live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations; frequently one or two... The man whose whole life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding... He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become... But in every improved and civilized society this is the state into which the laboring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it.” (WN V.i.f.50) It is for this reason, among others, that Smith finds himself in a position to recommend state action – and not pure laissez-faire.

Smith also does care about the effects of religion and culture; about education; about the tasks of government; about faction<sup>82</sup>; about the maintenance of social order. It is not in TMS but in WN that he explains why government has come about in the process of civilization, and why it is needed: essentially because the rich – and their property – need to be defended against the poor (WN V.i.b.12). This Hobbesian motive sums up Smith’s concern with order in society: He is afraid that society might, at some stage, collapse and fall back into the natural state. As far as it is normative, Smith’s thinking revolves around “tranquility”, a value that he indeed seems to have adopted from stoicism. It is not only in the interest of every individual to find his or her appropriate place in life where it is possible to reach peace of mind, the only source of genuine happiness; at a “macro” level, it is “peace and order of society” that would be in the best interest of all to result from the interactions and institutions in the public sphere. If Smith were to formulate an answer to the ordoliberalists, all these aspects would likely show up in it: Of course we must consider all facets of life in society; all these spheres are interrelated and interdependent; and economic progress alone cannot ensure human flourishing and happiness. Smith’s image of a good society is richer than the ordoliberalists seem to think.

And yet, there is indeed a missing link in Smith’s work: the theory of government, a project he had dedicated himself to but didn’t manage to complete. The scope of his all-encompassing project would have been larger still, had he been able to devise such a theory of government, taking into account the different incentives and perception biases related to politics. But even in the texts he found fit to leave us,<sup>83</sup> there is a multitude of insights into political theory than many economists expect – and more than the ordoliberalists imagined. For example, Smith knows very well about the various temptations that politicians are exposed to, and he worries that, once in power, a ruler may “imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board” (TMS IV.ii.2.17). In the same vein as Hayek who later explains in his “Law, Legislation and Liberty” that jurisprudence must respect the grown order of rules of just behavior that have evolved in the course of cultural evolution,<sup>84</sup> Smith warns that “in the great chessboard of human society, every single piece has a principle of motion of its own, altogether different from that which the legislator might chuse to impress upon it. If those two principles coincide

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<sup>82</sup> See Levy and Peart 2007, p. 77, Levy and Peart 2013b, p. 293.

<sup>83</sup> Smith had asked to have all his unfinished manuscripts burnt, with a few exceptions, among which his “History of Astronomy”.

<sup>84</sup> Hayek 1973.

and act in the same direction, the game of human society will go on easily and harmoniously, and it is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder” (ibid.). And there is nothing that Smith seems to dread more than disorder and disruption – after all, they threaten to throw mankind back into the hell of the Hobbesian natural state.

Consistently thinking in incentives, which need to be arranged so as to promote the common good, Smith even seems to anticipate elements of Public Choice or institutional economics. He knows that government is not always benevolent. “The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy” (WN IV.iii.c.9). He is very much aware of the tendency of government never to give up a source of income: “The return of peace, indeed, seldom relieves them from the greater part of the taxes imposed during the war [...] this fund is almost always applied to other purposes” (WN V.iii.38). And he knows about the incentives that the administration of justice works under (WN V.i.b.14). He mentions the “delusions” and the lack of knowledge of the sovereign who cannot anticipate the outcome of social interaction (WN IV.ix.51). He acknowledges that even the wisest politician can only be as good as public opinion allows him to be, and with an uneducated public, the outcome will in many cases be unsatisfactory. Parliamentarians opposing monopoly must be aware, he writes, that “neither the most acknowledged probity, nor the highest rank, nor the greatest publick services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the outrage of furious and disappointed monopolists” (WN IV.ii.43). Smith is also reluctant to let the authorities manage public infrastructure (WN V.i.d.10). Examples of this type abound. Narrowness of scope is not what Smith can be found guilty of.

### **III.2.2 Man**

The ordoliberalists reject the anthropological premise of self-love in Smith’s writings, which they equate directly with self-interest, or selfishness. They view this as an impoverished, purely economic image of man which will end up forming him. The analytically positive version of this critique is: Man is not merely self-interested; people take much interest in the well-being of others; they do not always calculate. This is what modern behavioral economics tell us, too.<sup>85</sup> Is this a facet of human personality that Smith’s system indeed ignores?

