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Neoliberalism, Strong State and Democracy

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Abstract

The study serves to clarify the term "neoliberalism", which is unclearly defined in academic literature, politics, and everyday life. Its thesis is that neoliberalism is predominantly characterised by its state and constitutional agenda, the basis of which is a theory of the market that departs from classical and neoclassical theory. Methodologically, the study is based on the relationships between economic and political theory. It concludes that, from a neoliberal perspective, state and quasi-state institutions independent of societal interests can best ensure the efficiency and stability of the capitalist system globally, regionally and nationally as "well-meaning dictators".

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1. Introduction

The aim of this study is to examine the understanding of the state and democracy in neoliberal ideology, a topic I believe has been underestimated so far. The reason is two ambiguities in the use of the term neoliberal. In academic literature. The term is understood to mean a policy of the state or international organisations that is supposed to implement market fundamentalism. But even the term ‘market fundamentalism’ is imprecise and possibly misleadingly used if equated with classical and neoclassical theory. As far as the understanding of the state is concerned, it is often thought of as a *minimal state* that is held to deregulation, privatisation, and restriction of government (for example Ostry et al., 2016). However, the combination of neoclassical market fundamentalism and minimal state does not establish a decisive difference from classical or even *laissez-faire* liberalism and the prefix "neo" would be unnecessary.

I will argue in this study as follows:*First*, neoliberalism emerged through its critique of neoclassical economics and has developed its own theory of the market. Crouch (2011) has provided significant evidence for this. *Second*, neoliberalism is

characterised by *non-minimal* state and quasi-state rule penetrating almost all subsystems of society, including the economy. Recent literature, be it handbooks and readers (Saad-Filho and Johnston, 2005; Springer et al., 2016; Cahill et al., 2018) or monographs (Slobodian, 2018; Biebricher, 2021; Crouch 2011), points in this direction. An example is the so-called Washington Consensus. Its 'ten commandments', which Williamson (2004) crystallised from the policy recommendations of Washington-based international organisations (IMF, World Bank), private think tanks and the U.S. Treasury for Latin American crisis countries, go far beyond the concept of the minimal state. Another example is the concept of *public-private partnerships*, which aims at close cooperation between the private sector and the state. And finally, the programme of *New Public Management* should be mentioned, which subjects the actions of state institutions, including universities and the health sector, to the principles of big business management. Privatisation of state services is then no longer necessary. And *third*, I argue methodologically that the key to understanding neoliberalism lies in the interconnectedness of economic and political theory. The typical neoliberal theory of the market opens the way to the typical neoliberal view of the state and democracy, which I will further specify as 'authoritarian liberalism' and the 'depoliticisation of politics respectively.

The study is structured as follows: In the *second* section, I trace how neoliberalism emerged from the demarcation from neoclassic economics and led to the programme based on a 'strong state' and constitutional law to safeguard free trade, freedom of contract and the protection of private property. The next two sections provide a discussion of what neoliberals understand by a 'strong state' and how this understanding relates to democratic forms of government. *The third* section describes the concept of 'authoritarian liberalism', for which the German legal theorist Carl Schmitt made important contributions to the neoliberal understanding of a 'strong state'. This concept is confronted in the *fourth* section with Friedrich A. von Hayek's dictum of a 'dethronement of politics' - as a modern version of the neoliberal understanding of the state independent of societal interests. This concept is discussed in the *fifth* section on the basis of an interstate federation with a brief look at the European Union (EU). The *sixth* section deals with J. M. Keynes' alternative understanding of the state and democracy. Section *seven* concludes with my definition of neoliberalism and observations on the renaissance of authoritarian liberalism in the present.

2. Departure from Neoclassic Economics

The first step on the way to a market theory of its own becomes visible with a brief look at the origins of neoliberalism: Contrary to a widespread impression, neoliberalism is by no means an American or English, but Austrian "invention", or more precisely, of the Austrian school of economics, and even more precisely: of its third generation. The first and second generations were shaped by Carl Menger's marginalist revolution, which, together with the work of Léon Walras and William S. Jevons, founded neoclassical economics (Neck 2014), in which the artificial figure of the utility-maximising *homo economicus* made it possible to mathematically determine stable equilibria between supply and demand. The third generation had gathered in various private seminars in Vienna during the interwar period (1918-1939), i.e., after the collapse of the Habsburg Empire and classical liberalism, among which Ludwig von Mise's was the most important, because virtually all the young post-war economists took part there - including Friedrich A. von Hayek, Gottfried Haberler,

Fritz Machlup, Lionel Robbins and Frank H. Knight (Klausinger, 2019). What they all had in common was to defend the economic liberal freedoms of classical liberalism after its collapse in the First World War - free trade, freedom of contract and the free disposal of the means of production - against the emerging labour movement and socialism in Europe but under changed conditions, which prominently included a different role for the state.

