Neoliberal reason and its forms: Depoliticization through economization*

Yahya M. Madra
Department of Economics
Boğaziçi University
Bebek, 34342, Istanbul, Turkey
ymadra@boun.edu.tr

Yahya M. Madra studied economics in Istanbul and Amherst, Massachusetts. He has taught at the universities of Massachusetts and Boğaziçi, and at Skidmore and Gettysburg Colleges. He currently conducts research in history of modern economics at Boğaziçi University with the support of TÜBİTAK-BİDEB Scholarship. His work appeared in Journal of Economic Issues, Rethinking Marxism, The European Journal of History of Economic Thought, Psychoanalysis, Society, Culture and Subjectivity as well as edited volumes. His current research is on the role of subjectivity in political economy of capitalism and post-capitalism.

and

Fikret Adaman
Department of Economics,
Boğaziçi University
Bebek, 34342, Istanbul, Turkey
fikret.adaman@gmail.com

Fikret Adaman studied economics in Istanbul and Manchester. He has been lecturing at Boğaziçi University on political economy, ecological economics and history of economics. His work appeared in Journal of Economic Issues, New Left Review, Cambridge Journal of Economics, Economy and Society, Ecological Economics, The European Journal of History of Economic Thought, Energy Policy and Review of Political Economy as well as edited volumes. His current research is on the political ecology of Turkey.

DRAFT: Istanbul, October 3, 2012

*Earlier versions of this paper have been presented in departmental and faculty seminars at Gettysburg College, Uludağ University, Boğaziçi University, İstanbul University, University of Athens, and New School University. The authors would like to thank the participants of those seminars as well as to Jack Amariglio, Michel Callon, Pat Devine, Harald Hagemann, Stavros Ioannides, Ayşe Mumcu, Ceren Özselçuk, Malíha Safri, Euclid Tsakalatos, Yannis Varoufakis, Charles Weise, and Ünal Zenginobuz for their thoughtful comments and suggestions on the various versions of this paper. The usual caveat applies.
Neoliberal reason and its forms: Depoliticization through economization

Introduction

Well into the fifth year after the Crash of 2008, with no end in sight of the depressive economic conditions, neoliberal reason displays a certain resiliency. Calls for regulation, planning and government intervention in the economy which begun to be articulated early on, ended up translating into austerity programs that are run by technocratic governments. In the absence of a major redistribution of wealth and income, return to a New Deal arrangement with good paying secure jobs for everyone, comprehensive social security, free and quality education, accessible health care and an active government involvement in the welfare of the society appears to many as a nostalgic indulgence. This may be an accurate assessment as it is now probably impossible to afford post-war growth rates at the global scale, without actually facing its ecological, social, political and economic limits. Nonetheless when such reasonable sounding calls for sobriety are regretably framed by various discourses of (economic) necessity, scarcity (of resources), inevitability (of belt-tightening), and re-balancing (of budgets), no room is left for foundational reconsiderations of how we organize our economic practices (of extraction, production, appropriation, distribution, consumption, saving, and investment), how we define necessity, how we share surplus, how we relate to ecology, and how we re-distribute abilities and capabilities.

In this paper, we argue that such critical voices and positions that question the foundational assumptions of modern mainstream economics are marginalized, in part, because of the enduring hegemony of neoliberalism, not only across the entire surface of the social field as many have carefully analyzed (e.g., Hall & Massey, 2010; Hall, 2011) but also within the discipline of economics and economic policy-making. Within the disciplinary field, we propose to define neoliberalism, in a unique manner, as two clusters of ontological projects with a shared epistemics, namely pro-market and post-market, both of which aim to re-organize the social such that all human behaviour is governed through an interface of economic incentives. Such economization of the social, materializing either through naturalization of economic processes or technocratization of their governance or both, entails its de-politicization. Moving beyond popular representations that reduce neoliberalism to a set of marketisation policies (i.e., privatisation, trade and financial liberalisation, deregulation), or to mainline Marxian readings that define it as a class project of “consolidation of class power” (Duménil and Lévy, 2004; 2011; Harvey, 2005; 2009; Castree, 2009), we read it as an interdiscursive horizon, gradually formed in a series of inter-connected and constitutive theoretical controversies traced back to the inter-war years. Needless to say, marketization is one of the (many possible) manifestations of neoliberalism; and historically, the latter did entail the consolidation of the power of transnational capitalist classes. Nonetheless, this paper studies neoliberalism as enacting an epistemic shift, at the level of social subjectivity, which aims to transform the way
individuals relate to each other, to their environments, thereby potentially enacting a change in social being. We argue that this de-politicization through economization contributes to the silencing of the attempts at rethinking the very organization of economic practices that may be needed to break from the growth and austerity cycles of capitalism. By the end of the twentieth century, the discipline of economics and social policymaking is transformed in such a way that the inquiries regarding the very basic assumptions of this epistemic shift are inevitably marginalized, rendered incomprehensible, and viewed as naïve if not outright irrational.

