The key to distinguishing between classical liberalism, neoliberalism and ordoliberalism is their approach to the freedom of the individual. In 1938, Walter Lippmann asserted that the main cause underlying all failures of economic liberalism was its focus on expanding the scope of individual freedom in the market. This was accompanied by a lack of understanding of the need to develop an economic system under which the freedom of the individual would serve not only a select few, but also promote the interests of the majority of society. Eighty years later, this criticism goes to the crux of the contemporary dilemmas, as the neoliberal doctrine is driven by “freedom without order.” To overcome the ongoing global economic crisis, characterized by disorder, chaos, and anarchy, it is imperative to guide economic policy towards thinking “in terms of order” (Max Weber). And such an approach is offered by ordoliberal thought, which is concerned with the issue of economic order. Its leading idea, which is critical for today’s world, is “freedom within order.”

**Keywords:** classical liberalism; neoliberalism; ordoliberalism; historical context; advantages; reform.

**UDC** 330.837.1
Introduction

In Poland and other post-socialist European societies, the political transformations of the end of the 1980s and the beginning of the 1990s gave rise to hopes for economic freedom, a free market, and prosperity. However, after an initial euphoria, disappointment set in as a result of emerging social dysfunctions, including high income disparities, detrimental to the sense of social justice. Thus, doubts arose as to whether the newly embraced solutions were indeed the right ones. Economically active individuals became acutely aware of the material limitations to their freedoms, associated with the eroded democratic system and abuse of the fair competition principle (which is fundamental to the free market), mostly due to paramonopolistic phenomena. The global financial meltdown that started in the USA in 2007–2008, and which subsequently evolved into an economic downturn and debt crisis, has triggered a tidal wave of criticism of the market economy. This criticism is often extended to economic liberalism at large, which is fundamentally incorrect and damaging to the advancement of liberal economic and social thought. It must be emphasized that the market is the only viable institutional solution suitable for free democratic societies. There is, and in the foreseeable future there will be, no alternative to the market. Therefore, in its current and evolving form, it will remain the basic institutional mechanism organizing economic processes with their social implications. Given the above, it is essential that the barrage of criticism of the market economy both in the scholarly literature and in the media, which the global crisis has intensified, should not lead to an indiscriminate condemnation and rejection of liberal economic and social principles. It is those principles that provide the scholarly and ideological foundations for the market, which would completely lose its social orientation without them — as Paul Samuelson said “the market has no heart; the market has no brain. It does what it does (Interview... 2005, p. 151).

The present paper discusses three basic strands of liberalism: classical liberalism, neoliberalism, and ordoliberalism. Both neoliberalism and ordoliberalism stem from the 18th and 19th century classical liberal thought of Adam Smith, John Stuart Mill, Jean-Baptiste Say, and others. Still, for decades there has been considerable confusion among economic researchers and commentators concerning these three terms. The notions of classical liberalism, neoliberalism, and ordoliberalism are unjustifiably used as synonyms and subsumed under the umbrella term of economic liberalism, without explaining the meaning or divisions of the latter. The neoliberal doctrine, founded on the mainstream of neoclassical economic theory, is thought to be one of the underlying causes of the ongoing and as yet uncontained global economic crisis. As a result, neoliberalism has been subjected to generalized, devastating criticism, often extending to economic liberalism at large. In this context, one should heed Confucius’s still relevant warning “when thinking falters, order collapses”¹ (quoted in Eucken 2004, p. 197). The Chinese thinker’s words from about two and a half millennia ago have turned out to be prophetic also today. It

¹ Translated into English from the German version provided by Eucken (2004, p. 197).
should be admitted here that many eminent theorists have not appreciated the
collection of methodological considerations to the development of economic
text. Some of them have even cautioned against overrating them. For instance,
in the foreword to the first edition of his 1939 book entitled *Die Grundlagen
der Nationalökonome*, Walter Eucken wrote “this book is not a methodological
book. . . . Excessive methodological reflection is a symptom of illness in every
sciences, and no ill science has been cured by methodology” (Eucken 1989, p. ix).
According to one of the most notable neoclassical economists, Vilfredo Pareto,
discussions about methodology are but a waste of time (quoted in Winkel 1989,
p. 115). Despite the above and other similar suggestions, we believe that a
methodological approach is indispensable in examining the notions of classical
liberalism, neoliberalism, and ordoliberalism. Indeed, the mounting criticism of
economic liberalism, oblivious to the diversity of its strands, carries the risk of
degrading this important foundation of socioeconomic development in an act of
“throwing the baby out with the bathwater.”

The key to distinguishing between neoliberalism and ordoliberalism is their
stance on individual freedom. During the 1938 Paris colloquium, the American
intellectual and liberal thinker, author of a widely discussed book entitled *The
Good Society*, and advisor to President Roosevelt, Walter Lippmann, argued
that the underlying cause of all failures of classical liberal economic thought
was excessive preoccupation with extending the liberties of the individual in
the market (Lipmann 1937). This went hand in hand with neglecting the task to
create an economic order in which individual freedom would be used not only
to enrich individual persons, but to pursue objectives serving the entire society,
or at least most of its members. Almost 80 years later, Lippmann’s criticism still
goes to the crux of contemporary dilemmas. However, it is not heeded by the
neoliberal doctrine, which seems to be repeating the old error of striving for
“freedom without order.” In stark contrast to such an approach, ordoliberalism
is oriented towards “freedom within order.”

To overcome the ongoing crisis in the global economy, which is characterized
by disorder, chaos, and symptoms of anarchy, economic policy must depart from
the neoliberal doctrine and embrace the conceptual foundations of Weber’s
order and rationality, taking into consideration “human behaviors and feelings,
empathy, and historical memory” (cf. Weber 2002). A theoretical basis for this
kind of economic policy is offered by ordoliberal thought (cf. Pysz 2013). To
avoid the danger of summary rejection of economic liberalism, which would
have negative ramifications for the market, it is necessary to draw a clear
line between its different strands, and especially between neoliberalism and
ordoliberalism. In the simplest of terms, the former is characterized by market
fundamentalism and marginalization of the role of the state in shaping the
socioeconomic order, while the creation of that order is given utmost priority in
the latter school. Thus, the objective of this paper is to present the differences
between the various categories of economic liberalism.

