

The crisis of neoliberal political economy and the return of the state : On the theoretical roots of postneoliberalism in Adam Smith's political philosophy and the German ordo-liberal tradition.

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Introduction

The Great Recession that has beset capitalist social relations since the 2008 has moved on from ‘financial socialism’ as means of nationalising the losses of financial institution to a politics of manifest austerity as a means of socialising the costs of rescue, on a global scale and to growing resistance. From Obama’s ‘biggest annual spending cut in history’ to the British government’s ‘deepest cuts to public spending in living memory’ slashing departmental budgets by an average of 19% and predicting job losses of five hundred thousand public sector workers by 2014, and similar measures in France, Spain, Portugal, the Netherlands, Ireland, Italy and Greece, have been introduced as a matter of ostensibly sheer necessity.¹

In the British context, the Conservative Party under the Premiership of David Cameron conceives of this politics of austerity, cuts, and unemployment, as a politics of the Big Society.² This notion focuses the politics of austerity succinctly: ‘You can call it liberalism. You can call it empowerment. You can call it freedom. You can call it responsibility. I call it the Big Society’ (David Cameron, cited in Daily Telegraph, July 21 2011). These Big Society ideas – liberalism, empowerment, freedom and responsibility – are fundamental to the liberal utility of the state. The Big Society proclaims that society is big enough to absorb the economic shock and cope with austerity in a self-responsible and in any case enterprising manner. The politics of austerity rejects public provision of welfare as disempowering the individual, and suggests a much reduced role of the state, which appears as an enabler of society, nudging it forward and onward to secure its ‘bigness’.

Amidst the political rescue of the financial system, the politics of austerity is reminiscent of Marx’s notion that the executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie, which he put forth in the Communist Manifesto of 1848. In his later critique of political economy, he writes about ‘the concentration of bourgeois society in the form of the state.

¹ On this, see BBC News, “US Congress Agrees Last-minute Budget Deal,” April 9, 2011, <<http://www.bbc.co.uk/news/world-us-canada-13022575>, and BBC News, “Spending Review 2010,” October 20, 2010, <http://www.bbc.co.uk/news/uk-politics-11579979>. On the rhetoric of the crisis, see Burnham (2011).

² Cameron’s Big Society contrasts with Thatcher’s claim that there is no such thing as society. Thatcher made her claim in an interview in *Woman’s Own* on 31st October 1987, just a few days after the stock market crash (Black Monday, 19 October 1987).

Viewed in relation to itself' (Marx, 1973: 108) and sees it as the 'concentrated and organized force of society' (Marx, 1983: 703). Within Marxist scholarship the political is generally seen as an economically determined entity. This is the case even when it is argued that Marx provided for an economic theory and that there was therefore need for the development of a Marxist political science. For example, Poulantzas (1973) and Jessop (2007) conceived of the state as a strategic arena for the advancement of hegemonic projects, by which specific capitalist interests acquire historical force. Others derived the state from his economic writings arguing that the economic base of society provides the foundation for a political superstructure that represents the collective capitalist interest (Mandel, 1971). Some others saw the necessity of the state to derive from either the equal exchange relations or the relations of capitalist competition, conceiving it respectively as the public authority of private contract or as the provider of social cohesion to competitive market relations (see Blanke et al; Poulantzas, 1978). In distinction to these approaches, Simon Clarke (1991) and Holloway/Picciotto (1978) argued that the state is the political form of the capitalistically constituted social relations of production. This argument is fundamental (see Bonefeld, 2008). Instead of deriving the political from presupposed socio-economic categories, be it in the form of competing hegemonic projects, an irresistible economic logic, or as a functional requirement of the relations of exchange and competition, it recognises these categories as important elements of the political economy of capitalistically constituted social forms. In short, this approach allows for the reconnection of critical political enquiry with the critique of political economy, including especially the contribution made by Adam Smith. I argue that Smith's political economy established the conception of the state, to which Marx's characterisation in the Communist Manifesto lays claim.

In the face of the crisis of neoliberal political economy, the article scrutinises the meaning of the state as the executive committee of the bourgeoisie by examining the classical political economy of Adam Smith and the more recent ordoliberal conception of the state as the political authority of market freedom. Adam Smith did not provide an economic theory. He analysed the political economy of what he called commercial society, and he conceived of the state as its political power. For Smith, the state renders commercial society viable by securing its moral, social, legal, and, also, its economic order. Commercial society depends on the state as the authority of these orders. Order is a matter of police, without which, he argues, commercial society will perish. That is to say, police is the precondition of

the system of liberty, and it this insight, I argue, which elucidates the distinctive meaning of Marx's conception of the state as the political form of bourgeois society, that is, the big society of enterprise, competition, and entrepreneurial morality. Marx's view of the state as the executive committee of the bourgeoisie does not invent the proverbial wheel. It reveals its purpose, which political economy expressed in a cogent manner. As the executive committee of the bourgeoisie, the state concentrates the political character of bourgeois society to secure its bonum commune: that is, the bonum of increased labour productivity as the foundation of the commune of the progressive accumulation of abstract wealth.