In what follows, we cluster various neoliberal approaches under two broad orientations: the pro-market approaches that always claim that there are not enough markets, that there is always more room for introducing new markets to best satisfy the “interests” of (economic) actors, and the post-market approaches that argue that more often than not markets are not enough in and of themselves, that there is always room for the design and implementation of “incentive-compatible” (market or non-market) mechanisms to efficiently reconcile the “interests” of interacting actors. While the pro-market approaches tend to resist all the corrective interventions and the redistributionary efforts of the state, arguing that these would distort the economic signals that coordinate the activities of individuals, households and firms, the post-market approaches indeed call for such interventions and efforts, as long as they are “economically sound”. Despite these differences, both clusters share a common premise: individuals respond to (economic) incentives. This common premise is not without consequences outside of the discipline of economics, in concrete economies and in the broader social field. Given the performativity of economics, both orientations, whether they advocate extending markets or designing “incentive-compatible” mechanisms, propose economic policies that cultivate opportunism in all social sites, even when they intend to curtail it in their site of implementation.

In The Birth of Biopolitics, Michel Foucault (2008) monitors the rise of the discourses of economization in the decades following the WWII and reads it as a transformation in the mode of liberal governmentality, from the classical liberal project of imposing limits on the government control over markets (civil society) to the neoliberal project of modelling “the overall exercise of political power” on the competitive logic of markets (p. 131). Foucault’s reading enables us to understand neoliberalism as an episteme, “as an interdiscursive horizon, situating all historically determinate discourses, different and dispersed, in a common spatial field” (Amariglio, 1988, 586-7). This reading renders both pro-market and post-market approaches intelligible as part of a common spatial field that exhausts the horizon of the economics discipline and economic policymaking (at the expense of marginalizing alternative discourses). By imposing a set of “unspoken rules of discursive formation which silently but inexorably determine the possibilities of what can be and has been said” (p. 587), this interdiscursive horizon renders it impossible to formulate the aforementioned inquiries in an intelligible manner form within it.
Viewing neoliberalism as an interdiscursive epistemic shift necessitates a set of revisions in Foucault’s somewhat narrow focus on two traditions, namely, the German ordo-liberals and American neoliberals, with Austrian economists functioning as “intermediaries”—without delineating the epistemological and methodological differences between the American (Chicago) and the Austrian schools or the political variations among the Continental tradition. Undoubtedly, Foucault’s reading of neoliberalism was informed by the historical moment within which he was delivering his lectures (Gordon, 1991; Lemke, 2001; Tribe, 2009). The broader European context of the late 1970s, in part, explains his focus on the writings of German ordo-liberals as the architects of the German “miracle” and the French interpretations of American neoliberals as a part of the intellectual backdrop for the beginnings of the neoliberal transformation of the welfare state in France (pp. 194–207).

Our discussion of the forms of neoliberal reason develops and complicates Foucault’s reading in two directions. First, unlike Foucault who considers Austrian figures as intermediaries between German ordo-liberals and Chicago neoliberals but treats their insights mainly within the rubric of the former tradition, we consider and highlight the Austrian school as a full-blown, stand-alone alternative (with non-modernist epistemology, anti-formalist methodology, and non-equilibrium ontology) to the North American post-war neoclassicism (Caldwell, 2004)—without neglecting the fact that the School does share a common pro-market orientation with the Chicago school (Klein, 2008; van Horn & Mirowski, 2009; Peck, 2010). This reading compels us to also register the important differences that separate the Austrian neoliberals from ordo-liberals. The latter group of scholars, given their emphasis on the indispensibility of the governmental-institutional framework of markets, may even be considered to unintentionally reveal their post-market characteristics: while endorsing the logic of competition as a socially beneficial model, ordo-liberals consider governmental action necessary for the institution of markets. As we explore the trajectory of the Austrian tradition as a form of neoliberal reason with a distinct discourse of economisation, ordo-liberals, whose influence waned in the 1960s, will remain in the margins of our story, appearing towards the end as the missing link that enables us to clarify the Austrian position on the state.