By no means. As explained above, Smith’s choice of self-love as one of the two essential anthropological departure points of his theory serves a heuristical purpose on the one hand. In its substance, on the other hand, his concept of self-love is more complex than what the ordoliberalists gather; nowhere does he make himself the advocate of the kind of selfishness that Bernard Mandeville (1714/1924/1988) praises in his Fable of the Bees. Quite to the contrary, Smith dismantles and refutes the Mandevillian perspective categorically in TMS (VII.ii.4). Self-regardedness is only one of the two fundamental assumptions in Smith’s system. Human beings are social beings, and it only makes sense to think of them as individuals on the one hand if, on the other, they come together in social interaction. One is contained in the other.

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<sup>85</sup> See e.g. Fehr and Schmidt 1999; Bolton and Ockenfels 2000.

It seems that the ordoliberals, at the edge of the Historical School from which they struggle to break free to some extent, are still too much rooted in that tradition to let go of the erroneous notion that there was an “Adam Smith Problem”, i.e. that Smith, between TMS and WN, had changed his perspective regarding the natural attitudes of man.<sup>86</sup> While this notion came up relatively soon after the publication of WN, it seems to have taken deeper roots in Germany as a result of its dissemination through the book „Die Nationalökonomie der Gegenwart und Zukunft“ (1848), written by the German economist Bruno Hildebrand, one of the key thinkers of the Historical School. This book enshrines many of the prejudices that will cast a shadow over Smith’s work for centuries to come: the change-of-mind problem, the egoism problem, the incompatibility problem, the pre-stabilized harmony problem.<sup>87</sup> Although Oncken (1897) had shown that this was impossible given the WN traces in LJ, which chronologically preceded TMS, this so-called “Adam Smith problem” has had a long life (and still lives on). And the ordoliberals propagated it. This is particularly regrettable as their work could have been enriched by at least two features of Smith’s perspective: the dynamism in the evolution of moral norms, as described in TMS, and the recognition of natural behavioral biases.

### III.2.3 Harmony

The most stereotype accusation is of course that there is no such thing as an “invisible hand”. The ordoliberals see in Smith’s writings a naïve belief in natural order or harmony<sup>88</sup>, and they doubt that the wisdom of nature could by itself align individual and common interest. They see conflicts of interest everywhere. Their program rests on the understanding that rules need to be set that dissolve such conflicts of interests. Three questions must be answered now: (1) Does Smith truly believe that the outcome of the market is always and necessarily “optimal”, as modern economists would say, and that private and common interest will end up coinciding without fault? (2) Does it matter whether he believes so? (3) And if he doesn’t, then what does he suggest we should do to ensure such a coincidence, not in principle, but in fact? The answers to these questions are (1) no, (2) no – and (3) there is a lot to do.

There is a pile of literature on what Smith meant exactly when talking about the “invisible hand”, and also on the question whether Smith’s system inevitably relies on an axiomatic notion of natural harmony.<sup>89</sup> As far as the “invisible hand” is concerned, a rather common metaphor in Smith’s days, he uses this much overestimated figure of speech only three times throughout his entire work in very different contexts; once in TMS (IV.i.11), once in WN (IV.ii.9) and once in HA (III.2). In the light of Smith’s overall analytical approach as described above, the most plausible interpretation seems to be the one that Craig Smith (2006, chapter 10) and others have advanced: “the invisible hand” as another expression for benign

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<sup>86</sup> See e.g. Raphael and Macfie 1976, p. 20, Otteson 2000, Montes 2003, Haakonssen 2006, McKenna 2006, p. 135, Raphael 2007, p. 118, Paganelli 2008, Forman-Barzilai 2010a and b as well as Ronge 2016, p. 9-15.

<sup>87</sup> For an authoritative treatment of the reception, the misunderstandings and the attempts at a rescue of Smith in Germany see Tribe 2015, here especially p. 147.

<sup>88</sup> Hasbach (1890, p. 114) speaks of the “pre-stabilized harmony [...] between enlightened self-interest and the flourishing of the whole”.

<sup>89</sup> Just to pick a few, see e.g. Rothschild 1994, Grampp 2000, Hill 2001, Montes 2003, Wilson and Dixon 2006, Ötsch 2006, Smith 2006, Samuels 2008, Paganelli 2008 and Kennedy 2009 for the invisible hand. On natural harmony see e.g. Brubaker (2006).

unintended social consequences of individual action, the good cunning of nature, which indeed results in harmony. This sufficiently matches the usage of the term by Smith's critics, who use it as a name for a delusion. What they imply is that the consequences of "egoism", for example, are not at all benign, whether intended or unintended, and the result isn't any sort of natural harmony, but social disaster. Our focus here must thus be on these consequences; and these are not as straightforward as the cliché – and the ordoliberal – would have it.