The first part of the paper discusses the historical development of neoliberal
and ordoliberal ideas, both of which strived to bring back to life classical liberalism,
which had been overshadowed by various socialist currents and the teachings of John Maynard Keynes following the Great Depression of 1929–1933. The second part presents a comparative analysis of neoliberal and ordoliberal tenets. The summary indicates some possibilities provided by ordoliberal economic policies. Such an approach is indeed indispensable in today’s world, ravaged by a globally punctuated equilibrium and disorder (cf. Thurow 1999, p. 16 et seq.). It is necessary to make sure that humanity enjoys the “cosmic” right to survival (cf. Haberman 2002, pp. 170–171) by creating the right socioeconomic order, in line with Confucius’s saying. In other words, what is at stake is Hamlet’s “to be or not to be” uttered on behalf of all mankind.

The historical context of neoliberal and ordoliberal ideas

As economic history and the history of economic thought show, evolution in the technological and social determinants of economic activity leads to evolution in the prevalent economic theories, schools, and doctrines. The 19th century was largely dominated by Adam Smith’s classical economic theory. However, already at the end of that century, some dysfunctions of classical laissez-faire liberalism and capitalism began to surface; these included monopolistic tendencies in industry, deep business cycle fluctuations, etc. At the beginning of the 20th century, classical liberalism gradually eroded, weakened by burgeoning anti-capitalist and statist ideas, which eventually led to a centrally managed capitalist economy in Germany in 1936–1948 and a centrally planned socialist economy in Russia (later Soviet Union) following the 1917 October Revolution. The proverbial final nail in the coffin of classical liberalism was the Great Depression of 1929–1933, which cleared the ground for a rapid expansion of Keynesianism. While damaging to classical liberalism, these developments provided an impulse for its proponents to mount a counteroffensive and defend liberal ideas as well as the classical principles of economic theory. In this respect, of crucial importance was the international Walter Lippmann colloquium, which was held in Paris in August 1938. It was there that the term “neoliberalism,” coined by the ordoliberal Alexander Rüstow, was popularly accepted over other proposals, such as neo-capitalism, social liberalism, or left-wing liberalism (cf. Mirowski, Plehwe 2009). This word was supposed to emphasize the difference between the neoliberal concepts and 19th century classical liberalism based on laissez-faire, and clearly indicate a new era in the history of the evolution of economic liberalism.

However, the notion of neoliberalism dates back to even before World War I, when authors started to seek a new name for laissez-faire capitalism. W. Sombart, a leading representative of the younger German Historical School of Economics, came up with the term “social capitalism” in 1921. In 1925, Swiss economist H. Honegger published a book with the first chapter titled “Neoliberalism” (the chapter discussed, among others, works by Gustav Cassel, including his 1923 Theory of Social Economy). In turn, during a 1932 conference of the economic society “Verein für Socialpolitik” Alexander Rüstow stated: “The new liberalism, which my friends and I represent, requires a strong state there where it belongs: a state above the economy and its interest groups” (Rüstow 1932).
World War II interrupted the work of economic liberals who strived to contain the offensive of the various strands of socialism and Keynesianism. Two years after the end of the war, in 1947, the “Mont Pelerin Society” was established upon the initiative of F. A. von Hayek (Hampe 2010). The founding group and core of this society consisted of over twenty liberals (who had also been present at the Paris colloquium) from Germany, Austria, France, and the United States. The first meeting of the society was attended, along with its founding father F. A. von Hayek, by Walter Eucken, Wilhelm Röpke, Alexander Rüstow, Frank Knight, Milton Friedman, and others. The names of these scholars are indicative of the division emerging among economic liberals already at that early stage. Eucken became the spiritual leader of ordoliberalism, which was initiated in Germany in the 1940s. In turn, Knight and Friedman, as well as von Hayek (who is more difficult to label), were or became eminent representatives of the Chicago School, which relentlessly fought socialism, statism, and Keynesianism. As a result, in the 1970s the neoliberal doctrine became the dominant force in economic theory and policy (cf. Mączyńska 2011).

Neoliberalism — An international reach

The neoliberal Chicago School of Economics exerted a strong influence on economic thought and socioeconomic policy around the world, including South American countries and the post-socialist economies of Central and Eastern Europe. After 1975, an important contribution to the spread of the American version of neoliberalism was made in Chile by the so-called “Chicago Boys” — a large group of Chileans most of whom had studied at the University in Chicago in the years 1956–1970. There, they learned about the radical neoliberal ideas of F. A. von Hayek and M. Friedman, and became their enthusiastic advocates. Following his coup d’état, in 1975 Chilean dictator Augusto Pinochet conferred power over all economic ministries and central institutions to this group of approx. 25. Chile became an experimental field perfectly suited for testing the Chicago School’s neoliberal concepts. During his 1975 trip to Chile, M. Friedman stated that a “shock therapy” was necessary to contain its economic downturn and hyperinflation.

Against the backdrop of many Latin American countries, characterized by macroeconomic instability and a foreign debt crisis in the second half of the 1990s, the first effects of the radical shock therapy in Chile must have seemed to its creditors (large banks and American financial and political elites) to be the right path. These events cleared the ground for the neoliberal Washington Consensus formulated by J. Williamson, which exerted a tremendous impact on economic policies not only in South America, but also in the post-socialist countries of Central and Eastern Europe (cf. Kołodko 2008, pp. 210–212).

During the stagflation of the 1970s, neoliberalism started to supplant Keynesianism as the predominant type of economic theory and policy. M. Friedman’s and F. A. von Hayek’s ideas captured the minds of economists and economic policy-makers. This radical shift in economic philosophy paved the way for the economic policies of Ronald Reagan in the USA and Margaret Thatcher in Great
Britain, which were oriented towards the neoliberal principles of spontaneous order, monetarism, and a supply economy. In the 1980s, the British Prime Minister referred to the neoliberal economic policies she pursued using the slogan TINA, standing for “there is no alternative” — meaning no alternative to a free market and free trade, and thus to global capitalism.