Paradoxically, the defensiveness of the young generation of the Austrian School against socialism led to a critique of the then-dominant neoclassical economic theory. This debate is known as the "economic calculation debate" in the 1920s and 1930s, with von Mises and Hayek on one side and Oskar Lange and Abba P. Lerner as "Walrasian socialists" on the other. The question was whether efficient market equilibria with full employment were possible in a socialist economy just as in a capitalist competitive economy, which Lange and Lerner claimed, but von Mises and Hayek denied. The impression prevails that the former could successfully prove their claim by replacing the auctioneer in Walras with the state. However, it should not be overlooked that this supposedly lost controversy helped the early neoliberals to sharpen their own position, thus initiating the division between neoclassical theory and neoliberalism (Madra and Adaman 2018: 116). The argument that Hayek, Röpke and others subsequently put forward, and which was no longer primarily addressed to socialists, was that the economy was unfathomable and could not be discerned even with formalised models. The state could only set the framework conditions (the 'economic order') for efficiency, full employment, and the solution to the social question. The efforts of Lange and Lerner appeared factually irrelevant. The framework to be created no longer excluded regulated state intervention, for example in competition or social policy, as was still the case in classical liberalism. It was no longer a matter of "dis-embedding" the private economy out of society and a minimal state, as Karl Polanyi (2001 [1944]) still saw it for classical liberalism, but of 'encapsulating' it (Slobodian 2018) in suitable institutions created and controlled by the state. The search for these institutions became the dominant theme of the various neoliberal schools of thought, behind which the mathematical determination of equilibria takes a back seat (Hayek 1945: 530):

> *'Any approach, such as that of much of mathematical economics with its simultaneous equations, which in effect starts from the assumption that people's **knowledge** corresponds with the objective facts of the situation, systematically leaves out what is our main task to explain.'.*

The central idea from the early days of neoliberalism, according to which one cannot do economics like physics (Hayek 1945), was emphasised once again by Hayek in his Nobel Prize speech in 1974 (Hayek 1974; my accentuation):

> *'Unlike the position that exists in the physical sciences, in economics and other disciplines that deal with essentially complex phenomena, the aspects of the events to be accounted for about which we can get quantitative data are necessarily limited and may not include the important ones. While in the physical sciences it is generally assumed, probably with good reason, that any important factor which determines the observed events will itself be directly observable and measurable, in the study of such complex phenomena as the market, which depend on the actions of many individuals, all the circumstances which will determine the outcome of a process, for reasons which … will hardly ever be fully known or measurable.'*

It is hard *not* to see that Hayek and the neoliberals are closer on this point to what John M. Keynes and Frank H. Knight introduced into economic theory in seminal works in the face of a world of infinite contingencies as fundamental uncertainty distinct from measurable risk (likewise Skidelsky 2010: 159). Indeed, it is striking that the trained mathematician Keynes did not formalise his models in his works, especially his opus magnum, the General Theory (GT). He criticised Tinbergen's beginnings of econometrically underpinned forecasting of business cycles with arguments very similar to those of Hayek in the second quote above, for example when he writes (Keynes 1939a: 560)

> *'Am I right in thinking that the method of multiple correlation analysis essentially depends on the economist having furnished, not merely a list of the significant causes, which is correct so far as it goes, but a complete list? For example, suppose three factors are taken into account, it is not enough that these should be in fact verae causae; there must be no other significant factor. If there is a further factor, not taken account of, then the method is not able to discover the relative quantitative importance of the first three. If so, this means that the method is only applicable where the economist is able to provide beforehand a correct and indubitably complete analysis of the significant factors.'*

A milestone in the formation of neoliberalism was the Lippmann Colloquium in 1937, which brought together several later leading neoliberals in Paris and is reported on in a book edited by Audier and Reinhoudt (2019). Both the minutes of the participants' contributions and their interpretation by the editors of the book and the preface by Louis Rougier, one of the participants, show that the discussion was not about economic theory, but about the failure of the liberal state and its recasting. According to the participants, classical liberalism had failed because of its 'weak state', which had become the prey of social interests (mainly the labour movement and industrial associations), leading to growing public debt, market intervention and protectionism. The conceptual renewal of liberalism, therefore, had to begin with the role of the state.

