

The “New” Crisis of the Liberal Order: Populism, Socioeconomic Imbalances, and the Response of Contemporary Ordoliberalism

By Malte Dold* and Tim Krieger**

Abstract

In the face of the “new” crisis of liberalism, our paper follows the spirit of Walter Lippmann’s *The Good Society* and argues for a renewal of (ordo)liberal thinking. Similar to Lippmann, we argue that our current liberal economic order is unfit to deal with fundamental social asymmetries. The benefits of economic integration are distributed unevenly with urban economic and political elites as main beneficiaries and supporters of the current order, while neglecting less-skilled, rural workers. In this paper, we argue for a *contemporary ordoliberalism* that takes up this distributional challenge. In spite of recurrent criticism of its value-laden nature, we argue that the normativity of ordoliberalism is actually an asset in the current debate on populism.

JEL Codes: B25, B31, B41

1. The “New” Crisis of the Liberal Order

After the fall of the Iron Curtain, which Fukuyama famously described as the “end point of mankind’s ideological evolution and the universalization of Western liberal democracy” (1989, 4), there was a widespread consensus within European intelligentsia that the combination of a competitive market economy, a liberal and open democracy, and the rule of law was the most attractive form of social order (Fuest 2018).

In recent years, this belief has been severely challenged by political reality: traditional parties of the political center that dominated the political debate in post-WWII Europe are in decline; populist movements of the right and the left have won elections or significant shares in parliaments in many European countries (e.g. Poland, Hungary, Italy, Greece). While ‘populism’ is a vague umbrella term, populist movements

* Economics Department, Pomona College, 425 N. College Way, Claremont, CA 91711, USA. The author can be reached at malte.dold@pomona.edu.

** Faculty of Economics and Behavioral Sciences, University of Freiburg, Wilhelmstraße 1b, 79085 Freiburg, Germany. The author can be reached at tim.krieger@vwl.uni-freiburg.de.

generally define themselves in opposition to political and economic liberalism. In addition, they often share an anti-establishment orientation, an opposition to supra-national institutions and open economies, and an appetite for authoritarian governance (Rodrik 2018).

In the literature, there is an ongoing debate over the causes of the current rise of populist movements (see e. g. Gidron and Hall 2017; Guiso *et al.* 2017; Inglehart and Norris 2017; Mudde and Kaltwasser 2017). Different potential explanations of structural changes in economies have been offered (i.a. globalization, immigration, digitization). However, most scholars agree that *individual economic anxiety* and *distributional struggles among social groups* are a crucial element of all these explanations (Rodrik 2018).¹ Interestingly, both of these drivers can be seen as endogenous to our current (European) liberal economic order; and, if this observation is true, the question must be asked whether liberalism is itself guilty of its declining demand.

Specifically, the liberal economic order is built on a fundamental asymmetry: the benefits of open borders and economic integration are distributed unevenly, favoring a well-educated and mobile urban elite while neglecting less-educated workers, often in rural areas (Collier 2018; Venables 2018). Accordingly, support for the liberal order can be expected from the beneficiaries of the economic, political, and social outcomes of this order, while the losers may resort to populist protest. An example of this dynamic is the striking geographical divide between ‘Remain’ (esp. in Greater London) and ‘Leave’ (mostly in the countryside) in the Brexit vote (Arnorsson and Zoega 2018).

This article attributes at least a *partial* responsibility for the decline of liberalism to the behavior of liberals themselves. In section 2, we discuss how liberals focused one-sidedly on a business-friendly agenda that neglected a serious treatment of the emerging socioeconomic imbalances within advanced market economies. Section 3 carves out the core theses of Walter Lippmann’s classic *The Good Society*, which we deem a pragmatic manifesto for the reinvention of liberalism that is as relevant for today’s debate as it was at his time. Based on Lippmann’s theses, section 4 sketches the contours of a *contemporary ordoliberalism*. Section 5 argues as a conclusion that the latter’s comparative advantage lies in the merger of positive-economic arguments with a liberal normative perspective which can and should be further integrated into current discussions in the emerging field of Philosophy, Politics, and Economics (PPE).

¹ In focusing on economic drivers of populism in this article, we do not mean to negate the cultural dimension of the problem. Inglehart and Norris (2017) argue convincingly that individual support for populist authoritarian parties is often motivated by a backlash against cultural change. However, they also point out that the growing backlash *in recent years* is triggered by increasing economic anxiety on behalf of socioeconomically disadvantaged groups. In general, the jury is still out on the causal effects from feelings of economic insecurity and perceived cultural threats to populist voting. For a nuanced analysis of the German context, see Baron (2018), for example.