The following section introduces Smith's conception of the state with reference to the German ordoliberal tradition to elucidate Smith's understanding of the political character of commercial society. Ordoliberalism came to the fore in the Weimar of the late 1920s. It provides for a robust re-assertion of capitalist rationality by means of state at a time of manifest crisis. It rejects laissez faire liberalism, reasserts, seemingly unbeknown to itself, Smith's notion that liberty is a political practice, and argues that the provision of order is a matter of market police. The ordoliberal account illuminates Smith's conception of the state at a time of crisis, and demonstrates its transformation from a facilitator of liberty into an authoritarian body that declares for the empowerment of individuals to help themselves, especially at a time of misery. Ordoliberalism stands for the creation of a moral economy, by which is meant a society that accepts the pursuit of economic freedom as a matter of personal responsibility. The second section expounds Smith's political economy as a practice of government, and the third section develops the ordoliberal understanding of the state as 'market police'. The conclusion returns to Marx's conception of the state as the political form of liberty. It argues that Marx's characterisation of the state articulates its (economic-)liberal veracity without illusion about its character, purpose, and capacity.

Smith and the Idea of the Political

Adam Smith regarded political economy as 'a branch of the science of the statesman or legislator' (1976a: 428).³ He conceived of 'commercial society' as a class ridden society, and held the state

³ Skinner's (1999) introduction to the Penguin edition of the Wealth of Nations concludes on Smith's theory of the state but does not expound on its indispensability as the executive power of the system of perfect liberty. Clarke's (1988, 1992) account develops this insight arguing that 'the purpose of Smith's analysis of the economic system

indispensable for the organisation and maintenance of market liberty. The state gives order to economic freedom by means not only of law but, also by ‘ordering’ the conduct of society, restraining the passions of ‘self-love’ within the framework of the moral sentiments. The invisible hand is incapable of integrating society. It does not remove the social impediments to its operation, nor does it create the moral sentiments upon which the conduct between the private interests depends, and nor does it resolve the clashes of interest between the classes. The progress of the common wealth is a political matter.

Smith charges the state with removing impediments to market liberty and providing for the invisible hand that requisite legal, moral, and social order upon which it depends. The Smithean state is not a weak state. It is a strong state. It does not yield to the social interests. Instead it governs over them to secure the perfect liberty of the system as a whole. The Smithean state does not compete with the invisible hand as if it were some alternative source of regulative power. It is the political form of the invisible hand. It governs over society for the sake of the system of perfect liberty. The state is charged with securing this system to render the invisible hand effective. Hayek focused this insight succinctly when he argued that for the free economy, the liberal state is indispensable as a ‘planner for competition’ (1944: 31).

Hayek’s notion is key to the German ordoliberal tradition (see Röpke, 1936). It emerged in the Germany of the late 1920s as an attempt at re-asserting market liberal principles against the background of the then deep economic crisis, conditions of severe austerity, political violence, entrenched class relations, and a profound crisis of the state. Its main proponents were Walter Eucken, Franz Böhm, Alfred Müller-Armack, Wilhelm Röpke, and Alexander Rüstow. They argued that sustaining a liberal, competitive economy is a matter of strong state authority. Rüstow conceived of this strong state in terms of a ‘market police’ – a term Smith hints at in his Lectures on Jurisprudence where he argues that securing the system of perfect liberty belongs to the police. Yet, Rüstow and his colleagues, though praising Smith as an economist, are critical of him as the apparent founder of laissez faire liberalism. For the ordoliberals, laissez faire liberalism is indefensible. At the Walter Lippman Colloquium in 1938, at which liberals of different persuasions debated the meaning and possible future(s) of liberalism, Rüstow coined the phrase neo-liberalism in distinction to laissez faire

was to define the proper role of the state’ (1988, p. 39). The paper agrees with this up to a point. It argues that the

liberalism, which at that time was the particular cause celebre of the Austrian school of economics, von Mises in particular.⁴ Ordoliberalism argues that economic liberty is a practice of government. The system of market freedom does not come about just like that (Eucken, 2004). The state, they say, has to govern for liberty. That is, the free economy depends on the strong state as the public authority of liberty. They require the state to contain what they identify as the proletarianisation of social structures to secure the civitas of an entrepreneurial society. Market freedom, they say, requires the incorporation of the moral sentiments of enterprise into a lifestyle (Müller-Armack, 1978). Incorporation does not derive from some economic logic. It is a practice of government.

The ordoliberals criticise Adam Smith for positing the economic as an autonomous thing, disregarding the role of the state, and believing in the capacity of the free economy to regulate itself by means of the invisible hand. The first of these points is most important. According to Wilhelm Röpke 'classical economic science had gone astray in conceiving competitive economy as autonomous', and argues that Smith's account is based on a 'disastrous belief in the sociological autonomy of competitive economy'. This belief is 'the cardinal error of the laissez-faire philosophers'. The idea that economic liberty is akin to a system in which 'self-dependent processes [are] whirring away automatically' amounts, they say, to a deistic philosophy that is not only blind to the sociological, ethical and political preconditions of market liberty (Röpke, 2009: 56). It is also blind to the destructive impact of unrestraint competition on the moral fabric of society. They insist that competition is the 'primary instrument...of individual freedom' (Müller-Armack, 1978: 329), and argue that it has to be embedded within firm legal, social, and moral frameworks to secure its effectiveness. For Rüstow (1942), the idea that liberty will result from unrestrained market forces comprises the theology of liberalism. That is, they reject laissez faire liberalism as a 'paleo-liberalism', one that is fed by religious zealots of economic price, one that believes that society is no more than a resourceful and calculable entity of arithmetic equations, and one that unthinkingly allows the emergence of its own grave-diggers in the form the proletarianised

political state is the historical and also analytical presupposition of the system of perfect liberty.