The neoliberal doctrine also provided the foundations for socioeconomic transition in socialist countries. The collapse of real socialism, which began in Poland, spread to other countries of the socialist bloc (including the Soviet Union) at the end of the 1980s and the beginning of the 1990s, and led to the reunification of Germany. Western countries surrendered themselves to euphoria and market triumphalism, which was also shared by the post-socialist countries. What had happened was the contradiction of Karl Marx’s prophecy: it was not capitalism, but socialism, that finally became confined to the ash heap of history. Capitalism was thought to have achieved the ultimate victory. This euphoria spectacularly peaked in the famed but naive “end of history” thesis of F. Fukuyama’s 1992 book. A market economy and liberal democracy based on individual freedoms and private ownership of production factors were supposed to universally and permanently dominate the future of humanity.

The corporate raider Gordon Gekko from Oliver Stone’s movie *Wall Street* has become a symbol of the period of capitalist triumphalism. Gekko propagated greed (“greed is good”) as a value that was thought indispensable both for business and the economy. A similar attitude was presented by Milton Friedman, the main theorist of neoliberalism, which at that time was going from strength to strength. When asked about the drivers of human behavior, he said “undoubtedly greed... Greed, hate, and love” (Friedman 2006, p. 20).

The most spectacular and risky (in terms of scholarly and social acceptance of the neoliberal doctrine) is the hypothesis about the efficiency and self-regulation of the financial markets, which was developed in 1965–1970 by the 2013 Nobel Prize winner and University of Chicago professor, Eugene Fama. According to that hypothesis, in securities markets both sellers and buyers behave fully rationally, using all available information in decision making. Given a sufficiently large number of sellers and buyers, in a fully transparent market, the current price of securities (stocks) would then objectively reflect their actual value. The prices change when market actors gain new, previously unknown information. Thus, a change in the price of securities automatically causes a shift from an existing to a new market equilibrium. This self-regulating market process ensures that capital is allocated to the best performing sectors. International financial markets give capital owners the ability to diversify their investments, lowering the risk of losing some or all of the capital involved (Krugman, Obstfeld 2006, pp. 747–749). The effective market hypothesis apologetically justifies the expansion of huge investment banks and other financial organizations in the international financial markets, which are not regulated by anything or anybody. However, the ongoing financial crisis, which started in 2007–2008, has disproved this hypothesis and signaled the beginning of an end of the dominant position of the neoliberal doctrine in economic theory and policy in highly developed countries around the world.
Ordoliberalism — its roots, historical changes, and advantages

The first voices of German new economic liberalism emerged as early as during the 1929–1933 Great Depression, one of them being the above-mentioned speech by A. Rüstow at the 1932 “Verein für Socialpolitik” congress in Dresden. The same year saw the publication of W. Eucken’s seminal paper (see Eucken 1932). Both Rüstow and Eucken emphasized that the public authorities should play a leading role in shaping the institutional and structural determinants of market processes. In 1946, a conversation between W. Eucken and the publisher H. Küpper gave rise to an idea of establishing a research journal dealing with the market economic order, with Küpper suggesting the name ORDO (von Klinkowstroem 2000, p. 107). The journal has been published annually under the title ORDO — Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft since 1948. The title of the journal turned out to be so influential that the German liberals, gradually departing from the notion of neoliberalism, started to be known as ordoliberals.

However, the German neoliberals began to differ from their American counterparts not only in terms of their appellation. The ordoliberal concept of economic policy was put into practice almost thirty years prior to the ideas of the Chicago School of Economics — not in Latin America, but in West Germany, where it was highly successful. Following the monetary and economic reform of 1948, the social market economy was initiated under the leadership of Ludwig Erhard. By 1966, this policy had helped to bring about economic development processes in West Germany which later came to be known an “economic miracle” (see, e.g., Kaczmarek 1997). After Erhard stepped down as chancellor in December 1966, social democratic economist and politician Karl Schiller was appointed Minister of Economy in the CDU-SPD coalition government. In 1971, he was additionally made Minister of Finance, becoming a so-called economic and finance superminister. Schiller’s central political idea was “a synthesis of John Maynard Keynes’s theory with the Freiburg imperative.” He strived to integrate into a coherent whole Eucken’s microeconomically oriented competitive economic order with Keynesian-based macroeconomic control of global demand.

Here one should also stress the divergence between the German ordoliberalism and American neoliberalism following from the history of their rivalry with Keynes’s theory. While the Chicago School of Economics started to replace Keynesianism in the research community in the stagflation-ridden decade of the 1970s, Germany underwent an inverse process, which began one decade earlier: the ordoliberal way of thinking about the economy was gradually relegated to the margins of economic research by the spread of Keynesianism. In turn, at the beginning of the 1980, the hold of Keynesianism started to weaken in favor of the neoliberal ideas adopted from the Chicago School. The leading concepts in economic policy were deregulation, privatization, supply economics, and a “lean state.”

Generally speaking, one could argue that Germany’s post-World War II economic policy was largely a response, although lagging by several years, to the new ideas and trends originated in the Anglo-Saxon countries. Another
symptom of the conservatism of German policy-making was that despite several radical shifts in its conceptual foundations, it still held on to the banner of the social market economy, which was very popular with the general population. Importantly, German ordoliberals managed to maintain some continued presence in economic research communities and retain some influence over the media and public opinion. In the 1980s and 1990s, they even enjoyed something of a revival despite the prevalence of Anglo-Saxon neoliberalism (see Feld, Köhler 2011, pp. 3–4). Actually, the theoretical and conceptual conservatism the German socioeconomic policy may have cushioned the negative effects of the global crisis on Germany’s economy.

From the ordoliberal perspective, both Keynes’s theory and the neoliberal ideas of the Chicago School have certain rarely discussed but similar consequences in practice. These fundamentally different concepts of economic policy, whose proponents have opposed each other for decades, appear to share a similar assumption as to one of the aspects of this policy — the direct influence of the state on the economy. Under Keynesianism, economic processes are controlled by the state in a discretionary manner on the demand side using fiscal and monetary tools (e.g., the refinancing rate for commercial banks). On the other hand, in accordance with the neoliberal concept of supply economy and monetarism, the activity of the state should be focused on fine-tuning aggregate supply and ensuring price stability by means of fiscal and tax instruments, taking into consideration Friedman’s rule describing the relationship between GDP growth or the economy’s output potential and the volume of currency in circulation.