A caveat is necessary at the outset: In this paper, we use a very broad understanding of ‘liberals’ in the European sense of the term that encompasses practical politics as well as academic economics. In contrast to libertarians, the liberals we have in mind usually share the conviction that *open markets* (i.e., free trade and globalization) paired with *rule-constrained politics* (on the national and international level) is the best social system for securing and fostering social cooperation and economic prosperity. While some readers might find this too vague, we think it is necessary to capture the fact that the liberal coalition is colorful and comes in many stripes. It is also important to note that liberal politics in Western democracies has certainly helped foster an unprecedented period of economic growth in the decades after WWII. However, we follow Posner and Weyl (2018) in thinking that this success has made many liberals complacent: in both practical politics and academic economics “leaders decided that more or less perfect markets had been achieved. Ideas for further breakthroughs in expanding trade or eliminating monopoly power were largely abandoned,” and, strikingly, many “economists came to believe that differences in individuals’ talents are the main source of inequality” (2018, 23).

2. The Liberal Neglect of a Fundamental Societal Asymmetry

Nowadays, many European citizens do not see liberalism as part of the solution, but as the cause of the ongoing economic crisis (The Economist 2018). There are a number of reasons for this perception, all backing the claim that liberals bear *partial* blame for their own decline in popularity.

First, over the course of the last few decades, liberals often focused on a business-led agenda of economic policy-making and the justification – rather than the reform – of existing market institutions (Braunberger 2016). Following the paradigm change toward supply-side economics of the early 1980s, many liberals propagated a form of trickle-down economics and supported deregulation (e.g. in the financial sector, in trade agreements, or in industrial policy-making), which often favored big corporations (Posner and Weyl 2018). Corporations which had initially achieved significant market shares by superior efficiency often used their market power to lobby successfully for various barriers to entry to protect their incumbent positions, making it harder for new innovative firms to enter the market or smaller firms to grow and leading to negative effects on consumer welfare (Munger and Villarreal-Diaz 2019).

Second, many liberal economists delegated the ‘social question’ (i.e., issues of distributional justice) to moral philosophy since they wanted to draw a sharp distinction between the ‘positive’ science of their discipline and normative evaluations (Hausman, McPherson, and Satz 2016, 337). When they advocated a view on distributional questions, liberals usually tolerated socioeconomic imbalances since they could always point to the fact that their model had generated unprecedented wealth,

and existing social safety nets worked in absorbing drastic hardship. As a result, liberals have not done a good enough job in addressing the new political divide between metropolitan voters – who back the liberal economic agenda – and rural voters – who are increasingly backing populist campaigns (Collier 2018, 125). In recent years, most of the productivity growth and wealth creation has taken place in big cities. The OECD (2017) estimates that the productivity gap between big cities and rural areas has widened by 60 % in the last 20 years. People in rural areas who cannot afford rents in the city lack the opportunity of benefiting from the high productivity of cities that offer better economic prospects. In addition, opening national economies to international trade caused a greater risk of external shocks, especially for low-skilled workers (Rodrik 1998). Often, this would require ‘bigger governments’ to attenuate economic hardship. However, in light of a globalized economy with sharper international systems competition this option became ever more difficult to implement, since countries did not want to fall behind in international comparison (Sinn 2002).

Third, in a similar vein, liberals tended to neglect the increase in economic insecurity for low- and medium-skilled workers who have not gained their proportional share of the increased economic pie (Guiso *et al.* 2017; Rodrik 2018). The causes of the recent decline in the labor share of income in advanced European economies are surely complex. Import competition and offshoring have contributed to long-term losses in middle-skill occupations and displacement of middle-skilled workers to lower-wage occupations (Dao *et al.* 2017). In addition, technological progress and the rise of ‘superstar firms’ help to explain a substantial part of the overall decline in the labor share of income in advanced economies, with a larger negative impact on middle- and low-skilled workers (Autor *et al.* 2017).

These economic dynamics are surely not all attributable to a liberal agenda, but must be seen as the result of a complex interplay of a myriad of social forces. However, we think that a reason for the decline of popularity of liberalism is the fact that liberal commentators have often downplayed the distributional effects of these economic dynamics (see e.g. The Economist 2018). They largely neglected the fact that our current institutional order systematically favors high-skilled workers (especially in urban areas) but loses sight of low-skilled ones (especially in rural areas). Admittedly, some of the economic benefits to better-skilled workers will trickle down to lower incomes. However, in many cases structural inequality will be negatively associated with subsequent growth rates among the lower-skilled percentiles and positively among the higher percentiles (Van der Weide and Milanovic 2018). This dynamic may lead to new forms of socioeconomic fragmentation and the long-term consequence that low-skilled workers may find it increasingly difficult to climb the socioeconomic ladder. In countries that were traditionally built on a collective belief in upward social mobility (‘from rags to riches’), this new societal stratification bears the risk of severe social frictions and a further promotion of populist movements.