⁴ The distinction between Austrian laissez faire liberalism and German ordoliberalism though analytically sharp, is of less importance in the context of Realpolitik. For example, von Mises asserts that uninhibited market forces are the only remedy to resolving economic crisis, and then argues that 'fascism and similar movements have...saved European civilization' (2000: 51). Hayek is equally drawn between the idea of the free economy and the idea of the strong, authoritarian state (see Cristi, 1998). Milton Friedman's support of, and indeed advisory role in, the Pinochet dictatorship is well known, and does not contradict his market-liberal stance (Bonefeld, 2006). Rüstow emigrated to Turkey upon Hitler's ascendancy to power in 1933. On his enunciation of neoliberalism as a critique of laissez-faire liberalism, and his conception of neoliberalism as a liberal theory of the strong state, see Jackson (2010), and Mirowski and Plehwe (2009).

masses. Laissez faire, says Rüstow (2009), assumes as eternal truth the divine reason of a supposed natural order of things, but does not tell us what it is, what it requires, and what needs to be done to sustain, secure and defend it not only in the hour of a need but, also, and importantly, pre-emptively to prevent liberal emergencies from arising. For the ordoliberal, economic liberty is not a natural thing. It is socially created and can thus be destroyed. Its existence requires careful political attention and facilitation.

The ordoliberal rejection of Smith's theory as a metaphysics has to be seen in the context of their battle with the Austrian school of liberalism who proclaimed Smith as their intellectual authority. The ordoliberals rejected Austrian laissez faire liberalism not because of its elevation of the free economy as the sine qua non of human existence. They rejected it because the free economy of laissez faire liberalism is bound to create socially destructive outcomes, especially in the form of proletarianised workers who demand welfare to the detriment of economic freedom and security of private property. Freedom they say requires the acceptance of personal responsibility for that freedom.⁵ The free market does not produce responsible workers; instead, it produces proletarianised workers. There is thus need for a political authority to prevent proletarianisation. They therefore endorse the state as market police. For the ordoliberals, economic freedom as such does not exist. It has no independent reality. It is an empowered freedom, and thus a practice of government.

The ordoliberal perception of Smith is blinkered. The next section argues that for Smith the system of perfect liberty depends on the state as its political authority. He developed this insight against the time of mercantilism with the vigour of a Man who saw that the time of commercial society had come. The ordo-liberals argued at a time of a profound crisis of capitalist civilisation, a time which they dismiss as one of 'mass opinion, mass claims, mass emotion and mass passion' (Röpke, 1998: 152); a time which allowed "'mass-produced" men to shirk their own responsibility' (Röpke, 1957: 24) relying instead on 'government-organized mass relief' (Röpke 1998: 155). Society, they say, had lost its moral compass, and instead of coping with economic hardship in an entirely self-responsible manner, demanded welfare support. They thus insisted on a strong state response to impose social order to reassert

⁵ The ordoliberals, Rüstow (2005) and Röpke (1998) in particular, accept that the freedom of the worker is a double freedom: it is the freedom from the means of subsistence and the freedom to sell her labour power to gain subsistence (Marx, 1983, ch. 26; for commentary Bonefeld, 2011). They therefore argue that resolution of the

economic liberty as a well ordered system of freedom and personal responsibility for that freedom. Their argument that the state is the executive power of liberty is, I argue, an unacknowledged tribute to Smith's political economy at the time of manifest crisis. Unlike Smith, though, the ordoliberalists did not set out to render the system of perfect liberty intelligible. They argued for its rescue by means of force.

Smith: Justice, Moral Sentiments and Market Police

For Smith, production and distribution are regulated through competitive exchanges, mediated by money⁶. This regulation is achieved where there is 'perfect liberty'. The price mechanism that allows prices to rise and fall above and below the 'natural prices' is governed by the invisible hand, which informs individuals where to invest and what to sell. The invisible hand is a depoliticised device of economic adjustment. Individuals follow price signals in a manner of their own choosing. Government or persons do not tell anybody what to do, when and where. Nevertheless, its magic requires government. There is need for the defence of private property against conquest, foreign invasion, and accumulation of wealth by means of piracy and robbery. For Smith, wealth results from the expenditure of productive labour. Then there is justice and the rules of justice, which he says are directed against the threat to property presented by the poor.

For Smith, 'justice...is the main pillar that holds up the whole edifice' of commercial society (1976b: 86). Justice is a matter not only of law and the rule of law, which is the regulative force of the bourgeois freedom of contract between ostensibly equal exchange subjects (Fine, 1981; Pashukanis, 1978). Fundamentally, it is a matter of order as the precondition of law. The rule of law does not agree with social disorder, and law does not enforce order. Police enforces order and in this manner renders the rule of law effective. The system of justice is also dependent upon a moral order that commits individuals to the rules of justice. The rules of justice, then, presuppose a social order and unfold within a moral framework. The removal of impediments to the free movement of prices entails thus also the provision of morally committed participants in market freedom. In this sense, the invisible hand represents the bad-infinity of a system that is constantly striving for perfection by means of a political effort that seeks the removal of obstacles from the path of liberty. That is, perfect liberty amounts both

'workers question' has to focus on the determination of the true interest of workers, which lies in the progress of the common wealth, see below.

⁶ This part draws on Clarke (1988, 1992) and Bonefeld (2010).

to a constant effort at restraining the passions of competition according to the rules of justice and the moral sentiments of private property, and at containing the rebellious character of the poor to secure the further improvements of the productive power of labour upon which the prospects of the common wealth rests.