The fascination of economic theorists and policy-makers with the possibility to directly influence economic processes on the demand side (Keynesianism) or on the supply side (neoliberal supply-side economics and monetarism) turned their attention away from shaping the economic order; that is, developing formal and informal rules of economic activity. Those economists seem to be even more oblivious to the effects exerted by economic policy on the readiness and ability of economically active individuals to accept responsibility to oneself, one’s environment, one’s family, and society at large, for their freedom of choice (see Pysz 2010, pp. 68–69). Both in Keynesianism and neoliberalism, the educational function of economic policy, which is to teach individuals how to use the freedom they enjoy in a responsible manner, has been largely ignored.

Thus, ordoliberals consider the above doctrines unusable as a conceptual basis for economic policies. However, Keynesianism might be acceptable as a last resort in unexpected shock situations linked to a drastic downturn in global demand (cf. Wünsche 2010, pp. 116–124).

Comparative analysis of neoliberal and ordoliberal economic theory and policy
Basic differences and similarities
A comparative analysis of neoliberalism and ordoliberalism must primarily emphasize a fundamental difference between these two main strands of
economic liberalism. While neoliberalism, based on the theoretical foundation of mainstream neoclassical economics, focuses research and application efforts on market economic processes, ordoliberal theory and practice are concentrated on the economic order under which those processes are taking place. Table 1 shows a comparison of the research areas of ordoliberalism and neoliberalism, as well as of Keynesianism, which competes with the former two for influence over economic theory and policy. It is a modified version of the table presented in a work by Pysz (2013, p. 106).

Table 1

<table>
<thead>
<tr>
<th>Economic policy doctrines</th>
<th>Economic order</th>
<th>Economic processes</th>
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<td>Shaping of economic order</td>
<td>Macroeconomic dimension</td>
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<tr>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Neoliberalism</td>
<td>No</td>
<td>Yes</td>
<td>Yes/No</td>
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<tr>
<td>Keynesianism</td>
<td>No</td>
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According to ordoliberal theorists, economic research should investigate the functioning of an economically active society in a comprehensive rather than fragmented manner. This implies that while prioritizing the economic order one should also take into consideration its influence on market economic processes in the remaining three dimensions (macroeconomic, microeconomic, and human), and vice versa, one should examine the effects of economic processes on economic order policy and on the spontaneous development of that order.

In contrast, neoliberalism focuses its research efforts on the macroeconomic dimension with its tools for supporting the supply side of the economy and developing stable rules for injecting money into the economy without triggering inflationary tendencies (cf. Sadowski 2011, pp. 262–263). With the supply side in mind, the neoliberal economists have also addressed a number of microeconomic issues, and in particular the financial instruments used in the last decades of the 20th century by the international financial services sector. However, under the neoliberal concept, people are not treated as true human beings experiencing emotions and exhibiting Keynesian animal spirits, but rather as rational “perfect types,” or homo economicus.

In turn, the macroeconomic orientation of Keynesianism is concentrated on aggregate demand, which stands in contrast to the neoliberal preoccupation with the supply side. Analyzing people’s tendencies to consume, save, and invest, John M. Keynes considered the psychological aspects of human economic behaviors and their influence on business cycle fluctuations. However, his disciples and
followers gradually deprived his theory of an important psychological factor, that is, “animal spirits” (see Akerlof, Shiller 2009, pp. 11–12).

The main features of ordoliberalism, neoliberalism, and Keynesianism presented above show that, in contrast to the others, ordoliberal theory, based on a comprehensive approach to the study of economic processes and focused on the issue of economic order, captures both the supply and demand sides and their roles in shaping economic processes on a macroeconomic scale. A certain similarity of ordoliberalism to the Anglo-Saxon version of neoliberalism is due to the fact that the ordoliberals tend to subscribe to Say’s law, which is tantamount to acknowledging that under an appropriately constructed, competitive economic order, it is supply rather than aggregate demand that exerts a decisive impact on the economy. At the same time, ordoliberalism also bears some similarity to Keynesianism. In their comprehensive view of economic processes, ordoliberal theorists place emphasis on the individual human being with his or her emotions and morality. Indeed, ordoliberalism gave rise to the notion of the “anthropological-sociological framework of the market economy,” which is an important contribution to economic theory and policy (Röpke 1981, p. 231).

Analysis of the above fundamental differences and similarities between the studied economic doctrines leads to questions about the subject matter of study and research methods of economics.

**Subject matter of study**

The strictly model-based nature of classical economic theory, consistently focused on analysis of exchange relationships (supply, demand, price elasticity) under market conditions, has exerted a strong influence both on its perception by neoclassical and neoliberal market economists and on social perceptions of these ideas (public opinion) (cf. Pysz 2013, pp. 499–500). The results of analyses of idealized economic processes occurring in model markets used to be directly transferred into economic practice. There was a growing belief that the real markets could function perfectly, in a failure-free manner. The dysfunctions that occasionally emerge in the various markets were attributed to non-market causes, and especially to limitations in the free functioning of the market mechanism. The often changing economic regulations came under criticism, as well as the state’s discretionary interventions in the course of economic processes. The gospel of individual freedom in the market and of unbridled market mechanisms was preached with ever-growing vigor with the spread of neoliberal monetarism and supply-side economics in the stagflationary decade of the 1970s. By the same token, mainstream economics gradually departed from market realities. Researchers strived to demonstrate the perfection of market mechanisms by means of elegant mathematical formulas. However, while beautiful in their form, illusions of a perfect market played an ideological function, promoting the transplantation of Anglo-Saxon solutions to many regions around the world. Market fundamentalism held sway among economists and economic policymakers (see, e.g., Supp 2012, p. 56).
Claims that the market is a perfect mechanism of coordination of economic processes and allocation of resources have been subsumed by the neoliberals under several telling slogans. Their simplicity and ease of understanding facilitated the promotion of neoliberalism among the general public. The appeal and clarity of the neoliberal slogans was additionally enhanced by the fact that they were advertized as the only viable ideas (as in the case of the above-mentioned “TINA” formula coined by Margaret Thatcher). Arguments citing a lack of alternative to neoliberal economic policy have also been used by other prominent proponents of this doctrine. In the briefest of terms, the constitutive concepts of neoliberal theory, known as “the holy triad,” are privatization, deregulation, and stabilization.