3. What Can Today’s Liberals Learn from Walter Lippmann?

Today’s developments are reminiscent of some of the social dynamics of the 1930s, when liberals saw themselves confronted with growing populist movements, both on the right (fascism) and on the left (communism). Liberalism had lost the popularity it once had in the mid-19th century. In fact, the public perceived modern liberal democrats as a scapegoat for all kinds of social ills, from the economic depression of the late 1920s, to the reparation payments of the Versailles treaty and the perceived weaknesses of the nation state (Luebbert 1991). The famous US journalist Walter Lippmann attributed the declining popularity of liberalism in the 1930s to the liberal agenda itself. In his seminal book *The Good Society* from 1937, Lippmann lamented that “liberalism had become a philosophy of neglect and refusal to proceed with social adaptation” (1937, 208), and he blamed liberal leaders of the past for the “epochal crisis of civilization” (371). The publication of *The Good Society* was a true success story for Lippmann. It cemented his role as a leading public intellectual in the United States, and its thought-provoking content stimulated the organization of the famous Colloque Walter Lippmann in Paris in August 1938 (Jackson 2012).

At this point, we will not trace the historical importance of the Colloque itself, but rather focus on what the current discourse can learn from Lippmann’s original contribution. In fact, we think contemporary liberals should seriously consider Lippmann’s argument that, to be relevant, liberals cannot solely base their analysis on economics alone but must address ethical questions of fairness, distribution, and power in a wider framework of political, philosophical, and economic arguments. Lippmann pointed out that a technocratic and academic discussion is not enough if liberals want to persuade the public of the merits of a free and open society.

In *The Good Society*, Lippmann emphasized that economic ‘laws’ and policies do not operate in an institutional vacuum. To him it was a mistake of 19th century liberalism to assume “that the economy of divided labor operates by natural laws outside the context of a legal system” (1937, 195). For Lippmann, the analysis of property rights and contract law was absolutely essential in understanding economic mechanisms. He coined the term *fallacy of classical economics*: the mistake of drawing practical conclusions of widespread significance from the institution-free analysis of economic models. In his words, “economists forgot that they had deduced from their hypothesis the conclusions which they had put into it” (*ibid.*, 199).

In addition to this methodological point, Lippmann was deeply concerned with power concentration, both in state bureaucracies and markets. He saw the danger of a ‘weak state’ being captured by social pressure groups and of a ‘strong state’ becoming a Leviathan which constantly intervenes in economic affairs and thus violates civil and political liberties (Jansen 2009). Frank H. Knight nicely summarizes Lippmann’s starting point in a review of *The Good Society*. Knight writes that Lippmann “shows how the nineteenth-century liberals made two fatal mistakes. The first was to identify

liberal political policy with one of extreme economic *laissez-faire*. Then, when the falsity of a too literal *laissez-faire* was demonstrated by experience, they increasingly fell into the second and equally disastrous blunder of reacting from the faith in a free-market economy to collectivism” (1938, 864–865). Many other liberals at the time (e. g. Hayek, Mises or Robbins) agreed with Lippmann on this point. However, unlike them, Lippmann identified an inherent threat in big business. Consequently, he urged liberals to take on distributional questions and the discussion of power dynamics between big business and unions as an inherent part of their agenda.

In the latter part of *The Good Society*, Lippmann develops an “Agenda of Liberalism” (1937, 203–240) in which he not only deconstructs existing policies but wants to discuss constructively which institutional framework is necessary for real-world economic interactions to produce a prosperous and peaceful society. While some of Lippmann’s proposals have to be rejected (for instance, his endorsement of eugenics), much of his list of reforms is very instructive for today’s discourse, as he grants considerable scope to questions of power and fairness beyond efficiency considerations.

Lippmann sees problems in uncontrolled corporations and believes in the possibility of improving the “market machinery” by eliminating monopoly privileges and “necessitous bargains, from sweating, adulterating, bootlegging, racketeering” (*ibid.*, 227). Lippmann mentions favorably organized forms of labor and consumers as a counterbalance to big business, but he is also quick to hint at the obvious temptation for labor to erect market entry barriers (*ibid.*, 312). In addition, Lippmann argues in favor of social insurance and public investments (especially in health and education) in connection with “drastic inheritance and steeply graduated income taxes” (*ibid.*, 227). He thought these political measures necessary to do justice to natural differences in abilities and the resulting economic inequality.

Taken together, Lippmann promoted a pragmatic third way position between *laissez-faire* and state interventionism. Lippmann considered state regulation, redistribution, and counter-cyclical intervention in the market as necessary to counteract the inequalities and instabilities generated by decentralized economic transactions (Jackson 2012). Lippmann saw no necessary conflict between state action and individual liberty, since it was only through *a set of predictable, impartial legal rules* that one could make sure that individuals are given similar opportunities to benefit from the marvels of the market. In summary, Lippmann was a staunch supporter for a regime of law-governed liberty. According to him, individual rights, as well as corporations, contracts and property, are all the creation of a particular legal order. He concludes that it “is, therefore, misleading to think of them as existing somehow outside the law and then to ask whether it is permissible to ‘interfere’ with them” (1937, 269).

While some of Lippmann’s proposals might seem naïve or common sensical to the modern reader, we think that the direction and pragmatic tone of his diagnosis is still instructive in so far as he puts a socially radical question at the core of the liberal

agenda: How can we make sure that a market order can benefit everyone, not just the privileged few? We think that this question in connection with the constructive-positive aspect of Lippmann’s program can (and should be) incorporated into, what we call, a *contemporary ordoliberalism*.