According to Smith (1976b), the moral sentiments of commercial society are based on the sense of the 'propriety' of the beauty of a well-ordered whole. This whole gives purpose and benefit to the private individuals. It restrains their passions that are governed by 'self-love.' The private individuals are interested only in themselves, and yet each individual is obliged to all other individuals. The pursuit of their unsocial interests rests thus on the fundamental sociability of the whole. Sociability exists over and above the unsocial interests. It restrains their conduct within a framework of a well-ordered whole. He argues that the basis of judging the propriety of the whole is 'sympathy'. Sympathy is the ability of individuals to adopt the position of the 'impartial and well informed spectator'. However, sympathy is not sufficient to contain the fundamental condition of commercial society, that is, 'self-love'. A society based on the pursuit of self-interest requires therefore a moral foundation, a moral social fabric and an ethical framework, to sustain it. The moral sentiments alone are thus not sufficient for maintaining a society of self-seekers. On the part of the self-interested individuals, the moral sentiments express, firstly, the charitable side of a bourgeois order, or as Marx (1975) put it in the Holy Family, its sentimentality. Inasmuch as the concept of 'free labour contains the pauper' (Marx, 1973: 604), the character trait of private property combines cutthroat competition and ruthless commando on the factory floor, stealing atoms of additional labour time, with an impulse to charity for the poor and downtrodden. Secondly, for Smith the state renders the moral sentiments valid as the impartial and well informed spectator of the system of liberty. For Smith, the state governs in the true interests of the common wealth, appealing to and connecting with the honest core of individuals, restraining their immediate individual interests and class interests within a moral framework that both legitimises the rule of justice and embeds the morality of private property, sympathy and competitiveness, into the inner recess of society.

For the sake of liberty it is thus necessary to employ 'the power of the commonwealth', that is, the state, 'to enforce the practice of justice. Without this precaution, commercial society will descend into

bloodshed and disorder, every man revenging himself at his own hand whenever he fancied he is injured' (1976b: 340). Punishment is the condition of justice. 'All men delight' to see injustice 'punished', and injustice needs to 'be punished...on account of the order of society' (ibid.: 89, 91). Further, only those who do 'not violate the laws of justice [are] left perfectly free to pursue their own way, and to bring both their industry and their capital into competition with any other man, or order of man' (Smith, 1976b: 749.) In the Wealth of Nations he argues further that the state is responsible for securing the proper use of freedom – by means of police, it punishes the misuse of freedom, enforces the moral sentiments of freedom, and intervenes into the moral make up of individuals, restraining the passions for the benefit of the common wealth. In this context, he argues that the state is responsible for establishing the exact administration of justice, adjudicating between clashes of interests and equal rights, erecting and maintaining public works and public institutions upon which the pursuit of commercial society depends (see Smith, 1976a: 723). Furthermore, the state is responsible for achieving the 'cheapness of provision' (Smith 1978: 6), that is, for facilitating the progressive division of labour by means of greater labour productivity. Smith thus argues that the 'system of private property necessarily requires the establishment of civil government...Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all' (Smith 1976a: 770), and he maintains that the defence of private property against the poor is in fact undertaken in the interest of the poor. The state is the embodiment of the impartial observer and it upholds the beauty of the system as a whole for the benefits of every individual. That is, the ignorance of the poor prevents them from understanding what is in their own best interest. According to Smith, the system of perfect liberty if allowed to operate unimpeded, improves the conditions of the poor as wealth once accumulated in the hands of the rich, tends to trickle down – the bigger the cake, the bigger the slice for the poor.

Smith introduces the class struggle between capital and labour arguing that 'wages depend upon contract between two parties whose interests are not the same'. That is, the 'workmen desire to get a lot, the master to give as little as possible. The former are disposed to combine to raise, the latter to lower the wages of labour' (Smith, 1976a: 83). In this struggle, the masters have the upper hand because they 'are fewer in number, and combine much more easily; they can live for longer without getting their profits, the workers are starved' (ibid.). That workers rebel is understandable given their

‘desperate conditions’ (ibid.: 84). Yet, their action is foolish because ‘the masters react with purpose and force the worker back and that is, the workmen very seldom derive any advantage from the violence of those tumultuous combinations’ (ibid.: 85). The only way to raise wages and improve conditions is by sustained accumulation. ‘Workers do well not to struggle, because with the increase of surplus, stock accumulates, increasing the number of workers, and the increase of revenue and stock is the increase of national wealth. The demand for those who live by wages...increases with the increase in national wealth’ (ibid.: 86-7). He argues thus that ‘the demand for those who live by wages...increases with the increase in national wealth’ (Smith, 1976a: 86-7). This, then, is the famous trickle-down effect - accumulation, he argues, increases national wealth and ‘occasions a rise in the wage of labour’ (Smith, 1976a: 87). Smith calls this the ‘liberal reward for labour’, and one consequence of his argument is, of course, that if there are poor, then this is an indication that ‘things are at a stand’ (Smith, 1976a: 91), requiring state action to facilitate ‘the cheapness of goods of all sorts’ (Smith, 1976a: 333) that is, to increase labour productivity and thus to improve price competitiveness in a world governed by the harsh reality of the invisible hand. The owners of stock in some countries might achieve higher rates of return on their investment than owners in other countries, ‘which no doubt demonstrate[s] the redundancy of their stock’ (Smith 1976a: 109). In order for their stock to be maintained, competitive adjustment at home is required, and its facilitation ‘belongs to the police’ (Smith 1978: 5). Smith thus conceives of the state as a facilitator of price competitiveness by means of greater labour productivity, in the face of ignorant workers and rapacious owners of stock. Maintaining the system of perfect liberty is about the achievement of greater labour productivity as the condition of the progressive development of the common wealth. Resolution to the workers’ desperate conditions and quarrelsome nature does not lie in the admittedly unequal exchange relation between capital and labour. Resolution lies in the dynamic increase in wages that depend on the most rapid possible growth in the demand for labour, which results from the growth of the market, increase in trade and commerce, and which is based on the division of labour, which in turn is fed by greater labour productivity.