According to the reading of Smith's analytical system as presented above, the consequences of individual action, based on the given anthropological premises, can a priori be good or bad. The system Smith sets up does allow for both possibilities. It has often gone unnoticed that in many crucial passages, Smith resorts to modal patterns of expression, picking up another stoic tradition. Whenever he speaks of natural results (as distinguished from natural dispositions), he describes an outcome that is possible, not necessary. The good outcome depends on several factors. If the impartial spectator fails to moderate self-love, for example moral judgment goes down the drain, with damaging effects both for economic progress and social order. Social order, the importance of which for Smith is sometimes underestimated, may also be imperiled by excessive material inequality – and this may call for public education (WN V.i.f.50).

The benign outcome of social interaction is conditional on the political and legal framework, and even if the hand of the state helped in a perfect manner, there would be difficulties that could not be overcome. It simply is not guaranteed: If it was, we wouldn't need a theory to understand the process. In particular, it is due to the manifold biases, "corruptions" of human perception and judgment, that the outcome is uncertain, not to speak of the imperfection of the political sphere. And here Smith advances a warning that the ordoliberals might have wanted to elaborate on, had they noticed it, given their preoccupation with power: While it is possible to regulate the market participants in such a way that there are chances for the outcome of interaction to be beneficial, this is not always possible in politics (WN IV.iii.c.9). Human history is full of examples of usurped, malevolent power.

When Röpke fumes that "one would have to shut one's eyes to the world and to history in order not to see that individuals, classes and nations have always enjoyed an easy conscience and untroubled prosperity while indulging in cheating, in selling, the other fellow short, in exploitation, yes, even spoliation" (Röpke 1942a, p. 129), he actually describes, translated into Smith's idiom, the break-down of the impartial spectator, deceived and overwhelmed by self-love and not helped enough by civil law. As there is no positive determinism in Smith's system as this can in fact happen; Smith worries about this and models the moral social interaction that might, together with good policy, prevent it<sup>90</sup>. Steven Horwitz (2001, p. 84) sums things up nicely without further ado: "Smith and the other Scots did not think that the beneficence of the invisible hand operated in all circumstances. Rather, the channeling of self-interest into the social good would occur only with the right social institutions. Self-interest could, and in fact did in the mercantilist systems Smith was criticizing, lead to harmful

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<sup>90</sup> Böhm (1982), interestingly, is aware of this but still defends, in line with the other ordoliberals, the idea that Smith's system hinges on pre-stabilized harmony.

consequences. Where, in Smithian terminology, the positive law does not conform with the laws of justice, the possibility exists that self-interest will cause social harm.”

Maybe the problem at the root of the misunderstanding is a matter of perspective. Smith writes in view of the conditions that are needed in order to direct the natural impulses of people toward the common good; he knows that this not a given, but a task – and a difficult one.<sup>91</sup> He does not describe a Nirwana situation where everything will work perfectly. Had the ordoliberalists realized this framing of his question, and had they understood the prudence built into his modal claims, maybe they could have considered themselves Smith’s heirs.

### III.2.4 Competition

The ordoliberalists’ greatest disappointment in terms of policy recommendations is the lack of a “market police”, or, put differently, the complacency toward monopolies and cartels in the age that they label as one of *laissez-faire*. In fact, the German high court had legalized the existing cartels, trusts and oligopolies in 1897, and a law passed during the Weimar Republic in 1923 endorsed this.<sup>92</sup> On this backdrop, the ordoliberalists call for better constitutional rules and an active competition policy that will enforce some sort of “efficiency competition” instead of “cut-throat competition” that creates no value but instead will tend to abolish itself. This is both an economic and an ethical concern. It is ethical at least to the extent that a good moral order necessitates “a non-discriminating, privilege-free order of competition” as it is “by itself an ethical order” (Vanberg 2011, p. 2).<sup>93</sup> The two dimensions must mesh.

Smith’s “obvious and simple system of natural liberty” is a competitive system (WN IV.ix.51). His analytical system relies on competition as well. For one, his anthropological constants feed into the principle of competitive behavior: Whenever we want to persuade other people (“principle to persuade”), we must naturally compete with our rivals, and our self-love makes us want to win. Competition comes in to help the impartial spectator, as it corrects for the accumulation of power through the tendency toward monopoly in the market and through lobbying in politics.<sup>94</sup> In his economics, Smith’s price system is a competitive one. He knows that “the usual corporation spirit”, the “natural genius” is “to confine the competition to as small a number of persons as possible” (WN V.i.e.7) and that “people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices” (WN I.x.c.27).