4. A Plea for a Contemporary Ordoliberalism

Parallel to Lippmann’s intellectual endeavors, *ordoliberalism* started as part of a larger liberal movement in the interwar and postwar periods and developed as a reaction to right- and left-wing populism (Kolev 2019). While it has never been a monolithic tradition, it shares certain core features with Lippmann’s program. Like Lippmann, ordoliberals of the first generation (such as Böhm, Eucken, Müller-Armack, Röpke, and Rüstow) developed their ideas with the aim of identifying the legal framework for a *productive* market economy (i. e., it helps overcome scarcity problems) that was at the same time *humane* (i. e., it enables a self-determined life for all citizens). Like Lippmann, ordoliberals emphasize – to a varying degree – the need to protect individuals from power concentration in the business world besides the need to protect individual liberty from arbitrary state coercion. In general, ordoliberalism perceives power concentrations as problematic when particular social groups become so dominant that they are able to shape the rules of the societal game in their favor and produce systematic disadvantages for other, less powerful groups (Eucken 2004 [1952], 175–179).

As a consequence, ordoliberalism aims at dispersing power through the implementation of general rules and competition in the economic and the political realm. In markets, ordoliberals typically support anti-trust legislation that ensures that competition works as “the most magnificent and most ingenious instrument of deprivation of power in history” (Böhm 1960, 22). In politics, the best way to disperse power is seen in citizens’ effective participation in processes of collective decision-making by means of decentralization and federalism at the national level, and the principle of subsidiarity at the level of international governance (Vanberg 1997a, 724; 1997b, 190). In both the market and the political order, the legal rules are meant to enable a form of *performance competition*, i. e., “record-type games” that pursue excellence or competitive advantage, and hamper *prevention competition*, i. e., “struggle-type games” which determine winners in zero-sum games by preventing competition from outsiders (Dold and Krieger 2017a).

However, the idea of a humane market economy became less prominent over time; instead, ordoliberals – especially of the second and third generation – repeated the mantra that the state should never be concerned with outcome considerations (‘discretionary economic policies’), but should only make sure that the rules of the game are fair and square (‘procedural economic policies’). While this is a sensible strategy *in theory* since it aims at the prevention of a slippery slope into overarching economic

planning, it might have its limits *in practice* when distributional problems arise endogenously within the (imperfectly implemented) liberal economic order. In the latter case, the system might be perceived as unfair if people get the impression that the market only benefits the already powerful and mighty. Then, the economy might not only be less dynamic, but also lose its socially integrative function. We think that ordoliberals can learn from Lippmann's more pragmatic perspective regarding distributional concerns.

4.1 A Needed Update

Ordoliberalism needs an update by explicitly taking on the *distributional challenge*. The liberal project has been quite successful in promoting growth, but it has not done enough to ensure that the welfare gains are shared broadly. The systematic and persistent disadvantage of certain social groups (e.g. low-skilled workers, the rural population, the long-term unemployed, etc.) produces market conditions that are not conducive to long-term, inclusive growth (see e.g. Stiglitz 2012; Ostry *et al.* 2014). Besides the lack of economic opportunities for individuals from socioeconomically disadvantaged backgrounds, cleavages between different social groups induce conflictual forms of competition where societal players invest in conflict activities aimed directly at damaging other competing social groups (Dold and Krieger 2017a). These conflict activities comprise *indirect measures* such as protest voting for 'anti-system parties' or subtle discrimination of out-group individuals (e.g. in the form of anti-elitism), and *overt measures*, such as in-group nepotism, publicly shown disrespect for democratic institutions, or the distribution of false accusations against members of the competing group (e.g. in the form of defamations in media outlets or social networks). The consequence is a social climate of general mistrust where wasteful group-specific investments aim at a non-market driven re-allocation of existing property rights that improve a social group's relative bargaining power to win a conflict in the next round.

We think that this unfortunate situation, which has arisen endogenously within our liberal economic order, carries two main implications. First, *at the bottom of the income distribution*, a contemporary ordoliberalism should invite the implementation of policies that enable individuals' competent participation in market transactions and political discourse.² While it is true that most liberal economies have achieved a decent formal framework for democracy, the resulting 'distributive struggle' between the winners and losers of an open society has not gotten sufficient attention in debates among economists. It is fair to assume that the support for traditional parties and the European economic order will further erode if we continue to produce the same group of 'losers.'

² The first generation of ordoliberals acknowledged the distributional challenge much more clearly than later generations. Eucken (2004 [1952]) explicitly states that the competitive market order might lead to an income distribution that is undesirable from a social point of view, and which ought to be corrected by the use of a progressive income tax or certain other types of social policies if necessary (Dold and Krieger 2017b).