The Lippmann Colloquium morphed into the Mont-Pèlerin Society, the neoliberal network founded by Hayek and others in Switzerland in 1947 and still the most influential (for a history of the Society, see Butler, 2022). After the Second World War, neoliberalism fanned out into various schools, among which - in addition to the German Freiburg school of ordoliberalism (Walter Eucken, Alexander Rüstow, Wilhelm Röpke) - American schools that have shaped the modern face of neoliberalism: New Political Economy (NPE) and Public Choice Theory (James M. Buchanan, Gordon Tullock), New Institutional Economics (Ronald Coase, Douglas C. North) and the Chicago School of Economics (Frank Knight, Milton Friedman, and George Stigler). The impulse of broadening was facilitated by the emigration of leading neoliberals after Hitler's seizure of power in Germany in 1933 and the occupation of Austria in 1938, mostly to the United States, Great Britain and Switzerland (Neck, 2014). Now, the political influence of neoliberalism was directed at the US Congress, the GATT Secretariat, and later at the World Trade Organisation (WTO), the International Monetary Fund (IMF) and the World Bank.

Homo economicus plays no or at best a secondary role in the neoliberal schoolsBut not all these schools dispense with detailed mathematical proofs of their models like the early neoliberals. Examples are the institutional design school (which

emerged from NPE) and the Chicago School. The latter is closely related to a recasting of the understanding of the market as an institution. In neoliberalism, perfect competition of many firms is no longer an indispensable precondition for the efficient market process as it is still seen in neoclassical theory. The market is judged in terms of its results. This establishes a link with Hayek's famous concept of the ‘competition as a discovery procedure’ or the ‘process’ mentioned in the quotation above. He claimed that ‘Nothing more could be discovered in markets' equilibrium states’ (Hayek 2000 [1969]). Behind competition as a discovery procedure is the conception, more realistic than perfect competition, of markets that are characterised by constant changes on the supply and demand side, but especially by the tendency towards large firms because small firms are constantly eliminated in the competition. The impetus for this paradigm shift from the neoclassical to the neoliberal understanding of markets was the theory of the firm developed by Ronald Coase (1937), which is seen as an organisation that enters long-term contracts and can act strategically: it is able to influence the development of its markets to reduce uncertainty and transaction costs arising from imperfect competition, imperfect contracts, and moral hazard. The equilibrium models formulated and tested by the Chicago School showed that sufficient competition is possible with only three suppliers, so that up to this point intervention by competition policy should be considered unnecessary. The economists and legal theorists in Chicago replaced the notion of maximum consumer choice in the neoclassical model with the notion of 'welfare' (Crouch 2011): If fewer but more efficient firms increase welfare, then the consumer also has a greater choice. To put it another way: Neoliberal market fundamentalism differs from neoclassical fundamentalism in its acceptance of mergers and acquisitions, thus serving the profit interests of ‘big money’ that exploit the idea of a unified global economic order (Wren-Lewis 2017).

Given the secondary role played by traditional economic questions of supply and demand, recent works (Crouch, 2011; Slobodian, 2018; Biebricher, 2021; Audier and Reinhoudt, 2019) suggest that neoliberalism should be understood as a global political programme in response to economic crises allegedly caused by social and nationalist movements. This evolving political agenda of neoliberalism, while constantly changing over time, has always revolved around a core salvation narrative: Only an interdependent world economy with a universally applicable set of rules can secure peace and prosperity or *ordoglobalism* (Slobodian, 2018). This programme applied in the interwar period, when leading neoliberals sought to attempt a reconstruction of the world economy with the gold standard, but even more so after the Second World War, when decolonisation led to a renewed fragmentation of the global economy; the ‘old’ adversary - the labour movement and its unions and socialism - got a new bedfellow: nationalist movements in the new nations, while market domination by transnational corporations became a non-issue. Neoliberals saw the need for globally uniform rules on trade, freedom of contract and foreign direct investment. Political and social rules should adapt and converge in each country. The resistance of neoliberals after the Second World War was always directed against a world economic order that allowed exceptions, for example, for capital movements or trade controls for less developed countries. An example of neoliberal globalisation efforts are bilateral investment protection agreements, in which international direct investments are to be removed from national jurisdiction, given special protection and, in the event of a dispute, subject to independent judicial bodies.