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<sup>91</sup> Maier-Rigaud (1996, p. 20) is on spot when he speaks of „harmony as task“.

<sup>92</sup> As Wörsdörfer (2014, p. 7) explains, “this process of legalization was accompanied by a far-reaching societal legitimization process initiated and promoted by one of the key representatives of the German Historical-Ethical School, Gustav Schmoller”. On the failure of *laissez-faire* in Germany see Gregg 2010, pp. 19-28.

<sup>93</sup> Röpke voices another ethical concern that pulls the other way, writing, as quoted earlier, that “man’s nature” sets limits to the market, capitalism and competition, lest they should become “intolerable” (Röpke 1958/1960, p. 119). While this sounds a bit like the “What money can’t buy” type of argument (see Sandel 2012) – and given Röpke’s romanticism, there may something to that – he ends up turning it against insufficient competition policies. For this reason, this line is not being followed up here.

<sup>94</sup> Klump and Wörsdörfer (2010, p. 42) hit the nail on the head writing that “Smith’s impartial spectator is on both levels the essential touchstone and the corrective of egoism of special interest groups. Not the pursuit of self-interest is the main problem, but particularism and partiality”.

Eucken (1952, p. 31) similarly speaks of a dangerous “propensity towards cartelization and refeudalisation”. Their points of view, including the very wording, are almost identical.<sup>95</sup>

Writing before the rise of the factory system, in a mercantile setting, Smith already senses that monopoly tends to be “oppressive” (WN V.i.e.10). His worry is that private arrangements sanctioned by the government – such as guilds – prevent competition. So his claim is that government should refrain from giving privileges which are “real encroachments upon natural liberty” (WN IV.2.42) and that it should do nothing to foster such abuses. By analogy, Smith sees the advantage of a separation of powers in the political sphere (between the judiciary and the sovereign). He praises the virtues of competition in what he calls public works; it is always better to have competition in road management, in the delivery of education and in the practice of religion than to have monopolies. Where there is no competition, there is no incentive for good performance (WN V, e.g., on religion, V.i.g.8). As Kurz (2015, p. 16-19) demonstrates, Smith is even aware of phenomena which we would today label as asymmetric information, moral hazard and adverse selection. All these distort the outcome of competition. And the problem with a situation of dysfunctional competition is that this will inevitably end up hurting everyone: “The single advantage which the monopoly procures to a single order of men is in many different ways hurtful to the general interest of the country” (WN IV.7.148).

Upon this assessment of the virtues of competition, does Smith open the door to an active competition policy? At least implicitly, yes. That he doesn’t do so explicitly has more to do with his research question than with his political standpoint: In the first place, he describes how competition can serve as the basis of spontaneous and peaceful cooperation; the negative aspect of the necessary prevention of power comes second to that. But Smith has all the tools for recognizing the problems. The passages just quoted reveal that he does very well see an active role for government here, and this role is not only negative in the sense that government should correct its own earlier mistakes and do away with privilege.<sup>96</sup> It is positive in the sense that government guarantees the law and acts politically.<sup>97</sup> It is in fact one of the three core duties of the state to protect, “as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact

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<sup>95</sup> See also Zweynert 2008, p. 8.

<sup>96</sup> Bonefeld (2013, p. 6) writes, “Smith charges the state with removing impediments to market liberty and providing for the invisible hand that requisite legal, moral, and social order upon which it depends. The Smithean state is not a weak state. It is a strong state. It does not yield to the social interests”.

<sup>97</sup> Bonefeld (ibid., p. 14) sums it up nicely as follows: “The state eradicates disorder, establishes the rules of justice, facilitates the moral sentiments and restrains the passions, secures the cheapness of provision and achieves greater labour productivity, and instructs the people”. I wouldn’t go so far, however, as to endorse his claim that “the state is the political form of the invisible hand” (ibid., p. 2). Instead, the law prepares the ground for a potential harmonization of interests.

administration of justice” (WN IV.ix.51). In line with moral equality,<sup>98</sup> Smith insists that law must be general (impartial). To have such government is in fact a sign of societal progress.<sup>99</sup>

Contrary to Hobbes, with his contractarian approach, Smith explains the emergence of the state using the same dynamic approach as usual: as the result of an endogenous historical process, demonstrating that “the origin and something of the progress of government... arose, not as some writers imagine from any consent or agreement of a number of persons to submit themselves to such or such regulations, but from the natural progress which men make in society” (LJ A iv.19). Over the course of history, it was commerce and manufactures that needed and “gradually introduced order and good government, and with them, the liberty and security of individuals” (WN III.iv.4) – and not the other way round. And good government must rely on economics, “the science of the legislator” (Kurz 2015, p. 22). Or, as Brubaker (2006, p. 172) puts it, “the system of natural liberty needs human help”. Within such a framework, there is plenty of room for the type of prudent and well-informed “constructive intervention” that the ordoliberals recommend, which “neither wants to dam the natural course of development by the concrete walls of intervention for preservation [...] nor does it wish to turn it into the wild falls of laissez-faire” (Röpke 1958/1960, p. 187).