Second, *at the top of the income distribution*, a contemporary ordoliberalism should foster the implementation of legislative procedures that hamper political capitalism. It is an inherent tendency in capitalism that powerful economic actors dominate the outcome of political decisions (Munger and Villarreal-Díaz 2019). Contemporary ordoliberals should aim at the implementation of rules that secure ‘performance-based competition’ in politics: candidates who are best qualified and ideas that have the broadest public support should be chosen by democratic procedures. This means, among other things, that revolving door politics (i.e., the movement of personnel between business and politics) has to be restricted in order to prevent the granting of reciprocated privileges at the expense of the public. The guiding idea is that ‘working from both ends’ – i.e., addressing institutional deficits at the bottom and the top of the income and power distribution – will increase citizen sovereignty and instantiate a broader distribution of prosperity.

4.2 Policy Proposals

We think a contemporary ordoliberalism can help find solutions to the aforementioned distributional challenges. From an ordoliberal perspective, the ideas of open borders and international trade are desirable if they are able to foster competition and economic specialization in a sensible way that secures balanced and inclusive growth, distributed sufficiently and equally across citizens and space.

To achieve this goal, economic efficiency considerations and distributional concerns have to be addressed together in economic policymaking, which, in turn, raises deep political-institutional questions regarding the democratic legitimacy of economic policies. Recent developments like globalization and digitization drain political authority from traditional nation-states (Kahler and Lake 2003). They necessitate shifts of governance functions downward (to newly empowered regions and provinces), upward (to supranational organizations) and laterally (to private actors such as multinational firms, rating agencies, and transnational nongovernmental organizations). A contemporary ordoliberalism acknowledges that political legitimization of the newly developing institutional framework ultimately depends on its broad public support, which requires that the ‘economic game’ (i.e., efficiency considerations) does not trump the ‘political game’ (i.e., distributional issues).³ Ordoliberalism may then provide (constitutional) rules that help to balance the precarious interplay of both spheres. How exactly the balance would look like cannot be decided

³ Admittedly, the distinction between the economic (*efficiency concern*) and the political (*distribution concern*) is simplistic. However, it follows a standard narrative: economics is about the best means to enlarge the ‘economic pie’ for society, and politics (or moral philosophy) addresses the question of how the pie should be distributed among its members (see e.g. de Mesquita 2016, 81–84). We deem this narrative to be problematic because it follows a controversial fact-value distinction and outsources important distributional questions from ‘positive’ economic thinking (Hausman, McPherson, and Satz 2016, 295–299).

in theory. Rule proposals that have the potential to improve the status quo can be developed by economists (and other experts), but then have to be subjected to the democratic process of decision-making. In spite of potential complexities during the implementation process, this procedure is uniquely equipped to distill robust, incentive-compatible policies by respecting the citizens as the ultimate sovereign of political rules (Buchanan 1959).

Let us briefly apply this reasoning to the European Union. The European Single Market with its goal to implement the ‘four freedoms’ (free movement of goods, capital, services, and labor) certainly fosters competition and economic growth. However, European political institutions have difficulties coping with the ensuing economic, political and social consequences of market outcomes. The necessity to provide Europe-wide public goods (e.g. external border enforcement) and the existence of externalities spilling across borders (e.g. environmental pollution) requires governance functions to be located at the European level. At the same time, the European Commission is too distant from local preferences to be able to care for social policy, about which *local* decision-makers have superior knowledge. Policy-makers at the level of the nation-state are caught in between these poles, producing cross-national externalities while struggling to come up with one-size-fits-all solutions to policy challenges in their countries’ regions. Harmful tax, systems and regulatory competition are all too often the negative consequences of policy-makers’ dilemmas (Sinn 2002).⁴ Under these circumstances, citizens’ frustrations with inefficient policy measures rise and the political legitimization of governments is challenged. Even if the appearance of globalization strain under governments pursuing liberal agendas were an unlucky coincidence, protests of citizens and voters at the ballot box would not come as a surprise.

Against this backdrop, the application of ordoliberal principles might lead to sensible suggestions for institutional reforms. For instance, the *principle of subsidiarity*, in combination with policy measures fostering labor mobility within and between countries, provides a framework within which efficiency gains can be achieved while preserving democratic legitimacy. On the one hand, the principle helps to avoid harmful externalities by shifting governance functions to the next higher level of governance. On the other hand, where citizens’ preferences differ sharply, governance functions ought to remain at the local level, thereby accommodating potential economic and social disruptions. When workers are negatively affected by structural changes in the economy, they should first and foremost be supported at the regional or national level, where redistributive policies can be tailored to specific circumstances and legitimized by each country’s social contract, respecting its citizens sovereignty. Those who are still not satisfied with their local perspectives should have the pos-

⁴ In practical terms, the challenge to avoid harmful systems competition and reap the benefit from higher factor mobility at the same time is tremendous. ‘Delayed integration’, as suggested by Richter (2004), may be a workable answer to this challenge.

sibility to migrate to more preferred places at home or abroad so as to implement a possibly positive element into the systems competition dynamic between countries.