However, although according to Smith, ‘national wealth’ and ‘workers’ benefit from progressive accumulation, the owners of stock might not because ‘the increase in stock, which raises wage, tends to lower profit’ (Smith, 1976a: 105). In this context, too, the state acts as the impartial spectator of the

system of perfect liberty. That is, higher wages benefit capital too by stimulating the growth of population, the expansion of trade and the division of labour, and the industriousness of the worker. Nevertheless, capitalists pursue their own class interests and might therefore seek to maintain the rate of profit artificially, impeding the natural liberty of the market, for example by means of price fixing or protectionism. This assertion of private power 'produces what we call police. Whatever regulations are made with respect to the trade, commerce, agriculture, manufactures of the country are considered as belonging to the police' (Smith, 1978: 5). Effective policing entails a strong state, a state where it belongs: over and above the egoistic interests and class struggles, ostensibly not governing in the interest of either but in the interest of the beauty of the well ordered whole, securing its propriety. The state thus governs in the interests of the bonum commune of commercial society. It intervenes into the behaviour of individuals to restrain their passions that are governed by 'self-love' and short term class interests, be it greed, protection of short term profit interests, or the rebelliousness of the poor who demand public provision of relief to meet subsistence needs. Concerning the poor, police is needed to make the worker accept that 'if he is frugal and industrious, [s/he] may enjoy a greater share of the necessaries and conveniences of life than it is possible for any savage to acquire' (Smith, 1976a: 10). There is thus need, also, for a public system of education to facilitate commercial society. The state facilitates the moral sentiments by 'promoting the instruction of the people' chiefly by means of education and public diversions (Smith 1976a: 723). He argued that government should take pains to offset the socially and morally destructive effects of accumulation, by assuming responsibility for cultural activities to maintain civil society.

In sum, the administration of justice, which secures property and the person, and which defends the rich against the poor, describes an 'order of good government' that despite appearances to the contrary, is in the interest of the poor. Government is to sustain the propriety of the system to advance the 'true' interests of each individual. The state recognises the ignorance of the poor who react to conditions in an aggressive manner, and governs over them so that they may benefit from the liberal reward that the progressive development of the productive power of labour may accord to them. That is, for Smith, the state acts as the impartial observer of the system of perfect liberty, and as such an impartial observer it upholds it in sympathy with the poor whose conditions are dire and whose interests, he argues, are best served by the progressive division of labour and improved labour productivity. It is in the poor's self-

interest to let wealth trickle up to allow for that improvement of their own conditions which only economic growth can furnish. The purpose of the state is thus to secure for the invisible hand the perfect order upon which the progress of society depends. Its purpose is thus to eradicate disorder and establish the rules of justice, facilitate the moral sentiments and restrain the passions, secure the cheapness of provision and achieve greater labour productivity, and instruct the people. Police maintains 'the rich in the possession of their wealth against the violence and rapacity of the poor' (Smith 1978; 338) and according to Smith this is done in the interest of the poor, so that they may gain the liberal reward for their labour.

Ordoliberalism and Human Economy

Smith's notion that frugality and industriousness is fundamental to the prospects of the poor is central to the ordoliberal stance. It conceives of 'enterprise competition' as a 'public duty' (Müller-Armack, 1979: 146, 147), including the provision of a firm ethical framework to secure liberty in the face of 'greedy self-seekers' (Rüstow, 1932/1963: 255) and labour struggles for employment, conditions, and welfare. The ordoliberals concede that capitalism has a natural tendency to create proletarianised workers who, they say, exist in a devitalised state, that is, they seek material well-being at the expense of enterprise. For them, a proletarianised worker is one who rebels against regulation of wage income by means of the free price mechanism. Nothing is worse, writes Böhm in 1937 (1937: 11), than a condition in which the capacity of the free price mechanism to regulate peacefully the coordination of, and adjustment between, millions and millions of individual preferences only for 'the will of the participants to rebel against that movement'. The ordoliberals focus their attention on the formation of the will of the participants, removing the impediment of ill-will from the path of liberty.

They conceive of liberty as the freedom of the entrepreneur to engage in competition to seek gratification by means of voluntary exchanges. Free markets are governed by the principles of scarcity, private property, freedom of contract, and exchange between equal legal subjects, each pursuing their own self-interested ends. The free market allows social cooperation between individuals by means of a 'signalling system', the price mechanism. It thus requires monetary stability to permit its effective operation as a 'calculating machine' (Eucken, 1948: 28) that informs consumers and producers of the degree of scarcity in the whole economy. As such a 'scarcity gauge' (ibid.: 29) it sustains the

‘automatic’, non-coerced coordination and balancing of the interests of millions and millions of people, each partaking in a ‘continuous consumer plebiscite’ (Röpke, 1951: 76). Prices, says Röpke (1987: 17) ‘are orders by the market to producers and consumers to expand or to restrict’. They endorse the free market as a particular ‘social instrument’ that allows ‘for greater chance for personal responsibility and individual freedom’ (Müller-Armack, 1978: 329). However, freedom is troublesome. It requires surveillance so that it does not go astray, preventing its misuse as prices can be fixed, markets carved up, and competitive adjustment avoided by means of protectionism and manipulation of monetary policy; and workers can strike, the masses can revolt, and a proletarianised mass society can force the state to concede welfare. The free market requires therefore strong state authority to assure the orderly conduct of ‘freedom’ and secure its liberal utility. Order is sociability, and there can be no freedom without order. Order does not derive from free markets. Rather, free markets depend on order. Law regulates order, which is a matter of ‘police’.