Classical liberalism and neoliberalism share the principle of market fundamentalism, or the assumption that the free market will spontaneously shape the economic order so efficiently that the role of the state will be reduced to that of a “night watchman.” In turn, what makes these two economic theories different is their treatment of ethical and moral issues. Neoliberal disengagement from ethical and moral considerations is the result of the assumption that the free market provides a perfect solution also in that respect. Therefore, neoliberalism is sometimes perceived as a caricature of liberalism in which the classical liberal concern for personal freedom, political equality, and human rights has been distorted and reduced to a purely economic doctrine. According to the Harvard economist D. Rodrik (2002), the difference between neoliberalism and classical liberalism (the latter being the foundation of neoclassical economics) is akin to the relationship between astrology and astronomy: neither astrology nor neoliberalism are sciences, but ideologies. Bluntly speaking, one could argue that neoliberalism is to classical liberalism as fundamentalism to foundations.

Adam Smith, the 18th century professor of moral philosophy and the creator of the noble concept of liberalism studied the free market in the context of morality, responsibility, and ethics. The free-market neoliberal doctrine lacks such a symbiosis.

Interestingly, the answer to the question why the issues of morality and social justice are marginalized in neoclassical theory and neoliberalism is also linked to Adam Smith’s works and their predominantly one-sided and incorrect interpretation. His seminal 1776 work *An Inquiry into the Nature and Causes of the Wealth of Nations* shaped economic theory and policy at the end of the 18th century and in the first half of the 19th century in England and around the world. Indeed, it is considered the “bible of economic liberalism.” However, Smith’s earlier groundbreaking book, *The Theory of Moral Sentiments* (1759) reveals the author’s sensitivity to social justice and the public good. The free-market neoliberal doctrine lacks such a symbiosis.

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1 The first Polish translation of Adam Smith’s *Inquiry into the Nature and Causes of the Wealth of Nations* was published by PWN in 1954. A second edition did not appear until 2007. *The Wealth of Nations* is a pioneering theory of free market and classical economics, constituting the foundation of economic liberalism and still exerting considerable influence on the shape of contemporary economic theories. Therefore, the date of its first publication is conventionally considered the birth date of modern economics.
both works Adam Smith argued that the invisible hand can function properly only under conditions of social justice (cf. Kwarcianiński 2005). The deficiencies of a biased understanding of Smith’s works in the spirit of “the wealth of nations” have been observed in the literature only recently, mostly as a result of the failures of the neoliberal doctrine and the emerging symptoms of socioeconomic disorder. This also indicates the importance of shaping such an order.

An economic order basically consists of the formal and informal rules that economic entities must abide by. Other determinants of the economic order and economic behaviors include the ethics and morality of economically active individuals.

While the works of W. Eucken and his close associate, the lawyer F. Böhm, primarily (but not solely) emphasized the importance of economic rules, other ordoliberal theorists, such as A. Rüstow, W. Röpke, and L. Erhard additionally took into consideration the morality and ethics of economically active individuals. In this context, Röpke used a very apt term “anthropological-sociological framework of the market economy.” In turn, Erhard adopted the distinction between “freedom from something” and “freedom for something” from anthropologist and philosopher Max Scheler. “Freedom from something” consists in taking advantage of the absence of restrictions on personal liberty to make decisions and undertake actions, which is possible under a freedom-oriented economic order. In turn, “freedom for something” means that individuals can make decisions and undertake actions in such a way as to ensure subsistence for themselves and their families, and, within a broader understanding of responsibility, for their social group and society at large (Pysz 2008, p. 111). It is often said that freedom and responsibility are two sides of the same coin. The pursuit of “freedom from something” requires that individuals have the necessary motivation and are able to survive economically and develop under conditions of market competition.

W. Eucken had placed high demands on economic order policy concerning its cohesion, comprehensiveness, and long-time horizon: “Monetary, agrarian, and budgetary policies may not be treated in an isolated way. Indeed, they should be constituent elements of the economic order policy. There gradually emerges a new type of economic expert. He has the necessary experience and knowledge of his field. But he considers all emerging problems in the context of the course of economic processes at the macroeconomic scale, within the existing economic order, and the interrelationship between the economic order and other kinds of order” (Eucken 1932, p. 345). Under W. Eucken’s approach, economic order policy was given a classical orientation model with the constitutive and regulatory principles of a competitive economic system.

According to the ordoliberals, such an economic order is something of a third way between a laissez-faire market economy from the time of the Great

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1 These deficiencies were previously indicated by, e.g., Z. Sadowski (in his foreword to the 2nd edition of The Wealth of the Nations); see also Polowczyk (2010) and Zabieglik (2003).

2 The importance of these factors is emphasized by, e.g., the Czech economist Tomas Sedlacek, the author of the book Economics of Good and Evil (2012).
Depression and the various, more or less radical, types of centrally planned economies. However, the ordoliberals emphasize that within the framework of a competitive economic order, economic processes should correspond to the laissez-faire concept, that is, they should proceed without any direct intervention from the state authorities.

From the ordoliberal perspective, the science of economics should return to the roots and examine the manner and degree in which the overarching social values are incorporated in economic processes. Individual freedom, responsibility for that freedom, and social justice have been traditionally considered the core values of European culture almost since antiquity. For ordoliberalism, in an economically active society these values are at least as important as meeting one’s material needs. Freedom is by no means just one of many values as it is both the source and premise for the existence of all other individual values (Eucken 1932, p. 345). Drawing on these assumptions, in his research program W. Eucken strived to develop a theoretical framework enabling political bodies to shape an economic order ensuring functional efficiency to the market economy, and a life based on freedom and ethics to the people (Eucken 1989, p. 240). In turn, L. Erhard used the term “liberal economic order” to characterize the overarching objective of the social market economy, pursued in West Germany since 1948 (Erhard 2005, pp. 13–20). In ordoliberal thought, the top-down development of the economic order (which does not necessarily preclude some spontaneous self-organization of the market) is understood instrumentally as a means of ensuring freedom to economically active individuals and safeguarding it. At the same time, the attainment of this overarching objective is in the long term conducive to the stabilization and functional efficiency of the existing order (cf. Pysz 2008, p. 40).

Ordoliberal thinkers posit that also social justice should fall within the scope of economic research. In their opinion, an adequate level of social justice is a prerequisite for the appropriate functioning and sustainable development of society. However, while the ordoliberals unanimously appreciate the importance of justice as an overarching social value, they differ as to how attain that goal.