One important prerequisite for this strategy is long-term investment in education, whose previous neglect has contributed to the current socioeconomic imbalance within and between European countries (Goldin and Katz 2009; Martins *et al.* 2010). In times of digitization and globalization, public programs aimed at increasing the human capital of workers are likely to be more effective than industrial or agricultural policies trying to preserve an inefficient status quo. In addition, Europe-wide programs that increase worker mobility through educational and professional standardization, pre-distributional policies aimed at decreasing disparities in access to infrastructure, and repealing market-entry barriers can help realize both efficiency and equity. Ultimately, it is the subsidiarity principle that coordinates these measures at the European level in order to secure worker mobility and an incentive-compatible harmonization of the regulatory framework (Dold and Krieger 2019, 256).

The implementation of such policies, however, remains a challenge. When economic programs and political-institutional reforms are perceived as externally imposed by the affected citizens, a fundamental erosion of trust in the existing political institutions may be the consequence. This was, for instance, the case with almost all programs introduced to resolve the recent Eurozone crisis (Algan *et al.* 2017). In addition, such promises like that Europe would become the “most competitive and dynamic knowledge-based economy in the world” (EU Council 2000) seem like empty clichés to many people. The current form of economic order has therefore increased the ‘rational ignorance’ of many citizens who see little chance of affecting the outcome of the economic policy-making process with their votes. The consequence has been a crowding-out of European citizenship (i. e., the identification with and participation in EU rule-making) and a widespread embrace of nationalism and populism as possible alternatives.

It is therefore time to reconsider which actors and institutions dominate national policy agendas in many Western countries. Currently, rent-seeking groups in the private sector hold disproportionate political influence (Stiglitz 2012).⁵ That is why many consumers feel that their interests are systematically weakened in bargaining processes (Rodrik 2018). Liberals often did not consider taking on this – sometimes only subjectively perceived – loss of significance of labor as a priority of their policy agenda. As a consequence, many people today do not see the economic elite as part of the solution, but as the cause of their precarious situation. In the view of a large portion of the public, entrenched interests block changes to the rules of the game that promote greater equality and political reform (The Economist 2018). In spite of the fact that many people might confuse (ordo)liberal ideas with business-led interests, support for

⁵ Think of the role of big banks or pharmaceutical companies in setting their own standards, the forerunners of the digital economy as well as many traditional businesses under pressure of digitization, globalization, and climate change (e.g. cars, mining, oil) that very often exert disproportionate power over national politics in many countries, see Stiglitz (2012).

a liberal European economic order will further vanish if many citizens feel that they do not have any influence in setting the rules of the economic game. EU citizens of course have the formal right to cast a vote at the ballot box every five years. However, due to the institutional setup of the EU, pivotal laws and top positions are often not the result of discourses among citizens but of political compromises between ministers and heads of states. In this context, the negative public reaction to the non-transparent negotiations of the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the United States can be a lesson to liberals (Organ 2017): without the implementation of procedures of deliberative democracy within EU institutions (e. g. in the form of national issues fora, deliberative opinion polls, local townhall meetings, or referenda), many EU citizens will feel neglected and rebel against pivotal economic policies in trade, finance, and other far-reaching areas. An economic policy, such as a free trade agreement, might look liberal from the outside. But if it is not backed by broad public support, it is just a dysfunctional idea that fails the liberal litmus test of *citizen sovereignty*.

5. Concluding Remarks: The Merits of a PPE Perspective

Economic liberalism has lost popularity around the world. In this article, we hypothesized that one reason for this decline might be a narrow understanding of what constitutes ‘good economics’ on behalf of liberal elites. Many liberals (including ordoliberals of the second and third generations) became complacent and simply repeated the ideas of their intellectual forefathers, which often led to a one-sided focus on a business-friendly policy agenda. In addition, liberals too often neglected the inextricable link between efficiency considerations on the macro level and distributional concerns on behalf of the affected citizens on the micro level. In many advanced economies of the West, this has led to social frictions in the form of structural inequality between social groups and geographical regions. In recent years, systematically disadvantaged parts of the population have started to turn away from the post-WWII consensus that competitive markets paired with democratic politics brings “prosperity for all” (Erhard 1957). Instead, they sympathize with various forms of left- and right-wing populism that explicitly define themselves in opposition to political and economic liberalism. If liberals want to respond successfully to this challenge, we argue in this paper, they should return to the egalitarian and pragmatic roots that lie historically at the heart of their agenda.

Admittedly, our sketch of a contemporary ordoliberalism is value-laden: it starts from the normative premise that liberal economists must convince the affected citizens of the merits of their agenda. We think that this is only possible if they make sure that individuals have comparatively similar chances to participate in *the economic game*, and that *the political game* grants opportunities for participation and is responsive to

shared interests of its citizens. We think that the emphasis of the normative core of the (ordo)liberal idea will actually be an asset in the current debates vis-à-vis populist movements. It makes clear that we need both a strong economy that helps reduce scarcity problems *and* socially inclusive politics aiming at the reduction of structural and distributional problems. Purely technical-economic arguments will not help to address this twofold perspective nor convince the public in Western democracies about the advantages of a liberal economic order. On the contrary, moral and ideological arguments are often at the heart of citizens’ concerns. This means that liberal economists should not hide behind the façade of an ostensibly value-free disciplinary consensus but think creatively about economic policies that defend a normative liberal perspective.