1 The first tradition, which Foucault names “the German form” of neoliberalism, was composed not only of the founders of the Freiburg School, Walter Eucken and Franz Böhm, but also of other ordo-liberals such as Wilhelm Röpke, Alexander Rüstow and Alfred Müller-Armack. This collection of theorists developed a novel, constitutionalist framework for the reconstruction of post-war Germany in the form of a “social market economy” structured around the notion of “enterprise” as the model for all “economic” units (including households) to emulate. The other tradition, “American neoliberals” as Foucault calls them, consisted of scholars such as Milton Friedman, Theodor Schultz, Gary Becker, George Stigler, Aaron Director and Ronald Coase, all of whom taught at the Economics and Law departments of the University of Chicago in the post-war era. In particular, the proponents of the Chicago school proposed to analyze the entire social field (ranging from household to addiction, law, crime, etc.) and consequently calibrate relevant social policy by means of the categories of neoclassical economic theory. In addition, Foucault locates Ludwig von Mises and Friedrich von Hayek as the “intermediaries” and “agents of transmission” between German ordoliberalism and Chicago-style liberalism (p. 161).
Second, while Foucault narrates the development of the Chicago school in its rivalry with post-war Keynesianism, we insist on tracing the implications of an enduring Marshallian/Walrasian divide within North American neoclassicism (Vroey, 2009). This divide continues to manifest itself today in the pro-market/post-market divide. The “freshwater” economists at the University of Chicago, with their use of partial equilibrium analysis, representative agents, evolutionary metaphors, and their focus on the relationship between law and economics, have had a distinctively Marshallian bent—albeit with significantly more pro-market policy prescriptions than their social reformist British predecessors. In contrast, the “saltwater” economists at the MIT and the Cowles Commission, with their focus on devising incentive-compatible mechanisms that aim to make up for the welfare-reducing consequences of opportunistic behavior under information asymmetries, display clear post-market tendencies and, because they develop their theoretical models as deviations from the post-war (Walrasian-inspired) general equilibrium theory, are sometimes referred to as post-Walrasian economists.²

Differentiating between the Austrian, the Chicago, and the post-Walrasian skeins, our reading differs from most representations of neoliberalism. The Austrian and the Chicago Schools, given their shared pro-market characteristics and institutional entanglement, are usually treated without attending to their pertinent theoretical differences (e.g., Harvey, 2005; Klein, 2008); post-Walrasian economists, because many identify themselves on the left and even some wrote books exploring the economics of socialism (e.g., Stiglitz, 1991), are rarely studied under the rubric of neoliberalism. Nevertheless, without an account of the post-Walrasian tradition as a post-market neoliberalism that emerged from within a series of theoretical confrontations with both Chicago and Austrian traditions, it will be difficult to understand the extent to which neoliberal reason has become an interdiscursive horizon that enframes modern mainstream economic theory and policy making. Discourses that criticize economization (such as ours) are marginalized precisely because pro-market and post-market discourses of economization populate a common interdiscursive horizon. In other words, given that many posit the post-market interventionism of post-Walrasianism as the only “viable” alternative to the now largely discredited Chicago-style neoliberalism, it is all the more necessary to investigate whether or not this approach articulates a genuine alternative that problematizes the epistemics of economization and confronts the ontological project of neoliberalism.

Taking Foucault’s central arguments pertaining to neoliberalism as our point of departure, we develop a contextualized historical genealogy of the entangled development of the three competing economic traditions

² The intellectual sources of contemporary post-Walrasian economics can be traced back to the Neoclassical-Keynesian synthesis of the 1950s and 1960s, when North American “East Coast” economists associated with the Cowles Commission and MIT, Harvard and Yale Universities (e.g., Lawrence Klein, Paul Samuelson, and James Tobin) tried to integrate some Keynesian insights into the Walrasian general equilibrium models. Among the skeins of post-Walrasian economics are, the new information economics of Kenneth Arrow, George Akerlof, Michael Rothschild, Peter Diamond and Joseph Stiglitz and the mechanism design theory of Leonid Hurwicz, Eric Maskin, Roger Myerson and Alvin E. Roth (many of whom, at some point, have been affiliated with either the Cowles Commission or the Economics Departments of MIT and Harvard University).
(Austrian, Chicago, and post-Walrasian) and locate them within the horizon of post-war neoliberalism. (Needless to say, these three forms, while stand out as important nodal points, do not exhaust the horizon and throughout the article other schools of thought are also referred to better calibrate our mapping.) In the following section, we offer a brief summary of Foucault’s reading of German ordo-liberalism and American neoliberalism. The following two sections deal, respectively, with the legacy of three theoretical confrontations of the inter-war era, viz. the Keynesian critique, the socialist calculation debate, and the Marginalist controversy; and with the institutional context of the post-war North American academia, from the Cowles Commission to the University of Chicago. These discussions prepare the ground for the mapping of the forms of neoliberal reason that follow. The mapping is organized around four axes: representations of opportunism, the problem of information, uses of evolutionary metaphors, and theories of the state and its functions. We conclude by proposing three different avenues to criticize neoliberalism as an interdiscursive epistemic horizon.