### III.2.5 God

So far, all the problems could be solved in principle – the ordoliberals fought pretty much against a windmill. But what about religion, faith, God? It is my thesis here that, after all the unnecessary misunderstandings, this is the one point where, indeed, controversy was probably inevitable. The ordoliberals make much noise about the traces of stoic thought in Smith’s system. They never address his criticism of the church of England in his WN, and they do not even seem to take note of his reflections on religion as such, in both his works. But they deride his deism, be it stoic or protestant; they reject his theory as metaphysics;<sup>100</sup> they protest against what they perceive as the “stiff machinery” of the pagan natural laws which they see as a necessary consequence of the stoic philosophical tradition in which Smith’s system is anchored. Nowhere do they spend much time on stoicism as an important moral system, nowhere do they have an in-depth look at Smith’s complicated relationship with and treatment of stoicism. At the same time, the ordoliberals insist that “man shall not live on bread alone”, and they deplore the lack of Christian morality not only in Smith’s system, but in the bulk of the Enlightenment literature.<sup>101</sup> According to them, a philosophical system that doesn’t

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<sup>98</sup> There is a vast literature on Smith’s egalitarianism; let me only quote Fleischacker 2004 and 2006, Buchanan 2004, Brahm 2006, as well as Peart and Levy 2008. My own assessment is that Smith’s egalitarianism is indeed analytical with normative underpinnings, see Horn 2017b. These two dimensions are intertwined.

<sup>99</sup> Ronge (2015, p. 346) even calls WN “a work in defense of the state” and analyzes the parallels with Michel Foucault’s liberal governmentality – which is interesting precisely in our present context, as Foucault picked up on ordoliberalism. On government in Smith, see also Young 2005.

<sup>100</sup> See Bonefeld 2013, p. 7.

<sup>101</sup> It is interesting to see that Hayek arrives at a more refined perception of the different trends within the Enlightenment, grasping the “antirationalist reaction” of the Scots against cartesian rationalism. He also arrives at a better understanding of the Smithian system as such. Hayek’s own theory of the spontaneous order is inspired by the Scottish Enlightenment philosophers, to whom he pays tribute. See Hayek 1967/2003.

provide room for the interaction of the individual with God, a core human need, must break down – but the sort of Deity that Smith seems to refer to in his works isn't to their taste.

This may raise several questions: Does Smith believe in God? What role is there for God in his system? Does the answer to this question matter? And if it does, would his system allow for incorporating God in a way that could, perhaps, have satisfied the ordoliberalists? And just how coherent is their own point of view? Again, much has been written on the question of Smith's beliefs.<sup>102</sup> There seem to be some shifts during his lifetime. Raised as a member of the Scots Presbyterian Church of Scotland, a process of disillusionment with Christianity and the clergy sets in quite early (as can be seen in WN V.i.g); Smith's letter to William Strahan upon David Hume's death may corroborate this, creating some turmoil due to his concluding remark that he had "upon the whole, [...] always considered him, both in his lifetime and since his death, as approaching as nearly to the idea of a perfectly wise and virtuous man, as perhaps the nature of human frailty will permit."<sup>103</sup> This sounded just too stoic, and it was provocative in its reference to a defunct whose atheism was a well and widely known fact.

But Smith generally went through great pains not to make any of his leanings too obvious. One reason for this may be, at least in part, that taking his distances from the church might have cost him his career and, perhaps, his mother's love. More intellectually relevant, however, is an understanding according to which he didn't want his system to depend on this. Many times does Smith pay tribute to God, to the Master of the Universe, to Jupiter, to Providence even – but none of this seems to be really of much importance. If Smith presents himself as a deist in the eyes of the ordoliberalists and other readers, this impression may well be the result of a deliberate strategy, related to the assumptions that he makes in order to zoom in on the object of his analysis. Where modern economists "control" for all kinds of influences in a context that they seek to analyze, Smith also "controls" for all kinds of things – differences in talent, for example, by assuming natural equality,<sup>104</sup> or: God. He is interested in the secular processes that unfold, and he therefore abstracts from everything else. His deism, true or false, real or imagined, can be understood as first and foremost a heuristic tool.