3. Authoritarian Liberalism. Carl Schmitt’s Contributions

Three lectures, the first delivered in July 1929 by Alexander Rüstow, the other two by Rüstow and Carl Schmitt almost immediately after each other in 1932, i.e., in the early developmental phase of neoliberalism and the height of the Great Depression, throw illuminating light on the role of authoritarian liberalism, which has survived in various manifestations to the present day. In 1929, Rüstow dealt at length with the position of a 'leader' whose coming he absolutely advocated as many other liberal intellectuals, albeit in close association with the 'masses' (Rüstow, 1959 [1929]). In September 1932, in his lecture devoted to the conceptual renewal of liberalism, Rüstow called, as in 1929, for a strong state as distinct from classical liberalism. A strong state, he said, was independent and sovereign and had to stand 'above' the interests of society (Rüstow, 1932). Just over a month later in November 1932, the conservative legal theorist Carl Schmitt gave a lecture to the then most important German industrialists' association, the *Langnamverein*, with the telling title 'Healthy Economy and Strong State' (Schmitt, 1932). Unlike Rüstow, Schmitt cannot be safely described as a neoliberal, but this lecture and his previous work (e.g., his political theology of 1922 (Schmitt, 1922 [1996]) are in line with this lecture and influenced the early neoliberals' understanding of the state and democracy.

The coincidence of the two lectures was probably not coincidental (the authors knew each other), because since 1930, with the accession to power of the German Chancellor Brüning, that authoritarian state had prevailed which in Germany resorted to the emergency decrees by the Reich President made possible by the Constitution. Schmitt welcomed this authoritarian turn in further publications and described the constitutional role of the Reich President as a legal 'temporary dictator'. (Rüstow favoured the Reich Chancellor as a potential leader, to be overthrown only by a constructive vote of no confidence.)

Schmitt's contribution to the emerging neoliberalism can be viewed from two theoretical perspectives: One concerns the analytical separation of liberalism and democracy, and the other the opposition of the private to the public. The starting point for the separation of liberalism and democracy in Schmitt's thought is the conviction that the state, and not the electorate, is to be considered the sovereign (Habermas, 2019: 42-46). The state appears as separate from society, opposed to it as the heir to a right of its own that has historically arisen through the - divinely legitimised - monarchy. This state, if it wanted to be sovereign, had to be strong to be able to act politically independently of society. Schmitt's famous phrase appears here, according to which only the state that rules over the state of exception is sovereign. Similarly, Rüstow argued that the state had become the prey of social interests in 19th-century liberalism, and that its capitulation to the participatory interests of labour had been responsible for the collapse of liberalism, and subsequently also for the collapse of international economic relations and the gold standard.

Schmitt argued in his lecture that the strong state should not intervene in any way in matters that genuinely belong to civil society. His conservatism was combined with the economic liberal view of leaving civil society largely free from state regulation and subjecting it to the spontaneous market mechanism. His affirmation of the duality of the strong and thus politically sovereign state and free economy summed up the goals he had defined earlier through his theory of the state and the constitution.[2] Liberalism and democracy are principles that cannot be placed on an equal footing constitutionally. If this nevertheless happened, as in the Weimar Constitution, it was the cause of a weak state, because political liberalism 'arms' society with instruments (parties, parliaments, majority voting), which would lead to chaos and violence when the

majority represented by the parties tried to enforce their specific interests. In contrast, Schmitt saw no contradiction between liberalism and autocracy. He, therefore, argued for a limitation of political liberalism, which is mainly constituted in parliamentary institutions of electoral democracy and parties. However, he did not reject certain forms of popular participation such as plebiscites and referendums, which prompted Habermas (1986: 1054) to call it 'Führerdemokratie' because the 'Führer' Adolf Hitler also let the people vote from time to time, as did Mussolini in Italy, by the way. Christi (1998: 17) becomes even more metaphorical: 'Schmitt was now able to aim his attack at the democratic populace, which he would attempt to disarm by means of a democratically elected sheriff.' A concept of authoritarian liberalism appears to stabilise free markets and individual property rights, first in those exceptional situations where the appropriation of the state by mass democracy and its parties threatens this stability, and in his later writings as a permanent *Führerstaat*.

Schmitt's conservatism, however, reveals itself from a second perspective, the opposition of the private to the public. Like many of his time and thereafter, he drew a timeline from the Greek polis, where the private – the house economics (*oikonomia*)- was separated from the agora as the public space par excellence, through the Roman Republic to modern times. Both the Greek city republics and the Roman Republic also knew the person of the temporary dictator. In modernity, the private economy has long since left the narrow corset of a domestic economy with women, slaves, and animals and, as a society based on the division of labour, has become a quasi-public space that has necessarily become the object of political action as understood by Hannah Arendt (1958 [1998]).

Until Hitler seized power at the end of January 1933, Schmitt had defined what was meant by a strong state from a constitutional point of view and in his critique of the Weimar 'party state': a state that is independent of social interests, i.e. an autonomous counterpart to society, and which, because of this independence, is strong enough to act in a transitional dictatorial manner, limited to public affairs, i.e. not interfering in private economic ones. But what is also important about Hayek's distance from Schmitt is that while the former saw the apolitical state as strong, the latter explicitly understood the strong state as a political state, because the democratic state leads to a neutralisation of the political (Schmitt 1996: 82 [1922]).