A constitutive tension of liberalism

According to Foucault, neoliberalism emerged in order to resolve a constitutive tension of liberalism: “Liberalism must produce freedom, but this very act entails the establishment of limitations, controls, forms of coercion, and obligations relying on threats, etc.” (p. 64). Because the principle of producing freedom is predicated upon “the creation [of] a formidable body of legislation and an incredible range of governmental interventions to guarantee production of the freedom needed to govern” (64-5), the organization and management of the conditions of freedom inevitably entail the expansion of the governmental control (see, also, Tribe, 2009, p. 687). For classical liberalism, governments were envisioned—most vividly in the writings of Adam Smith—to have a role in protecting private property, diffusing the power of monopolies, and supervising the smooth functioning of the market as the realm of economic freedom (Medema, 2009, pp. 22-5). Soon enough, this minimal but constitutive role of governments in the manufacturing and maintenance of economic and social freedoms began to expand. For instance, nineteenth-century American governments established a competitive domestic market with the help of protectionist tariffs and anti-monopoly legislation (Chang, 2002). During the New Deal era, depression and mass unemployment necessitated labour market regulations, welfare measures, social security, and even direct government investment in the economy (see, also, Polanyi, 1944). Though undertaken in the name of advancing some kinds of freedom, these measures entailed limitations over other kinds of freedom and began to be seen as interventions that impede “value-creating” economic activities.

According to Foucault, this was a recurring crisis of liberalism that both ordo-liberals and American neoliberals aimed to address in similar yet distinct ways. In the context of post-fascist Europe, brought to ground zero by
Allied carpet-bombing, ordo-liberalism aimed at reconstructing the German state and society around the constitutive principle of “competition” (Foucault, 2008, p. 120). According to the ordo-liberal notion of *Vitalpolitik* (the politics of life), the aim of social policy was the construction of “a social fabric in which precisely the basic units would have the form of the enterprise” and the transformation of “the market, competition, and so the enterprise, into what could be called the formative power of society” (p. 148). Accordingly, ordo-liberalism’s answer to the internal deadlock between liberalism’s aim to manufacture freedom and the limiting constraints that emerge as a result of this endeavour, was to transform the state through modelling its very mode of exercise of political power on the principle of competition (see also Tezuka, 2001; Yamawaki, 2001; Vanberg, 2001). Highly critical of the “naïve liberalism” of classical liberals, ordo-liberals emphasised “the essential positive role that government has to play in creating and maintaining an appropriate framework of rules and institutions that allows market competition to work effectively” (Vanberg, 2001, p. 42; see also Foucault, 2008, Chapter 6). In this sense, because ordo-liberalism acknowledges the need for intervention at the constitutive level and embraces a vision of “social market economy”, could reasonably be considered as a post-market discourse. Ordo-liberals has no qualms about deploying the state, as long as it is done in a neutralized manner, by making competition the sole principle according to which the government can intervene and implement social policy, by making “the market economy itself […] the principle, not of the state’s limitation, but of its internal regulation from start to finish of its existence and action” (Foucault, 2008, p. 116).