Laissez-faire is therefore ‘a highly ambiguous and misleading description of the principles on which a liberal policy is based’ (Hayek, 1944: 84). Competition is an instrument of freedom only if it is not extended beyond the economic sphere. That is, ‘we do not demand more from competition than it can give. It is a means of establishing order and exercising control in the narrow sphere of a market economy based on the division of labour, but not a principle on which the whole society can be built. From the sociological and moral point of view, it is even dangerous because it tends more to dissolve than to unite. If competition is not to have the effect of a social explosive and is at the same time not to degenerate, its premise will be a correspondingly sound political and moral framework. There should be strong state...a high standard of business ethics, an undegenerated community of people ready to co-operate with each other, who have a natural attachment to, and a firm place in society’ (Röpke, 2009: 181). The market mechanism does not supply morally decisive and socially coherent outcomes in support of the further development of market freedom. The moral sentiments of private property have no price and can therefore not be determined by the highest bidder or strongest party. They are public goods that if properly arranged facilitate the utility machine of the market. Their arrangement, they say, is a political task undertaken to secure the system as a whole.

For the ordoliberal, laissez faire liberalism is thus tantamount to disaster. It opens the gate of opportunity to greed and allows the entirely self-serving individuals of economic price to run riot. They accept that greed is a fundamental economic value. It oils the machinery of competition and secures the effective regulation of liberty by the free price mechanism. However, if unrestrained by law and the system of morality, it erodes the fundamental sociability of a competitive society with costly consequences. Once political authority fails in its provision, social order is subject to abuse by the social interests, including the welfare seeking proletarians. They argue that social crisis is brought about by the 'revolt of the masses', which a weak state is unable to contain. This revolt manifests a proletarian personality that is devoid of the moral sentiments of a free society, and that instead of adjusting to markets, rebels against market pressures seeking collective means of subsistence support. The 'revolt of the masses' must therefore be countered 'the revolt of the elite' (Röpke, 1998: 130) to reassert the sentiments and laws of civil society, reigniting the utility machine of the market as an instrument of freedom.

For the ordoliberal, poverty is not material in character. Rather, it shows a lack of enterprise on the part of the poor. Fundamentally, poverty is characterised by a poverty of aspiration.⁷ A proletarian personality compounds the conditions of poverty. Instead of helping themselves and others to cope with economic shocks, it subverts the moral sentiments that affect the system of liberty. Proletarianised workers lack the moral stamina to provide for themselves and do not accept economic freedom as a personal responsibility. For the sake of moral economy, the state has to resist demands for welfare provision – conceding welfare means that the state loses its 'independence' from society and is 'devoured' (Ruestow, 1932/1963: 258) by the social forces. Instead of governing over them, they govern through the state to the detriment of the poor themselves who find themselves enslaved by a welfare state, which reduces them to 'an obedient domesticated animal [that is kept] in the state's giant stables' (Röpke, 1998: 155). They say, this is a state of utter social devitalisation, spiritual abandonment, and one in which the utility machine of freedom grinds to a halt, and with it the prospects of the common wealth, which provides for everyone on the conditions that the participants

⁷ The ordoliberal stance inverts Brecht's dictum 'Bread first, morality later' to one in which bread derives from the entrepreneurial morality of the poor. Oscar Wilde expressed this inversion well when he wrote in The Importance of Being Earnest: 'if the lower orders don't set us a good example, what on earth is the use of them? They seem, as a class, to have absolutely no sense of moral responsibility.' What Wilde talked about in irony now informs the fiscal policy stance of sovereign debtors.

accept their entrepreneurial responsibilities and adjust to price signals and market conditions willingly and with gusto. Progress, they declare, should not be measured by the provision of welfare and material well being. Rather, it should be measured by what the masses can do for themselves ‘out of their own resources and on their own responsibility’ (Röpke, 1957: 22). Naturally, says Röpke, nobody ‘ought to be allowed to starve’ but he continues, ‘it does not follow from this, in order that everybody should be satiated, the State must guarantee this’ (2002: 245). Social provision ‘devitalises’ workers. They are disempowered as entrepreneurs. Fundamentally, they are ‘devitalised’ because they are not possessed by the ‘ethic and spirit of the bourgeois’ (Campbell, 2009: xvi). By yielding to demands for welfare provision, the state compounds those proletarianised social structures that disregard the true interests of workers to come to the fore. In fact, they argue, workers aspire to become full members of the bourgeois ‘civitas’ if only they knew how to (Müller-Armack, 1976: 182). That is, full employment policies and welfare security are ‘repugnant to the workers’ own sense of freedom’ (ibid.). The free economy presupposes vitally satisfied individuals who perceive of poverty as an incentive to do better, see unemployment as an opportunity for employment, price themselves into jobs willingly and on their own initiative, meet a part of their subsistence needs by working for themselves and others, and who enter the realm of coined freedom as buyers and sellers of property and stock market investors, and who therefore engage in bourgeois freedom – the freedom of contract – as entrepreneurs of their own life circumstances, whatever they might be. For them, vitally satisfied workers take their life into their own hands, get on with things, live courageously and put up with life’s insecurities and risks, fit in extra hours of independent work to meet subsistence needs and help others, and see unemployment as an opportunity for employment. For the ordoliberal unemployed workers are fundamentally entrepreneurs in transit, from one form of employment to another.