While W. Eucken accepted the combination of individual freedom with social justice derived from classical liberalism, he was not entirely consistent in his views. His model was based on the premise that in a free society there should exist a broad range of legal measures safeguarding individual freedom, accessible to anyone who is willing and able to use them. This classical liberal approach hinged on providing all members of a given society (through their personal freedom and equality before the law) with the formally equal opportunity to compete in the market. This equality implies that everyone is obligated to abide by certain economic rules of the game as set out in legal regulations. However, Eucken also realized that a competitive market economy leads to profound disparities in material opportunities between people, resulting from the exclusion of weaker individuals from the market and the existence of deepening income and wealth inequalities. If these inequalities are unacceptable within the paradigm of justice held by a given society, then, according to Eucken, this problem should be solved
by moving beyond the ordoliberal model of a competitive market economy. In such a case, Eucken would be willing to resort to some traditional redistributive instruments of social policy, as an exception from the universal rule of market competitiveness (Eucken 2004, s. 300–304; see also Pysz 2008, p. 62).

In contrast, L. Erhard believed that the social market economy grounded in ordoliberal theory and promoting competition, full employment, stable prices, and wealth diversification greatly reduced the necessity for the state to take recourse to redistributive social policy tools. According to Erhard, social justice should be ensured under the social market economy not by redistribution at the stage of dividing profits, but already in the course of market economic processes, as this may effectively minimize the number of people in need of social assistance from the state. Erhard’s ideal was a free, economically active individual. In his own words, “Individuals can only be truly free as a personality and truly free vis-à-vis the state when they can rest assured that they are able to survive on the strength of their own achievements and their own labor, with neither protection nor hindrance from the state” (Erhard 2005, p. 17).

As the field of economic sciences has expanded to include the economic order, overarching social values, and the historical context of economic phenomena and processes, scholars have gained new, extensive research areas of great significance. It is to be hoped that the emergence of these areas will divert the attention and research efforts of economic theorists away from what is termed “economic imperialism,” or “colonization” of other social sciences by economists using analytical methods typical of mainstream neoclassical economic theory.\(^5\)\(^1\) The lateral expansion of economics, taking it beyond its own domain, has inevitably led to increasing inattention to its own field of inquiry. It should be noted that the tendency to display ontological neglect has been present in mainstream neoclassical economics for decades, since the time of Lionel Robbins (see Wojtyna 2008, p. 17). As a result, economics is mostly defined not by its subject of research, but methodology (ibid., pp. 14–16). And this seems to be one of the underlying causes of the current crisis.

**Research methods**

The radical expansion of the subject matter of economics postulated by ordoliberal thinkers has vital ramifications for the research methods. First of all, the socioeconomic order and its interrelationships with economic processes (feedback loops) have become legitimate areas of investigation. This means that research should be conducted not only along the lines of methodological individualism, but also within the framework of a holistic approach, especially as the overarching social values of individual freedom and social justice have become incorporated into the research field. This implies that researchers should simultaneously examine the historical and theoretical aspects of the

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\(^5\) This notion, describing the expansion of mainstream economics towards other social sciences, has been used not only in the economic literature, but also in the discussion on the future of economic sciences which was held at the 8th Congress of Polish Economists in November 2007.
studied phenomena and economic processes, and the relations between them. In contrast, in neoclassical economics and neoliberalism, historical aspects are marginalized, ignoring the ancient saying that “history is the teacher of life” (Pysz 2013, no. 4, p. 506). Neoclassical economic theory and the neoliberal doctrine persist in the error of one-sided methodology. They emphasize methodological individualism as the only acceptable and fundamental method of scientific inquiry. Margaret Thatcher, a leading politician of the neoliberal era, adopted this individualistic line of thinking in a radical form asserting that “there is no such thing as society. There are individual men and women” (quoted in Supp 2012). This radical individualism ignores the fact that it was already Aristotle who defined the human being as homo socialis and that people have lived in smaller or larger social groups ever since our predecessors arrived from Africa tens of thousands years ago, as did the Neanderthals who inhabited the south of present-day France and Spain. In his 1759 Theory of Moral Sentiments, Smith wrote about sympathy as a bonding force joining individuals into social groups and societies, enabling their survival. Nowadays, the New York Times columnist David Brooks tellingly entitled his book about people and their emotions The Social Animal (Brooks 2011).

The exclusive use of methodological individualism in neoclassical economics has made this discipline veer away from the realities of economic life (individuals acting within social groups and society at large) and from the existing economic and social rules. Thus, in economic liberalism, methodological individualism should be supplemented with holism (Mczy ska 2009, pp. 150–151) in order to bring the necessary symmetry to the study of the economy. Along with the fact that the free individual with his or her private interests and values is at the core of a free society, one must also accept that an individual can live and pursue those private interests and values only within the framework of a social group and/or society. And this means that, contrary to the words of the former British prime minister, society does exist after all.

Methodological individualism is useful in analysis of horizontal interactions between market entities pursuing their individual interests in the process of exchange. On the other hand, a holistic approach is indispensable to investigate existing or desirable economic rules, which taken together constitute the overall economic system. Using different terminology, W. Eucken described the relationship between the activity of free individuals in the market (individualism) and the economic order (holism) as follows: “Freedom and order are no opposites. They mutually presuppose each other. Order is generated under conditions of freedom. If a process is ordered, then the factors governing it are shaped in such a way that the process takes place by itself in the desired direction (Eucken 2004, p. 179). Thus, to study the behaviors of free individuals acting under the market rules shaped by the existing economic order, it is necessary to embrace an approach combining methodological individualism and holism.

In order to limit their research methodology to an individualist approach, neoclassical and neoliberal theorists were forced to depart from the actually existing economic system, as determined by the history and culture of a given
society. Thus, they came under the illusion that they had succeeded in creating a theory abstracted from both time and space, akin to the exquisitely elegant formulas of theoretical physics. However, the effects of their efforts were very different from those of physicists. They were characterized by John Kenneth Galbraith as a technical escape of economics from the reality of economic life into a world of abstract, formalized economic models (Galbraith 2011, p. 262).