Following this rationale, we propose that contemporary ordoliberals advance their thinking in connection with the emerging field of Philosophy, Politics, and Economics (PPE). We are currently witnessing a reintegration of these disciplines in the form of a convergent research agenda (Dekker and Kolev 2019). This reintegration is based on the insight that tools and methods of all three disciplines are essential to make progress on many social problems (Gaus, Favor, and Lamont 2010). The idea of PPE is guided by a twofold conviction. On the one hand, normative analysis is utopian and unhelpful if it ignores economic and political constraints. On the other hand, economic and political ideas become irrelevant for many debates if they do not take account of the explicit moral dimension of political and economic choices (Anomaly *et al.* 2017). Clearly, empirical economic research is helpful to discipline ideological policy advice and support theoretical hypotheses. However, we do not think that there is a lack of empirical research in economics. In fact, we argue in this paper that a contemporary ordoliberalism that is aware of its reformist-pragmatist roots and does not shy away from taking on distributional concerns can enrich the economic policy discourse: it helps transcend the logic of efficiency and balance economic values with democratic concerns for an egalitarian relationship among citizens.

Most importantly, a contemporary ordoliberal perspective can help emphasize that elites should abstain from imposing a liberal economic agenda in a top-down manner. Liberals should instead enter a public debate where, by means of moral and economic arguments, they must convince citizens of the superiority of economic liberalism. This will (hopefully) help prevent further populist backlash since citizens are given an active role in the political and economic debates of our times.

References

- Algan, Y., S. Guriev, E. Papaioannou, and E. Passari. 2017. “The European Trust Crisis and the Rise of Populism.” *Brookings Papers on Economic Activity* 2017 (2): 309–400.
- Anomaly J., G. Brennan, M. C. Munger, and G. Sayre-McCord. 2016. *Philosophy, Politics, and Economics: An Anthology*. New York: Oxford University Press.

- Arnorsson, A., G. Zoega. 2018. "On the Causes of Brexit." *European Journal of Political Economy* 55: 301–23.
- Autor, D., D. Dorn, L. F. Katz, C. Patterson, and J. Van Reenen. 2017. "The Fall of the Labor Share and the Rise of Superstar Firms." *NBER Working Paper Series* No. 23396.
- Baron, D. 2018. "Who Identifies with the AfD? Explorative Analyses in Longitudinal Perspective." *SOEPpapers on Multidisciplinary Panel Data Research* No. 983.
- Böhm, F. 1960. *Reden und Schriften*. Karlsruhe: C. F. Müller.
- Braunberger, G. 2016. "Ordnungsökonomik ist nicht genug. Unsystematische Betrachtungen eines Wirtschaftsjournalisten." In *Neue Ordnungsökonomik*, edited by J. Zweynert, S. Kolev, and N. Goldschmidt, 225–37. Tübingen: Mohr Siebeck.
- Buchanan, J. M. 1959. "Positive Economics, Welfare Economics, and Political Economy." *Journal of Law and Economics* 2: 124–38.
- Collier, P. 2018. *The Future of Capitalism: Facing the New Anxieties*. London: Penguin.
- Dao, M. C., M. M. Das, Z. Koczan, and W. Lian. 2017. *Why is Labor Receiving a Smaller Share of Global Income? Theory and Empirical Evidence*. Washington: International Monetary Fund.
- Dekker, E., & S. Kolev. 2019. "A View from Europe: Austrian Economics, Civil Society, and PPE." *Advances in Austrian Economics* 24: 67–77.
- De Mesquita, E. B. 2016. *Political Economy for Public Policy*. Princeton: Princeton University Press.
- Dold, M. and T. Krieger. 2017a. "Competition or Conflict? Beyond Traditional Ordo-Liberalism." In *Ordoliberalism, Law and the Rule of Economics*, edited by C. Joerges and J. Hien, 245–60. Oxford: Hart Publishing.
- Dold, M. and T. Krieger. 2017b. "Ordoliberalism Is Not Responsible for Jihadist Terrorism in Europe: A Reply to Van der Walt." *New Perspectives* 25 (2): 105–15.
- Dold, M. and T. Krieger, eds. 2019. *Ordoliberalism and European Economic Policy: Between Realpolitik and Economic Utopia*. Abingdon: Routledge.
- Erhard, L. 1957. *Wohlstand für alle*. Düsseldorf: Econ Verlag.
- EU Council. 2000. "Schlussfolgerungen des Europäischen Rates Lissabon." March 23 and 24, 2000.
- Eucken, W. 2004 [1952]. *Grundsätze der Wirtschaftspolitik*. Tübingen: Mohr Siebeck.
- Fuest, C. 2018. "The Third Type of Inter-System Competition: Europe and the Rise of China." *ifo Viewpoint* No. 200.
- Fukuyama, F. 1989. "The End of History?" *The National Interest* 16: 3–18.
- Gaus, G., C. Favor, and J. Lamont. 2010. *Essays on Philosophy, Politics, and Economics: Integration and Common Research Projects*. Stanford: Stanford University Press.
- Gidron, N. and P. A. Hall. 2017. "The Politics of Social Status: Economic and Cultural Roots of the Populist Right." *British Journal of Sociology* 68 (S1): S57–S84.
- Goldin, C. D. and L. F. Katz. 2009. *The Race between Education and Technology*. Cambridge: Harvard University Press.