The representatives of the Chicago School, in contrast, pushed this formula to its limits by extending economic analysis both to previously unexplored economic domains (e.g., the theory of human capital) and to domains that were previously considered to be non-economic (e.g., the theory of discrimination). In contrast to ordo-liberals whose aim was to re-build the government around a new code and to establish the rule of law against the backdrop of the fresh memories of the fascist usurpation of the state across Europe (pp. 108-222), American neoliberals positioned themselves against the big government of the New Deal and drew from the Jeffersonian/libertarian tendencies already installed in the post-colonial American experience (pp. 216-9). In opposition to a federal government, which has been increasingly involving itself with the governance of social life (from the labour market to the household) through the apparatuses of the welfare state, American neoliberals developed alternative models and policies recasting the subject of social rights as an economic agent, as *homo economicus*, and in the limit, “as an entrepreneur of himself [sic]” (p. 226). Accordingly, the concept of the economic agent “as someone who pursues his own interest” and “who must be left alone” (p. 270) became the grid through which governments began to organize social life. *Homo economicus*, as the “grid of intelligibility” (p. 253) of the biopolitical mode of governmentality, is not only a representation of the subject as an “eminently governable” (p. 270) entity that understands and responds only to the language of economic incentives, but also functions as a conceptual component of a decentralized framework for the “the restriction, self-limitation, and frugality of government” (p. 271).
 Nevertheless, it is important not to mistake the figure of *homo economicus* as an anthropological description of the subject. 3 Neoliberal thought falls into this mistake when it claims that it does not impose a particular mode of conduct on its subjects (e.g., individuals, households, enterprises, bureaucrats, etc.), that it merely *conducts* the individual *conducts* of the subjects by deploying the competitive logic of markets as its principle of conduct. This neoliberal claim is premised upon the presupposition that the mode of conduct of *homo economicus* is an adequate description of both the economic and non-economic mode of conduct of the human subject. 4 In doing so, neoliberal reason occludes the *performative* and *prescriptive* nature of its constructions and implicitly assumes that subjects are equipped with a particular *savoir-faire* that enables them to comprehend and respond appropriately (and in a non-random and predictable manner) to economic incentives (however they may be defined). 5 Far from simply being a “conduct over conduct”, the neoliberal ontological project *demands* a particular mode of conduct (*homo economicus*-like behaviour) from subjects.

Since the Chicago and Austrian traditions have been developed, in part, in reaction to the post-war welfare state and its involvement in the governance of social life, they should be considered within the broader disciplinary and policy context of the period. In the immediate aftermath of WWII, mainstream economics was dominated by Walrasian general equilibrium theory developed around the Cowles Commission, and modern welfare economics was built around the theoretical frameworks, behavioural assumptions and epistemic postures provided by this particular wing of post-war neoclassicism (Madra & Adaman, 2010). Accordingly, in order to understand the colonisation of mainstream economics by discourses of economisation, we need to turn our attention to the controversies and confrontations of the inter-war years, to a period when theoretical divisions and differences among Austrian, Chicago and Cowles/MIT approaches began to crystallize.

---

1 In the Anglo-Saxon context, during the last two decades, beginning with the publication of *The Foucault Effect*, a collection of essays edited by Burchell, Gordon and Miller (1991), a significant body of literature on governmentality has developed. See, e.g., Barry, Osborne and Rose (1996), Lemke (2001; 2002), Brown (2003), Donzelot (2008), Read (2009), and Binkley (2009). Our reading of *The Birth of Biopolitics* differs from some of the formulations that gained prominence in this literature. In particular, when Wendy Brown (2003) argues that neoliberalism, by developing “institutional practices and rewards for enacting” its normative claim about the pervasiveness of economic rationality, it “produces rational actors”, or when Jason Read argues that, “the fundamental understanding of individuals as governed by interest and competition is not just an ideology…, but is an intimate part of how our lives and subjectivity are structured” (2009, pp. 34-5), they tend to ontologise what for us remains to be an open, fallible and indeterminate process of subjectivation. In other words, we take it seriously when Foucault warns us that the figure of *homo economicus* is the grid of intelligibility, “the surface of contact between the individual and the power exercised on him” (pp. 252-3).

4 For a survey of the imperialism of neoclassicism in social theory, with special emphasis on the Chicago School, see Fine & Milonakis (2009); for a similar analysis of an extension of the post-Walrasian economic approach to the study of social identities, see Fine (2009); for a Foucauldian analysis of the “economisation” of the regulatory law in the U.S. thanks to the efforts of Chicago School, see Davies (2010); for a critical survey of the late neoclassical analyses of non-market and non-governmental (“Third Sphere”) economic activities (gift-giving, household economies, community economies, etc.), see Adaman & Madra (2002).