From such a point of view, it is an irony of fate and history that after all the efforts Smith undertakes to get God out of his intellectual system and to boil down the analysis to intended and unintended consequences of human action, it is him, Smith, who gets accused of (having the wrong) religion. At the end of the day, however, nobody really knows whether Smith was a believer. And it doesn't matter – because it really shouldn't, analytically.

Would this be a position that the ordoliberalists could go along with? Hardly so, and that is precisely the(ir) problem. Eucken, Rüstow and Röpke are deeply committed protestant Christians, the latter two casting languishing eyes on Catholicism, and their religiously underpinned normative standpoint is constitutive for their approach. In a letter to his friend Rüstow, Eucken writes that he wouldn't be able to live or work if it wasn't for his faith, for

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<sup>102</sup> See e.g. Clarke 2000, Long 2009, Hanley 2016, Rasmussen 2017, p. 16, and Conlin 2017, p. 30.

<sup>103</sup> Available here: <http://delong.typepad.com/sdj/2013/10/adam-smith-on-the-death-of-david-hume-wednesday-hoisted-from-other-peoples-archives-weblogging.html>

<sup>104</sup> This is a technical and at the same time moral assumption, see Horn 2017b.

knowing about the existence of God (Lenel 1991, p. 12). Röpke's references to God are too numerous to quote. Is it possible that such a strong allegiance blinds them to the core Smith's work? Is it possible that they stumble and fall over what they perceive as Smith's paganism, not far from David Hume's irksome atheism? I prefer not to indulge in any musings: it just shouldn't matter.<sup>105</sup> It is interesting, however, to ask what, in the ordoliberal's view, hinges on this question. What do they think would be lost in a philosophical system that neglects to consider the role of a revealed and intervening God? What changes if religious tenets aren't explicitly taken into account? From what they write it is quite obvious that at least one aspect bothers them deeply. This aspect is, should one choose to call it thus, "value relativism". Pars pro toto, Eucken (1952, pp. 343) vigorously condemns any kind of relativism.

However, the ordoliberal's notion of relativism is again a surprisingly superficial one. They seem to view it merely as a temptation to relax one's moral standards, not noticing the universal behind the conventional.<sup>106</sup> This prejudice may have been deepened by a superficial nexus that they create between stoicism and providentialism or an indifference that, to them, may resonate with relativism.<sup>107</sup> It is indeed true that in Smith's system, values evolve in a process of interaction between human beings. That is precisely what he wants to find out: How does this process work? What is actually happening when people make their moral judgments? In his system, morality doesn't come directly from Heaven; it is the result of human action; a relative thing that emerges and adapts to people and circumstances. Morality has to do with common sense; it is the result of one large social conversation. Such theorizing runs counter to the ordoliberal's intuition: for them, the tenets of morality come down to us directly from God; they do not fulfill any social function, but must be followed for the sake of themselves. In short – Smith's morality is relative, theirs is absolute. Given this absoluteness, there is no way the ordoliberals can smugly fit their thinking into Smith's system.

Technically, it would quite easily allow for the consideration of a more important role of God, especially given that Smith himself explains religious belief as being rooted in human nature (TMS III.ii.33). As Smith's system is based on the adaptation of behavior in a context of feedbacks in interaction, one could expand this model so as to incorporate interaction between the individual and God (Horn 2011). All that would be needed is one additional dimension of "spectation" and interaction. But in such a setting, there would hardly be room for absolutes.

One odd thing about this core conflict is that both Smith and the ordoliberals argue from nature, but this similarity doesn't help. Smith's notion of nature is empirical, or ontological; his laws of nature are derived through observation; nature isn't per se good. The inspiration that he gets from ancient Greek natural law theories may be normative to some extent, but it arguably plays an even greater analytical role. This influence can of course be felt in the

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<sup>105</sup> As Lisa Herzog (2013, p. 24) puts it: "For the 'scientific' exploration of the causal laws that govern the world, the hypothesis of God's existence plays no direct role – once God has put the system in place, it works on its own principles." In spite of this insight, she falls into the same trap as the ordoliberals, suggesting that if there is indeed a deistic framework – which she thinks there is – then normativity necessarily creeps in, and not only into Smith's moral theory, but also into his social order (ibid.).