The ethical formation of the market-conforming structures of behaviour is thus essential. Echoing Smith’s view on the likelihood of commercial society to descend into bloodshed and disorder, Röpke argued that without strong state authority the competitive market society will destroy the laws of justice and morality upon which it depends. The state is indispensable as the force of order. Without it the free activity of individuals will ‘degenerate into a vulgar brawl’ (Röpke, 1982: 188) that threatens to break society up. In this context, Müller-Armack focused on myth as a means to hold it together. In the 1920s

he espoused the myth of the nation as the over-arching framework beyond class, in the 1930s he addressed the national myth as the unity between movement and leader, and advocated 'total mobilisation' (Müller-Armack, 1933: 38), in the post-war period he argued initially for the 're-christianization of our culture as the only realistic means to prevent its imminent collapse' (1981b, p. 496). Yet, in the context of the post-war economic recovery, he perceived social cohesion to derive from an economic development that the then Minister of Economics, Ludwig Erhard (1958), termed 'prosperity through competition'. Sustained economic growth is the best possible social policy (Müller-Armack, 1976) – it placates working class dissatisfaction by providing employment and security of wage income. The 'social content' of the system of economic liberty is economic growth (Müller-Armack 1976: 253). Only the 'total mobilisation of the economic forces allows us to hope for social improvements, which achieve real social contents by means of increased productivity' (Müller-Armack 1981a: 79). The free market is therefore a social market economy because it 'stimulates production and increases output, leading to greater demand for labour' (Müller-Armack 1976: 253), which will eventually trigger the (in)famous trickle-down effect, bringing wealth to the downtrodden (Müller-Armack 1976: 179).

Class struggle and political strife are thus misguided responses to pressing social problems. A proper 'social policy' does not redistribute wealth, it aims instead at revitalizing proletarianised workers as entrepreneurs of their own life circumstances. Social policy has thus to establish a connection between the 'human beings and private property' (Müller-Armack, 1976: 133). In contrast, Röpke who had started out as a rationalist thinker of economic value, bemoaned later in his life the disappearance of traditional means of social cohesion in peasant life, and the relations of nobility and authority, hierarchy, community, and family. In his view, the free economy destroys its own social preconditions in what he called 'human community'. Post-war economic recovery created materialist workers; it did not create vitally satisfied workers who are rooted in traditional forms of natural community. He perceived the 'menacing dissatisfaction of the workers' (Röpke, 1942: 3) as a constant threat, and demanded that social policy '[attack] the source of the evil and...do away with the proletariat itself...True welfare policy', he argued, 'is...equivalent to a policy of eliminating the proletariat' (Röpke, 2009: 225), substituting a proletarian personality with a personality of private property. In his view, materially satisfied workers will not be able to absorb economic shocks unless they are also

morally satisfied workers. For the ordoliberals, the system of economic liberty contains ‘the natural tendency towards proletarianization (Röpke 2009: 218). ‘Deproletarianisation’ is thus a constant, never completed political practice. That is, the free economy ‘must be conquered anew each day’ (Röpke 1998: 27) to secure the ‘incorporation [of the economic order] into a total life-style’ (Müller-Armack 1978: 328).

Economic freedom is not an economic product. It is a political practice. Freedom is a constantly empowered freedom. It is a political practice of a Vitalpolitik - a politics of life that ‘requires a market police with strong state authority’ (Rüstow, 1942: 289) to sustain a society of willing, responsible, and entirely reliable entrepreneurs. Freedom depends on the moral sentiments of freedom. They therefore see the free economic as a moral economy. In this sense, the strong state does not really govern over society. Rather, in its attempt to avoid the political consequences of proletarianisation, it governs through society to secure the transformation and multification of the social fabric into competitive enterprises (see Müller-Armack 1976: 235). That is, he ordoliberals reject the socialisation of the state and instead demand the ‘etatisation of society’ (Böhm 1969: 171). Freedom is a matter of order, and order is a matter of police. Given the natural tendency towards proletarianization, the ordoliberal idea of freedom is essentially based on distrust. That is, liberal ‘security is only to be had at a price of constant watchfulness and adaptability and the preparedness of each individual to live courageously and put up with life’s insecurities’ (Röpke 2002: 198). Economic freedom requires thus an ever-vigilant security state to prevent the misuse of freedom and, if need be, to restore freedom restrained by rules and tied to the moral values of responsible entrepreneurship. In the late 1920s, they therefore called for a commissarial dictatorship (Rüstow, 1929/1959: 100ff; Röpke, 1942: 246, 247) to cope with the ‘extreme emergency’ that had arisen because the great majority of society lacked the ‘moral stamina’ to absorb economic shocks (Röpke 2009: 52). That is, at a time of liberal emergency, ‘the most fundamental principles of a free society...may have to be temporarily sacrificed...[to preserve] liberty in the long run’ (Hayek 1960: 217). The prize for the sacrifice of freedom ‘is freedom’ itself (Friedrich, 1968: 581)⁸. For the ordoliberals, the state of economic liberty is an ever-vigilant security state (see Foucault 1997: 97).

⁸ On this see, Cristi (1998) and Bonefeld (2006).

'Ordoliberalism' asserts the authority of the state as the political master of the free economy. Freedom is freedom within the framework of order, and order is a matter of political authority. Only on the basis of order can freedom flourish, and can a free people be trusted to adjust to the price mechanism in the entirely self-responsible manner of the entrepreneur. For the ordoliberals, the task of sustaining market liberty on the basis of the rule of law is not enough. Fundamentally, market behaviour needs to be embedded into 'psycho-moral forces' (Röpke, 1942: 68) of society, containing the proletarianisation of workers and securing the worker as a personality of private property.