Schmitt's change of sides after the National Socialists came to power, replacing temporary dictatorship with permanent dictatorship, later led Hayek to describe Schmitt as Adolf Hitler's 'crown lawyer' (Hayek (1967: 169). Hayek himself did not see the strong state as a primary theme in his reflections on constitutional law. He was primarily concerned with positioning the constitutional state as the protection of individual economic rights from the state. In contrast, Schmitt - until Hitler came to power - showed interest in the rule of law only on the condition that the sovereignty of state action was not impaired. As we shall see, Hayek's strong state is founded differently.

4. "Dethronement of Politics". Hayek's Contributions

Despite this considerable difference from Schmitt on questions of the rule of law, Hayek adopted the central ideas of Schmitt. These include the analytical separation of liberalism and democracy and the concept of an authoritarian liberalism that includes a 'liberal' transitional dictatorship, with which Schmitt initially combined the authoritarian state with

a free economy, but which was also a theme of Rüstow (1959 [1929]). This led Christi (1998: 22) to conclude 'In truth, Hayek owed much to Schmitt, more than he cared to recognise.' Thus, out of the neoliberal backdrop beckons the figure of thought of the well-meaning and temporary dictator that Schmitt and some other neoliberals may have originally thought Hitler to be. [3] Hayek's remark on the occasion of his visit to the Chilean dictator Pinochet on 12 April 1981 in Santiago de Chile points in the same direction: he prefers a liberal dictator to a democratic government that lacks liberalism, [4] whereby the term 'liberalism' could only mean those economic freedoms of the owners of capital that were restored after the coup in Chile under the influence of the so-called Chicago Boys, Chilean economists who have studied in Chicago. The Pinochet dictatorship also proved to be quite long-lived; it only ended in 1989.

Under the impression of the Nazi dictatorship, Hayek questioned Schmitt's concept of a politically strong state as a sufficient condition for securing free markets, without, however, ruling out a "transitional dictatorship" in principle (see above). In contrast, he saw something else as necessary, which is expressed in his well-known formulation of the 'dethronement of politics',[5] or 'depoliticisation through economisation' (Madra and Adaman 2018) respectively. This is at odds with Schmitt's understanding of 'order' as an authoritarian and exogenously created system, and which called for the sovereign state capable of political action. In contrast, Hayek's understanding is of spontaneous, endogenously self-creating order, which limits the power to control. The state that was not subject to social interests and thus apolitical became, in effect, Hayek's version of the strong state. After all, the main totalitarian powers, Germany and Italy, had just demonstrated the primacy of politics with catastrophic consequences and thus overstepped the boundaries of civil society, which Schmitt originally wanted to defend, among other things in the area of economic freedoms by adopting central administrative economic elements.[6] What Hayek and the neoliberals sought to roll back was the democratically legitimised expansion of public space into the private sphere, which Arendt (1998 [1958]) might have regarded as normative arbitrariness, because from her positivist point of view, the merging of private and public space via the progressive division of labour started from private space.

Hayek's dictum of the strong because apolitical state gained great influence on neoliberal thinking after the Second World War. In the 1960s and 1970s, neoliberals saw their model in the British Crown Colony of Hong Kong, which did not have majority democracy, but did have free pricing, competition, free movement of capital and the British rule of law. Democracy appeared in the understanding of neoliberalism as 'consumer democracy', i.e., voting with banknotes as ballots. Some neoliberals also repeatedly favoured a political vote weighted according to income and wealth where this appeared to be enforceable, for example in South Africa after the fall of apartheid and in Rhodesia. The British neoliberal William Hutt condemned the apartheid system in South Africa but considered it 'absolutely essential to renounce the principle of universal suffrage on a common roll and accept some form of weighted franchise' (Hutt, 1966: 48).

5. Interstate Federalism

Under the influence of Hayek, neoliberals were generally sceptical about the possibility of an apolitical government at the national level, so that at this point the restriction of the nation-state by international arrangements or an order became the focus of their further considerations. Hayek saw the cause of the decline of classical liberalism, unlike Keynes (1926) in

his philippic against laissez-faire liberalism, not in its social and economic devastations, but in the fact that liberal movements had allied themselves with the nationalist ones in order to seize the opportunity to implement a liberal economic programme at the national level, which had to entail protectionist interventions against other states and thus also political-military conflicts. Hayek found in 1939: 11): '... in the national state, the submission to the will of a majority will be facilitated by the myth of nationality...' In his book "The Road to Serfdom" (Hayek 1944), he argued that there was little hope for an international order or lasting peace as long as each country was free to use any means it saw fit in its own immediate interest.