Thus, the development of neoclassical economics is characterized by a long-term process of technical escape from the real world accompanied by a persistent trend, dating back to the works of Carl Menger, Leon Walras, Vilfredo Pareto, and Kenneth Arrow/Gerard Debreu, to narrow the scope of research with a view to achieving the highest possible degree of logical and mathematical excellence. In pursuit of the formal perfection of physics and mathematics, impossible to attain in the social sciences, economic theorists forsook increasingly large areas of inquiry indispensable for an adequate description and explanation of the actual functioning of an economically active society. As Paul Krugman famously said, “the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth” (2009). Indeed, it is necessary to abandon the formalized quantitative approach of economic models based on restrictive assumptions typical of neoclassical economics and the pervasive methodological individualism. Even Milton Friedman, a leading representative of the neoliberal doctrine, expressed caution about the progressing mathematization of the economic sciences: “economics has become increasingly an arcane branch of mathematics rather than dealing with real economic problems” (quoted in Kwaśnicki 2009, p. 242). Therefore, it is necessary to give equal status to quantitative and qualitative research. Qualitative analysis should provide the necessary complement to the quantitative approach. Indeed, the currently predominant abstract “mathematical economics” should be transformed into “social economics,” which would correspond more closely to economic reality and which would be better suited for solving actual problems in economic processes.

The inclusion of the economic order in the scope of economics opens up further fields of inquiry requiring an interdisciplinary approach. This includes a qualitative description and elucidation of the relationship between the state and the market and developing a new view of the economically active individual on the basis of empirical results (especially behavioral economics, but also other social sciences). Shaping the fundamental constituent elements of the socioeconomic order, including economic rules, the state must not restrict itself to role of the “night watchman,” as postulated by the neoliberals. It should be noted that in a market economy some elements of that order have been formed spontaneously in a long historical process (von Hayek 1983, pp. 70–72). Between the top-down ordered instituted by the state and the bottom-up spontaneous order, there exist some feedback loops, which in themselves offer a very interesting field of inquiry. The legislated components of the socioeconomic order are not without significance for the self-constitution of the spontaneous order, and some significant interlinkages can be found. Therefore, an important question is what
the economic order would have to look like to enable the state to channel its
decision-making and executive potential to economic order policy-making.6,1

An expansion of the scope of economic theory and the incorporation
of quantitative research would help restore a state of pluralism of economic
schools (cf. Mačzyńska 2008). This in turn would reverse the monist trend in
economics, which set in in the second half of the 20th century and peaked
in the final years of that century, as neoclassical theory overshadowed other
economic paradigms (see Hockuba, Brzeziński 2005, p. 306). Indeed, in the spirit
of neoliberal triumphalism H.-W. Sinn proclaimed: “various economic schools
lost their significance. In the past we still had the Keynesians, but they have
since become extinct. Today, all economists are neoclassicals” (quoted in Bofinger
2005, p. 103).

Current events have laid bare the flaws and deficiencies of the formalized
neoclassical school, clearing the ground for other economic theories. The new
focus on overarching social values, the economic order, and the role of state
bodies in shaping that order has helped mobilize ordoliberalism, new institutional
economics, political economics, constitutional economics, as well as economic
history, and the history of economic thought (indeed, the two last disciplines
were grossly neglected over the past decades). Greater appreciation of the social
aspects of economic processes may stimulate interest in qualitative research
methods, which are used, e.g., in behavioral and psychological economics.
A departure from neoclassical monism in economics also leads to increased
competition between the various schools of economic thought and their research
agendas. According to F. A. von Hayek, market competition is a “procedure
of discovery” of the decentralized, limited knowledge of individual market
entities by combining it into a much greater overall knowledge of the market
by horizontal exchange interactions. Thus, there is no reason why Hayek’s
procedure, generally deemed true, should not be appropriate in the very special
“market” for ideas, theories, and research methods in economics.

Summary — Solutions for the future

Both literature reports and crisis phenomena corroborate the well-known
Keynesian thesis about strong interrelations between the theoretical foundations
of socioeconomic policy and socioeconomic reality. The economic history of the
world provides ample evidence (from different geographical areas and epochs)
of how costly mistakes in selecting a theoretical basis for the socioeconomic
order may be. Such mistakes and their consequences are experienced worldwide
also today; the symptoms include a globally punctuated equilibrium, a disorder
in the world economy, and an increased frequency of crises coupled with their
long-term evolution.

This paper presents an analysis of classical liberalism, neoliberalism, and
ordoliberalism. What these economic schools have in common is the idea

1 Eucken intended to undertake research into a political order that would be consistent with the idea of a competitive economic order. However, his premature death in 1950 prevented that (Vänberg 2002).
of a free market, but they differ as to the role of the state in shaping the socioeconomic order. While both in neoliberalism and classical liberalism this role is marginalized, it remains central to ordoliberal theory. The pervasiveness of purely market-oriented solutions typical of the neoliberal system downplaying ethical and moral considerations (which distinguishes the former from Adam Smith’s ethics-based classical liberalism) leads to deformations in the measurement system and in economic calculus. Furthermore, this provides fertile ground for various types of abuse and a crisis of trust, crippling economic output, and, even more importantly, threatening democracy as the foundation of the socioeconomic system. Almost two decades ago, this was observed by Ignacy Sachs, who noted that the dysfunctions of the contemporary economy “are due to an inappropriate organization of the social and political system, rather than a deficiency of goods” (Sachs 1996, s. 44). Furthermore, Sachs pointed to the need to go beyond “economism,” adopt a universal axiology, change the relations between the spheres of the economy, environment, and society, and determine the role of the state anew. “In the ongoing discussion about the role of the state, the wrong questions are being asked, and for a variety of reasons. While the point of departure for this discussion is the assumption that the state and the market stand in opposition to each other, every market has to be regulated by the state, especially if the market economy is also supposed to fulfill social functions. Although critics of statism rightly warn against abuse of power and red tape, they simplify the problem by demanding ‘less government.’ The thing is that the government should be more effective, and thus cost less” (ibid. pp. 47–48). Sachs further illustrates his point with a quote from Alice in Wonderland: when Alice asked the Cheshire-Cat which way she ought to go, he said “That depends a good deal on where you want to get to.” Already in the 1990s, Sachs wrote about the risks linked to a disconnect between the real sphere and the financial sphere, warning that “the lure of spectacular profits at the tables of the ‘global casino’ of financial markets attracts capital that may otherwise be invested in production (ibid. p. 48). According to Sachs, such capital becomes “infertile” and slows down socioeconomic development.