Conclusion

The Adam Smith who is said to have argued for the autonomy of the economic is quite unlike the Adam Smith who authored The Theory of Moral Sentiments in 1759, delivered The Lectures on Jurisprudence between 1762-1764, and published The Wealth of Nations in 1776. I have argued that for Smith the autonomy of the economy is a political task, comprising the removal of impediments to the market, restraint of the passions of competition within a legal and moral framework, government over society to secure the system of perfect liberty within the order of freedom. Without government, liberty descends into 'disorder and bloodshed'. Government civilises society and maintains its civility. For Smith, police is the premise of liberty. For the ordoliberals, liberty has become a practice of a watchful 'security state', which in the words of Böhm no longer governs over society. It governs through society. Freedom, he says, depends on the stratification of society. They argue that freedom is a matter of market police and market police is a practice of freedom – to secure the laws of justice, the cheapness of provision, and the moral sentiments of private property. Like Smith they demand the removal of the impediments to the perfect system of liberty, and they call upon the state as market police to ensure the continuous improvements in labour productivity as the fundamental condition for the progress of the common wealth. They understand that economic liberty contains not only the pauper but also the proletarian, and they recognize that a proletarian personality subverts the moral sentiments of private property. They therefore demand the empowerment of individuals as responsible market agents. For the ordoliberals, economics is a dismal science precisely because it claims to be a science. Economics turns human effort into a calculable equation that knows the price of everything, reduces every conceivable human endeavour to an arithmetic expression of costs and benefits, and knows the social value of nothing. For the ordoliberals, the attainment of the moral sentiments and

social order is more important than GDP, inasmuch as GDP does neither breed the moral sentiments nor provide for liberty the social order, upon which its progress depends. The laws of justice do not apply to disorder. Laissez faire liberalism is thus rejected as a doctrine of faith in the automaticity of a system of numbers. When the going gets tough, it is incapable of defending itself. The ordoliberal Smith is the Smith of the moral sentiments and market police, of the laws of justice and empowered entrepreneurship. Compared with the ordoliberal Smith, the Smith of laissez faire liberalism is a caricature.

The difference between the ordo-liberals and Smith is that unlike Smith, the ordoliberals do not provide a social theory and political philosophy of capitalist social relations. They demand strong state action as the means of liberty in the face of a manifest crisis of capitalist social relations. Their stance expresses the theology of liberalism. Smith, in contrast, does not even utter the word 'liberalism'. There was no such system to defend. His theory of the common wealth based on invisible principles of market freedom and of the state as the means of ordering the system of perfect liberty ridding it from impediments, looked forward to a world that still had to be born. The ordoliberals, in contrast, did not look forward to a new liberal world – they sought to prevent its collapse, and asserted the means of rescue. For them 'liberalising' society was not an option. It had to be ordered anew by means of strong state authority. In the late 1920, they therefore demanded the full force of the state to secure the liberal empowerment of individuals in the self-responsible use of economic freedom, and like theological avengers, they moved from the lectern to the barricade, demanding a commissarial dictatorship to reassert social order and morality.

I started the paper with the argument that the political response to the crisis of 2008 – financial socialism and austerity – illustrates the practical meaning of Marx's notion of the state as the executive committee of the bourgeoisie in a cogent manner. His notion reveals the liberal truth of the capitalist state. Smith's political theory and the ordoliberal call to arms expound with great clarity its character as the political form of bourgeois society. The capitalist state is neither independent from the economy nor does it derive from it. The economic has no independent existence. It is a practice of government. That is, the state is not defined in relationship to the economic, and nor is the economic defined in relationship to the state, a view which implies a conception of market and state as two distinct modes of

social organization, and the perennial question about such a conception is whether the market has autonomy vis-à-vis the state, or the state vis-à-vis the market. Political economy defines the state not by its relationship to the market but by class. That is, it governs for the well-ordered civil society to achieve that cheapness of provision, which results from improvements in the productive power of labour. There can thus be no economic crisis. Economy is a political economy. Economic crises are crises of political economy. That is, a crisis expresses a political failure. The state failed either in removing impediments to market freedom or in restraining the passions of competition, or it failed in securing the cheapness of provision, etc. The free economy entails a constant political effort at containing its tendency towards proletarianisation by facilitating the ‘psycho-moral forces’ (Röpke 1942: 68) of enterprise. Marx’s conception of the state as the concentrated and organised force of society (Marx, 1983: 703) – of society viewed in relationship to itself – focuses political economy as a practice of governmental. As the organised force of society it seeks its freedom.

Marx’s stance elucidates the liberal paradox that the state always governs both, too much and too little. The market liberal assertion that uninhibited market forces are the only remedy to resolving economic crisis is deceitful. Uninhibited markets are the result of the successful removal of impediments to free economy. The free and unimpeded economy and the strong, order-imposing state belong together. Similarly, the idea of the Big Society is equally deceitful. The Big Society is if it is anything at all, a political practice that demands from society that it copes with austerity and mass unemployment in an entrepreneurial manner. In the big society there can be no commitment to ‘stop making capitalism’ (Holloway, 2010: 253-261). There can only be entrepreneurial commitments to secure that step-change in labour productivity upon which the prospects of the perfect system of liberty depend, and facilitation of this step-change is a matter of market police. To their credit, the ordoliberalists are robust about the liberal utility of the state as the indispensable power of market freedom. They understand that for the sake of the free economy, the state cannot have enough power; for the sake of an apolitical enterprise society, it has to be a ‘political state’ (Marx). The strong market enforcing state expresses the realpolitik of political economy. In this respect, the strong state is the political form of a politics of austerity that declares in favour of the big society.

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