Hayek, but also von Mises (1943 [1990]) and Robbins (1933)[7] had - quite in the spirit of (re) establishing a global liberal order - already sketched out ideas in the 1930s and 1940s for an interstate federation with which the nation-state was to be kept in check or perhaps even overcome. Robbins was convinced that only the transfer of sovereign rights - though not all - to an international state would be peacemaking and economically progressive. Inspired by the American Constitution and Alexander Hamilton, he demanded (Robbins 1933: 245):

> *'There must be neither alliance nor complete unification, but federation; neither confederation, nor unitary state, but federal state'.*

According to Hayek (1939, 1944), the international government would only have the competencies to enforce the rule of law at the level of nation-states to protect individual activity, to abolish interventions of nation-states in the market process and also not allow any for the supra-national level, as well as ensuring free trade and protecting the property rights of international investors. The resulting interdependent global order would ultimately be peace-making. Von Mises' thoughts went even further, considering a global customs union and currency necessary, and if this was not possible in the short term, then a federal union made up of a smaller group of states (Mises 1990: 160ff [1943]).

The collapse of the Bretton Woods system of fixed exchange rates with the gold-backed US dollar as an anchor currency and of restrictions on the international movement of capital opened up new perspectives for the neoliberals of a global order in their sense. The initiatives of the GATT Secretariat in Geneva, which was influenced by neoliberal ideas (especially Hayek's theories), played a prominent role in this. The priority was no longer just to expand free trade ever further, but to conclude global agreements on investment protection and to include intellectual property and (financial) services in property rights - in short, to create the world economy, which had already been favoured in the 1920s, according to uniform rules for trade, free price formation, financial markets and capital movements and the international legal order protecting them, which stands above national jurisdictions. The initiative to create an International Trade Organisation (ITO) between 1945 and 1948 (Havana Charter) by the USA and its allies and decisively influenced by Keynes as a further pillar of the Bretton Woods system with its exceptions for developing countries had failed in 1950 due to the resistance of the neoliberal-influenced US Congress. But in 1994, it succeeded in establishing the WTO, which was able to follow the neoliberal dictum of one jacket fits all. The politological concept of 'globalism' describes how, in international politics, the competence to solve international problems passes from nation-states to all globally acting actors, including national governments, internationally acting think tanks and multinational corporations - the World

Economic Forum brings them together every year in Davos. ‘Globalism’ reveals the veritable democratic deficit of neoliberal aspirations for uniform rules at the global level: the more remote the competence to solve problems is from the electorate of parliamentary ballot democracy, the more apolitical, i.e., technocratic, governance as opposed to government can become.

Hayek saw little chance of a quick realisation of the desired global order. The possibility of first attempting this with a smaller group of nations became, so to speak, Plan B. The extent to which the influence of neoliberal ideas on a global federation from the 1930s and 1940s were reflected in the practice of a regional federation of liberal democracies can be traced in the example of the European unification process. As a member of the German Union of European Federalists, Hayek promoted the unification process in his spirit via the considerable influence of this organisation on German politics in the 1950s. Hayek is likely to have regarded the 1957 Treaty of Rome as a successful project of his work and that of other neoliberals: a Commission that acts technocratically and oversees the enforcement of the Treaties, the principle of subsidiarity,[8] which imposes limits on attempts at "ever closer union" but not on enlargements of the Union, a single market, and the right of a member state to reclaim sovereignty at any time.

A particularly striking example of depoliticisation is the architecture of the monetary union. Unlike in the case of national central banks, the European Central Bank (ECB) is its own sovereign However, with an institution detached from governments and parliaments, national budgetary policies must be depoliticized equally, otherwise, these could undermine the objectives of the central bank’s policies. The depoliticisation of fiscal policy follows Hayek's dictum of long-term rule-binding in place of discretionary policy. Examples are the Stability and Growth Pact and its tightening after the global financial crisis and the euro debt crisis. In this decoupling of high-powered money from social control, Schmitt and Hayek meet: the ECB appears as a well-meaning dictator in European monetary policy. And democracy appears as a ‘market conform’ democracy.