<sup>106</sup> On this see Levy 2004, ch. 10.

<sup>107</sup> On Smith's reference to Stoic indifference as time- and context-relatedness, see Levy and Peart 2008, p. 69.

layout of his system, in the questions that he asks and in the various concepts that he uses. But he doesn't travel back to antiquity alone, he also refers to the philosophical turns initiated by Locke, Pufendorf and Shaftesbury, for example, and tries to find some middle ground, to build bridges.<sup>108</sup> One of those bridges would consist of a purely consequentialist reading of his theory; as an intelligent scientific strategist, Smith allows for that. The ordoliberalists however, firmly grounded in Christian natural law, aren't ready to cross that bridge.<sup>109</sup>

Smith is aware that value relativism wouldn't be easy to swallow for some people; he had ample opportunity to observe the debate – and political risks attached to it – with his teacher Francis Hutcheson and his friend David Hume about the “moral sense” and in how far it was given to man or directed by God. It was easy to get sued for blasphemy; Hutcheson almost lost his chair and Hume never even got one. Smith hedges against such risks. But there isn't just tactics involved. Intellectually, from the set-up of his system, it is clear that he strives to surpass Hutcheson and Hume: He wants to explain where moral judgments come from, how they evolve, how they form in every human's mind. The “blasphemous” moment is, as with Hutcheson and Hume, that Smith supposes that morality doesn't depend alone on God's design, but that man has a role to play as well, without even knowing it, and that, to further complicate matters, man evolves with others in society, on the basis of human action within community. That he envisages and theorizes on this complex process is Smith's great leap forward, obviously too bold for some. This is what a sour remark by Rüstow's (1945/1950/2001, p. 93) indeed reveals, even though he acknowledges that Smith's image of man is in fact much more complex than just plain self-interest. He writes: “In the course of generalized secularization, only conscience and custom have remained as guarantors [of morality], and the ongoing process of dissolution didn't stop at this intermediary stage.”

## IV Conclusions

As the scrutiny of their major writings has shown, the German ordoliberalists – as exemplified by the key figures Walter Eucken, Alexander Rüstow and Wilhelm Röpke – have their difficulties with Smith, even though, at hindsight, they have much in common with him, both in terms of the scope of their analysis and of their political agendas. Quite to the point, most historians of ideas consider Smith to be the logical forerunner of the ordoliberalists, given their respective approaches in which the ethical and the economical are inseparably intertwined; given their preference for coordination via the price mechanism in a competitive order; given that monopoly and group interest are considered influences inimical to the common interest; given their insights that the market order needs the help of good politics; given finally that good politics means for them a well-designed institutional framework based upon impartiality and procedural justice (“Ordnungspolitik”) and not so much the active, end-oriented state

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<sup>108</sup> Hasbach (1890, pp. 87-88), Rüstow's main source for understanding Smith, qualifies Smith's reference to the notion of nature as an “abuse” and his natural law as “a mountain landscape in the fog”.

<sup>109</sup> The disputes engendered this way are probably the reason why Hayek always avoided any kind of natural law reasoning. He argues in consequentialist terms. In this, i.a., he is closer to Smith than the ordoliberalists.

intervention into a process of free coordination (“Prozesspolitik”).<sup>110</sup> Nevertheless, and with minor nuances, the ordoliberals view Smith essentially as a laissez-faire proponent with a bad narrow economic focus and, perhaps even worse, as a paganism-infected deist who believes in natural harmony and therefore denies or at massively underestimates the need for good constitutional rules and for an active role of government. This perception is ill-informed.

How could that happen? There were – at least – three fallacies at work. The ordoliberals (1) infer backward from present and past historical reality as they perceive it, to the meaning and implications of an abstract theoretical system. They (2) let a religious position invalidate the rest of a theory, and (3) they adopt an angry, picky “chercher la petite bête” approach to the history of ideas instead of checking whether it is possible to fit into a specific system those elements that they consider important and necessary, without its breaking down. In the history of economic thought, the spirit of invalidation is not a very fruitful attitude to begin with.