- Guiso, L., H. Herrera, M. Morelli, and T. Sonno. 2017. “Demand and Supply of Populism.” *Centre for Economic Policy Research Discussion Paper* No. DP11871.
- Hausman, D., M. McPherson, and D. Satz. 2016. *Economic Analysis, Moral Philosophy, and Public Policy*. Cambridge: Cambridge University Press.
- Inglehart, R. and P. Norris. 2017. “Trump and the Populist Authoritarian Parties: The Silent Revolution in Reverse.” *Perspectives on Politics* 15 (2): 443–54.
- Jackson, B. 2012. “Freedom, the Common Good, and the Rule of Law: Lippmann and Hayek on Economic Planning.” *Journal of the History of Ideas* 73 (1): 47–68.
- Jansen, S. C. 2009. “Phantom Conflict: Lippmann, Dewey, and the Fate of the Public in Modern Society.” *Communication and Critical/Cultural Studies* 6 (3): 221–45.
- Kahler, M. and D. A. Lake. 2003. “Globalization and Governance.” In *Governance in a Global Economy*, edited by M. Kahler and D. Lake, 1–30. Princeton: Princeton University Press.
- Knight, F. H. 1938. “Lippmann’s The Good Society.” *Journal of Political Economy* 46 (6): 864–72.
- Kolev, S. 2019. “Ordoliberalism’s Embeddedness in the Neoliberalisms of the 1930s and 1940s.” In *Ordoliberalism and European Economic Policy: Between Realpolitik and Economic Utopia*, edited by M. Dold and T. Krieger, 23–38. Abingdon: Routledge.
- Lippmann, W. 1937. *The Good Society*. Boston: Little, Brown & Co.
- Martins, J. O., R. Boarini, H. Strauss, and C. De La Maisonnette. 2010. “The Policy Determinants of Investment in Tertiary Education.” *OECD Journal: Economic Studies* 2009 (1): 1–37.
- Mudde, C. and C. R. Kaltwasser. 2017. *Populism: A Very Short Introduction*. New York: Oxford University Press.
- Munger, M. C. and M. Villarreal-Diaz. 2019. “The Road to Crony Capitalism.” *Independent Review* 23 (3): 331–44.
- OECD. 2017. *Bridging the Gap: Inclusive Growth 2017 Update Report*. Paris: OECD Publishing. http://www.oecd.org/inclusive-growth/Bridging_the_Gap.pdf.
- Organ, J. 2017. “EU Citizen Participation, Openness and the European Citizens Initiative: The TTIP Legacy.” *Common Market Law Review* 54 (6): 1713–47.
- Ostry, M. J. D., M. A. Berg, and M. C. G. Tsangarides. 2014. *Redistribution, Inequality, and Growth*. Washington: International Monetary Fund.
- Posner, E. A. and E. G. Weyl. 2018. *Radical Markets: Uprooting Capitalism and Democracy for a Just Society*. Princeton: Princeton University Press.
- Richter, W. F. 2004. “Delaying Integration of Immigrant Labor for the Purpose of Taxation.” *Journal of Urban Economics* 55: 597–613.
- Rodrik, D. 1998. “Why Do More Open Economies Have Bigger Governments?” *Journal of Political Economy* 106 (5): 997–1032.
- Rodrik, D. 2018. “Populism and the Economics of Globalization.” *Journal of International Business Policy* 1: 12–33.
- Sinn, H.-W. 2002. *The New Systems Competition*. Oxford: Blackwell.

- Stiglitz, J. E. 2012. *The Price of Inequality: How Today's Divided Society Endangers our Future*. New York: W. W. Norton.
- The Economist. 2018. "The Economist at 175: Reinventing Liberalism for the 21st Century." September 15, 45–54.
- Van der Weide, R. and B. Milanovic. 2018. "Inequality is Bad for Growth of the Poor (But Not For That of the Rich)." *World Bank Economic Review* 32 (3): 507–30.
- Vanberg, V. 1997a. "Die normativen Grundlagen von Ordnungspolitik." *ORDO Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft* 48: 707–26.
- Vanberg, V. 1997b. "Subsidiarity, Responsive Government and Individual Liberty." In *Political Institutions and Public Policy*, edited by B. Steunenberg and F. Van Vught, 189–203. Dordrecht: Springer.
- Venables, A. J. 2018. "Globalization and Urban Polarization." *Review of International Economics* 26 (5): 981–96.