On the other hand, this speaks against a neoliberal showcase project in its pure form. Plan B included democracies, and compromising is essential in democracies. Hence, the EU is a mixed system. As a regional integration community, it is fundamentally separable from the global economy, even if some sectors are excluded from it. The fact of being a regional integration group effectuated a split in the neoliberal movement: The constructivist wing around Hayek, Mises, and the German ordoliberals assumed the Treaties of Rome and the following ones could work as a gateway for imposing a purely neoliberal order inside the group of countries and separating it from the nationalism of new states after decolonisation (von Mises 1990 [1943: 160ff]). The fundamentalist wing (among others, Haberler, Röpke, and influential officers in the GATT-secretariat) was against the Treaties of Rome, because in their eyes they impeded the creation of a multi-level global governance order.[9]

The separation from the global economy entailed and entails further violations of neoliberal principles: structural and regional policies intervene in the market mechanisms of some sectors and their international competitive position through transfer payments (Common Agricultural Policy) and development support (Structural Funds). This is completely contrary to the basic neoliberal understanding of a free economy committed only to the signal system of free market prices. In an integration community with internal free trade, national and supranational investment promotion comes very close in its

effect on infant-industry duties à la Friedrich List. And rigidly maintaining the principle of subsidiarity is no longer realistic, as Europe-wide financial crises cannot be handled by the nation-state alone - as the establishment of extra-budgetary funds at the EU level shows.

6. The Keynesian Understanding of State and Democracy

Carl Schmitt's authoritarian liberalism had still been grounded in the combination of two conservative prejudices, according to which only the restriction of party democracy combined with restrictive social programmes and budget surpluses protected free enterprise. This had turned out to be a fundamental misjudgement. Authoritarian policies do not necessarily safeguard the capitalist system. It was not party democracy but the German emergency decree policy in the Great Depression, which Schmitt had so praised, that deepened the economic depression, weakened the state through violence and chaos, led to the handover of power to the National Socialists and ultimately to the total state, which step by step imposed the liberal economic constitution with elements of direct control. Authoritarian liberalism also appeared in Hayek's convictions, who distanced himself from Schmitt's ingratiation with Adolf Hitler, but not from the bloody dictatorship of Augusto Pinochet in Chile in the 1970s and 1980s. In contrast, Keynes concluded in his GT that in a monetary economy with fundamental uncertainty, no laissez-faire market system can ensure a stable level of aggregate demand that makes it profitable for firms to provide full employment, because economic agents hoard part of their available but necessary money stocks for full employment. Thus, in Keynesianism, a strong state is able to avoid major economic crises through expansionary fiscal and monetary policy measures, to stop the flight into promises of salvation and thus pacify the society. It is not certain that the authoritarian state pursues a better economic policy (the keywords here are corruption and nepotism). However, an active role of the state has been vehemently rejected by most neoliberal authors as proto-socialist, according to Hayek 2017 [1944] as a step on the 'road to serfdom', as it violates the principle of spontaneous order as a limit to exogenous control. Keynes, who was always committed to the liberal democracy, or, as I would call it, *democratic liberalism* of his home country, attempted 'to make the private property system *work* better.' (Keynes 1939b [2013: 493]), while preserving the functioning of democracy (Waligorski, 1994; Panico and Piccioni, 2016).

Neoliberal authors were always in disagreement with Keynes (Madra and Adaman, 2018; Guizzo 2019) and thereby developed new schools, primarily in the United States, among them NPE and Institutional Design. Buchanan and Wagner (1977: 23,89 and passim) accused Keynes of carelessness about budget deficits and thus of undermining democracy through permanent public debt. Politicians - a basic thesis of NPE - would always tend to spend more than they could take in in a democracy in their effort to win elections. The persistent tendency to create budget deficits and national debt through excessive spending would not occur under a government led by an independent elite committed only to the public interest, or alternatively through a deficit ban. Hayek's 'dethronement of politics' shines through in this argument.

Keynes was aware of the importance of experts in policymaking, but without adopting the neoliberal concept of depoliticisation. His attitude towards independent expert governments can be exemplified by the position of a central bank. In a critical review of monetary policy proposals by the English Labour Party (Keynes, 1932), he argued that the central bank should act independently in terms of personnel and administration because it has expert knowledge of which a

parliament would understand 'less than nothing'. He concluded (following quotations in Keynes, 1932: 131):

> *"The less direct the democratic control and the more remote the opportunities for parliamentary interference with banking policy the better it will be."*

But he had also accepted the Labour Party's proposal that

> *"The management of the Bank should be ultimately subject to the Government of the day and the higher appointments should require the approval of the Chancellor of the Exchequer."*