In hindsight, it has become clear that the global crisis has affected to the greatest degree countries adhering to a neoliberal economic model. This supports the thesis that it is not a typical business-cycle downturn, but rather a fundamental, or systemic, crisis of neoliberalism and of the false efficient market hypothesis. Inevitably and unsurprisingly, the adoption of the efficient market hypothesis implies minimization of the role of the state, especially as the neoliberal doctrine claims that the traditional functions of the state may be successfully replaced by market mechanisms. While the chaos, destruction, and macroeconomic disequilibria in the socioeconomic sphere that were revealed or aggravated by the global crisis have called into question the rationality of neoliberal theory, it still continues to be a major force shaping the economic reality as shown by the unwaveringly strong position of the financial sector and other factors.
In the face of the imbalances and other dysfunctions in the neoliberal socioeconomic model that have been laid bare by the calamitous triad “financial crisis — economic crisis — debt crisis,” there emerges a natural need for in-depth analysis and reflection concerning desirable and possible directions of change in the socioeconomic order.

The neoliberal prioritization of the monetary policy, combined with IT and wikinomic developments in the functioning of the financial sector, generates substantial changes in the way the state operates. German political scientist W. Streeck has observed that countries have been clearly evolving from “tax-based states” to “debt-based states” (Streeck 2013, p. 39). Government revenues from income taxes have been gradually declining, accompanied by an increase in public debt. As a result, the interests of the state and the financial sector have converged, making the relations between the two parties more and more opaque. These relations have been further strengthened by government-sponsored bailouts of financial institutions in many countries. Therefore, “today one can hardly discern between the state and the market, and whether it is the states that have nationalized the banks or the banks that have privatized the state” (ibid.).

At the same time, the declining tax revenues of the state bring about cuts in investment and public services, which in turn scales up bank lending to households. The deficiency of public services, e.g., in the field of education, forces households to finance education privately. This is yet another factor magnifying the presence of the financial sector in the economy, which is increasingly debt-driven. In the literature, this phenomenon is termed “private Keynesianism” (see Płociennik 2013).

This also sheds new light on unemployment and the threat it poses to indebted households. Due to the transition from a “tax-based state” to “debt-based state” model, the fundamental question considered by many governments in making socioeconomic decisions is “How are the financial markets and rating agencies going to respond to this?” As a result, those governments are losing sovereignty to the financial markets and the democratic system is becoming increasingly eroded. Indeed, in any democratic country the fundamental question should be by definition “What are the voters going to say?” rather than “What are the markets going to say?”

The dysfunctions of the neoliberal socioeconomic model presented above have fueled research efforts and discussions concerning possible changes to the socioeconomic order. However, desirable directions of change and systemic solutions have yet to be delineated. Undoubtedly, the need to embrace a strategic thinking culture, ponder the future, and undertake future-oriented actions is becoming ever more pronounced, despite the fact that Fukuyama’s end-of-history thesis and the neoliberal doctrine belittle futurological reflection, leaving the future to be regulated by the free-market mechanism. However, today Fukuyama no longer seems to maintain his thesis. He has become critical of the “free market fetish,” noting that “one of the paradoxical consequences of the 2008-9 financial crisis may thus be that Americans and Britons will finally learn what the East Asians figured out over a decade ago, namely, that open capital markets combined with unregulated financial sectors is a disaster in the waiting” (Fukuyama 2011, pp. 2-3).
As a result of dysfunctions in the socioeconomic system and their underlying anomic causes, ordoliberal ideas are increasingly gaining currency as a countervail to neoliberalism (the Latin prefix “ordo” means order). However, it should be remembered that ordoliberalism dates back to before World War II, when globalization was not as pervasive and national economies were not burdened with oversized financial sectors.

Future will show whether and to what extent ordoliberal ideas will be useful in practice. However, in the face of the growing socioeconomic disorder and global disequilibrium, there is a natural need and room for solutions aimed at restoring order, as well as for measures improving the quality of socioeconomic life. At the same time, this means that economics as a social science must evolve with the world it strives to describe. As is shown by the mixed fortunes of Keynes’s theory, as well as by the more and less successful periods in the history of the ordoliberal social market economy, it is necessary to adjust theory to the changing socioeconomic reality. In this sense, there are no absolutely correct theories as in every school of economics one can find tools and solutions that translate well into practice under one set of circumstances, but not so well under another: It is not accidental that Keynes’s theory is considered to be well suited for the difficult challenges of the economic crisis. In turn, ordoliberal theory, oriented towards shaping the socioeconomic order, may be useful as a theoretical foundation for restoring that order. Therefore, a diversity of economic theories seems to be quite desirable, in particular as an antidote to the widespread neoliberal indoctrination of the past decades. Indeed, alternative economic approaches are gradually beginning to emerge. It is telling that one of this year’s three Nobel Prize winners in economics is Robert Shiller, a behavioral economist. Neoclassical economics and the neoliberal doctrine do not seem capable of coping with the complexity of the global economy. Under the circumstances, the economic paradigm should be modified. Such a change is bound to be evolutionary rather than revolutionary, as a paradigm shift requires some time, especially given the past neoliberal sway. Recently, we have seen the emergence of economics of complexity (which draws inspiration from behavioral economics), imperfect knowledge economics, and institutional economics. Economics of complexity strives to examine all facets and aspects of a given economic phenomenon, including its quantitative and qualitative dimensions, incorporating inputs from other scientific disciplines, such as sociology, psychology, or even anthropology and ecology. As a matter of fact, these new economic trends seem to bring up that which is missing from mainstream economics, neoclassical economics, and neoliberalism.

In contrast to the neoliberal doctrine, offering uniform solutions and recommendations to all countries with market economies, the new economic approaches also take into consideration the social and cultural determinants of individual countries and societies. “Tailor-made suits” are replacing the “uniform” proposed by the Washington Consensus with its universal recipes of deregulation and tax reduction, a marginalized role of the state, and a balanced budget. Indeed, the above expedients are not always compatible with the local circumstances, as it has now been conceded by some IMF economists.
It has become increasingly clear that while economics should draw on the past and be relevant to the present, it must not ignore the future. This has been forcefully emphasized by Grzegorz Kołodko, who criticizes the “tattered legacy” of neoliberalism, admonishing that “economy without values is like life without sense” and advocating a “new pragmatism,” or the economics of moderation (Kołodko 2013, p. 164 and 377). Kołodko’s concept of the political economy of the future may be treated as important guidance for the development of economics and its practical applications.

Books and electronic publications on the Internet