But this pushes the question only further upstream. How could these three fallacies come about in the first place? Simple explanations are easy at hand, such as that the ordoliberals might have been engulfed by the pessimism after World War I, shattered by the negative perception of the Versailles Treaty and the apparent dysfunctionality of the Weimar Republic. All of this is true, but a little too unspecific. Another explanation is that it was the sheer lack of books, or access to books,<sup>111</sup> that induced them into error, since it appears as though only a somewhat closer look at the primary sources would have been able to soften their stance, to weaken their wrath. Maybe they haven’t really read Smith; maybe they only know him from secondary material, such as Hasbach’s study. From the sources that I have assessed, such an explanation would not in fact seem entirely implausible. But while such scarcity of an adequate scholarly environment and access to book certainly made work difficult for them, they would have had the time to qualify their views later if they so wished, and didn’t.<sup>112</sup>

A perhaps somewhat more convincing possibility is that they simply didn’t care so much; that they were at heart more policy-oriented. It could well be that they didn’t take the time to analyze Smith’s work very closely because they felt they had more urgent tasks in designing a future economic order based on a good ethical foundation. Smith’s work, collapsed with “the classics”, serves them as a departure point, as the enemy against whom to develop their own vision. The invisible hand, natural harmony, deism, laissez-faire – in the criticism by the ordoliberals, all these incriminated notions say more about them than about the Smithian system. In that sense, their criticisms, and misconceptions, can be viewed as self-serving. They helped to open up a rhetorical space for defining and distinguishing the ordoliberal program. It doesn’t really matter to the ordoliberals whether Smith thought, believed, wrote and recommended what they impute to him. Despite the appearance, it is neither Smith nor his theory specifically at which they really aim. They vociferate against a political philosophy and at an economic system that, according to some such ideology, is light-heartedly supposed

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<sup>110</sup> See e.g. Ulrich 1997/2008, p. 370, Recktenwald 1974/2005, pp. LXII/LXXV and 1985, pp. 383-84 and 395-6, as well as Klump and Wörsdörfer 2010.

<sup>111</sup> See, e.g., Maier-Rigaud and Maier-Rigaud 2001, p. 17.

<sup>112</sup> To the exception of Eucken, who didn’t have much time. He passed away prematurely in 1950.

to do without carefully designed constitutional rules and good government, without wise laws protecting and preventing economic competition from abolishing itself.

Smith would agree? Well, they couldn't care less, one might say. They weren't historians of ideas. To the extent that they did feel obliged to look into the history of ideas and take it seriously, as e.g. Rüstow, his own narrative turned out to be stronger than the obligation toward a long defunct and much misunderstood scholar like Smith. Doing justice to the Scot's life-long endeavours wasn't their chief concern. They had a different goal and a different point of departure. Their intention was not so much, as it was for the moral philosopher Smith, to conceive of a universal social theory. They wanted to develop a political program. They needed an analysis that would improve liberalism as a political doctrine that could be used as soon as possible. The analysis needed to be well-informed and serious, and the doctrine needed an ethical basis. But given the circumstances, they were impatient.

Beyond the political implications, the ordoliberal's criticisms of Smith also reveal just how torn they were academically, standing, as they were, at the deathbed of historicism. They all were formed by the Historical School and now felt the urge to break away from it, to theorize properly instead of getting lost in individual historical situations. And at the same time, they knew that it is individual historical situations that theory must be able to explain. While they did not carry on in the misguided tradition of the Historical School which held and spread the idea that there was an "Adam Smith problem" as such, they remained very much the children of that same school in the way they stumbled over Smith's systemic premises and modality. They did not hold that Smith changed his mind, as the historicists did, but they did believe and argue that his entire work was corrupted by his "leanings" toward pagan stoic deism.

Their relationship to natural law and the Enlightenment is equally torn. They argue from natural law, but not from Smith's Greek-inspired approach to it. They do argue from the Enlightenment, but from Kant, not Smith. It is known, however, that Kant appreciated Smith, and Oncken (1877) has worked out how their positions coincide. For example, their attitudes on the prevention of power as well as their definitions of liberty, look very much alike – Kant stresses the ideas of human dignity, each person being an end in itself, of autonomy, of self-legislation and of self-determination, acknowledging that the exercise of one's freedom is limited by the freedom of others; Smith writes that "every man, as long as he does not violate the laws of justice, is perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men" (WN IV.ix.51). But the analogies don't seem to suffice for soothing the ordoliberal's anger.<sup>113</sup>

In the end, it seems to be religious prejudice that really stands in the way of the ordoliberal's better appreciation of Smith. Otherwise they could have considered themselves his heirs, bringing to fruition what he had originally laid out. Refinements and updates don't make older theories obsolete. By not bearing this in mind, however, by instead perpetuating prejudice, the ordoliberals have contributed to the unfortunate fate of "the frequently misunderstood Adam Smith", as Röpke himself writes (1942a/1950, p. 71). Alas, their academic legacy still does.

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<sup>113</sup> See e.g. Klump and Wörsdörfer 2010, p. 29.

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