Personal, administrative, and executive independence, but not in objectives and priorities, provides the central bank's experts with a counterweight to an over-expansive fiscal policy, but at the same time forces them to cooperate with the government. This understanding underlay the largest central banks in the Western world until the late 1970s, when the concept of 'institutional design' entered the economic mainstream, proposing a new framework for choosing between alternative monetary goals. Rogoff's paper (Rogoff, 1985) introduced new elements in the discussion of the relations that a central bank must have with public institutions. He compared alternative models in which the model he favours has the highest monetary policy effectiveness in reducing the influence of 'dynamic inconsistency' in the behaviour of central bank managers and achieves the highest credibility in the financial sector. His analysis led to proposals of attributing to central banks forms of independence that were previously excluded, like that on goals and priorities (Panico and Piccioni, 2016:191). The institutional design concept has probably exerted great influence on the conceptualisation of the ECB's independence. It produced a kind of 'benevolent dictator in control of government policy' (Bibow 2010: 26), which responds to permanent budget deficits and ever-increasing public debt with lower interest rates and bond-buying programmes like in the euro debt crisis. The 'Whatever it Takes' speech of the ECB's then President Mario Draghi on 26 July 2012 was close to this role.

7. Summary and concluding remarks

The guiding principle of neoliberalism is not the *minimal state*, but the *minimal democracy* in economic, social, and administrative policy issues. A related term is the market-compliant democracy. In this neoliberalism differs politically from classical laissez-faire liberalism. The economic starting point is a theory of the market that differs from the classical and neoclassical theories. Companies are perceived as strategically acting organisations that influence the market outcome. This opens the way for transnational corporations to enter politics. By sheer size or presence in different states, they are able to subjugate the policy space of small and medium-sized states to their profit interests. As partners of governments and central banks of large states as well as of international organisations, they can participate in the enforcement of a global legal framework to ensure the efficiency and political stability of the capitalist system.

Thus, a political economy approach can be identified as neoliberal, which aims at transferring formerly sovereign functions

at the national level to independent expert bodies either globally ("Plan A") or, if not possible, with only several nation-states ("Plan B"). The envisaged institutional order implies a limitation of majority democracy in favour of expert bodies that, although impersonal, act as 'well-meaning dictators'.

At the global level, Plan A already seemed almost realised once after the collapse of the socialist system, which Francis Fukuyama (1992) expressed with almost Hegelian force in his famous thesis of the "end of history": there are no longer any systemic contradictions in principle, but only implementation deficiencies in the only remaining system - victorious capitalism, which - as in the old Habsburg Empire - also ensures peace among nations. In Hegel's philosophy of history, it is the final synthesis to which there is no longer any antithesis and thus no regression. This, like so much in occidental modernity, is only easily identified as salvation-historical thinking with a secularised theological background. In fact, after many global crises, this idyll has proven to be less robust in the confrontation with other cultural circles, which is not only due to implementation deficiencies in the approach to the salvation-historical ideal but produces antitheses with potential for regression. An example is the return of the religious not only in the Islamist world but also in the growth of evangelicals in the USA and South America, which aims directly at the heart of liberal modernity committed to rational enlightenment. Similarly, the appeal of authoritarian over democratic liberalism is growing in the core countries of Western capitalism (USA and EU). In the EU ("Plan B"), authoritarian liberalism, coupled with a reluctance to cede sovereignty to EU bodies, is gaining renewed appeal, not only in Poland and Hungary, but also in the national movements of globalisation losers. In already authoritarian states such as Russia (Snyder 2018) and China (Weber 2017; Harvey 2021), it is noticeable that the state and constitutional theory of Carl Schmitt has gained adherents. It should be a warning to us.

Footnotes

[1] The Vienna Institute for International Economic Studies (wiiw).www.hubert-gabrisch.com.

[2] In this paragraph, I follow the study of Christi, 1998.

[3] Schmitt as well as the philosopher Martin Heidegger were among those whose intellectual arrogance tempted them to want to lead the "Führer", which they then failed to do. Both were stripped of the functions they had initially been able to secure at about the same time - in the mid-1930s.

[4] Retrieved from El Mercurio, Chile, 1981:https://www.nachdenkseiten.de/wp-print.php?p=40021; accessed 21 February 2022.

[5] The text appeared in 1982 for the first time in an on-volume edition, which included all three parts, but was written 1978.

[6] Extensively Walter Eucken, 1950: pp. 122-129 and passim.

[7] Vgl. See also Montani (1984), who wrote extensively about Robbins and his enmity to Keynes

[8] The principle of subsidiarity follows ideas that Rüstow had already formulated in the 1920s in view of the weaknesses of the Weimar constitution (Hegner 2000: 135).

[9] The WTO is fundamentally sceptical of regional integration groups, as reflected in the conflict over Article 45 of the WTO treaty on the most-favoured-nation clause.

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