5 According to an emerging literature on the performativity of economics (Callon, 1998; Çalışkan & Callo, 2009; 2010; MacKenzie, 2009; MacKenzie, Muniesa & Siu 2007; Santos & Rodrigues, 2009), economic models, by providing templates for appropriate behaviour and by offering blueprints for engineering market (or market-like) institutions, do perform economies: they are not simply models of the social reality in which we live, but rather they function as models for shaping it. See also Adaman & Madra (2002).
The theoretical legacies of the inter-war years

The standard accounts of the Marginalist Revolution identify three different sources of neoclassicism: William Stanley Jevons in Manchester, Léon Walras in Lausanne, and Carl Menger in Vienna. Yet, the Austrian tradition began to distance itself from the neoclassical tradition during the interwar years. Indeed, the gradual consolidation of neoclassicism (in its Marshallian and Walrasian skeins) around the mathematical apparatus of calculus modelled on physics and the narrowly-defined economic rationality of *homo economicus* operating in a world of perfect information and static notions of equilibrium, when contrasted with the development of a distinct Austrian approach in the writings of Friedrich von Hayek, Israel Kirzner, Ludwig Lachmann, Murray Rothbard and others that eschews mathematical formalism, foregrounds purposeful entrepreneurial activity around the concept of tacit knowledge and conceptualizes markets as competitive, non-equilibrating and evolving processes makes it necessary to account for a number of theoretical confrontations and controversies that took place during the inter-war years.6 Along with the Keynesian revolution and the Socialist Calculation debate, it is necessary to discuss the so-called Marginalism controversy that led to the formulation of selectionist arguments by the proponents of the Chicago School in the aftermath of the WWII.7

Contemporaneity of the Keynesian challenge to the inter-war neoclassical *laissez faire* doctrine and the Austrian charge against the Walrasian socialism of Oskar Lange and others already indicated the presence of certain political, ontological and above all methodological rifts within the neoclassical tradition. After WWI and throughout the period leading up to the stock market crash of 1929, as the Marshallian wing of neoclassical tradition was gaining prominence within the discipline, a strong belief in the automatic and self-equilibrating dynamic of market forces established *laissez faire* as the dominant logical policy prescription (Backhouse, 2002, pp. 211-36). But in the 1930s, as the recession deepened into a depression, other voices began to be raised. The central thrust of the Keynesian critique of *laissez faire* doctrine revolved around the importance of uncertainty on investment and consumption decisions (Keynes, 1936 [1964], 1937). Keynes argued that, since it is impossible to domesticate uncertainty by assigning probabilities to various possible future states of the economy, investors and consumers lose confidence and refrain from embarking on growth-inducing economic activity. In particular, when the economy is in recession, as confidence levels decline, expansionary monetary

---

6 For another discussion that contests this story of Marginal Revolution by separating Lausanne and London from Vienna on the basis of the structuring role that a common “physics envy” played in the formation of the former two, see Mirowski (1989). For comprehensive discussions of methodological and epistemological differences of the Austrian tradition from the neoclassical tradition, see Caldwell (1988, 2004).

7 For a more ambitious version of this genealogy, another line of investigation worth pursuing would be the Psychologism controversy that led to the ordinalist turn in the neoclassical choice theory in the 1930s (Lewin, 1996), motivated Samuelson’s revealed preference approach (Wong, 1978), and reappeared again and again, in Herbert Simon’s (1959) cognitive economics, in Kahneman, Slovic and Tversky’s (1982) psychological critique, and most recently in the behavioural wing of experimental economics (Camerer, 2003).
policies (e.g., reducing the discount rate, increasing the money supply, and so forth) will fail to instigate growth, making it necessary for the government to intervene in the economy through fiscal policies.

In contrast to the *laissez-faire* neoclassicism that Keynes challenged, the Walrasian neoclassicism of Lange that the Austrians targeted during the Socialist Calculation debate (in the late 1930s and early 1940s) was decidedly socialist. The debate was about whether rational economic calculation was possible under state ownership of means of production (Adaman & Devine, 1996). While Walrasian socialists, using general equilibrium analysis, argued that a central planning board, through trial and error, can arrive at a market-clearing price vector, Austrians argued that this was not possible: for Mises, under socialism, no prices could be obtained for capital goods as they will be no more than internal transfers of goods; Hayek gave the critique an epistemological twist by claiming that the information needed to calculate the market clearing price vector cannot come to existence under socialism (Hayek, 1935). Underlying Hayek’s criticism was the difference between information and tacit knowledge: while the former concept refers to codifiable and transferable data, the latter, a distinctly Austrian notion, refers to the fragmented nature of knowledge that emerges in the dynamic and evolving process of competition and entrepreneurial activity (Caldwell, 1988; Adaman & Devine, 2002).

In the aftermath of WWII, as the Austrian approach further drifted away from the general-equilibrium-based neoclassicism of the Walrasian tradition, the Keynesian challenge voiced a strong doubt over the *laissez faire* interpretation of the standard neoclassical model. The Chicago approach, on the other hand, began to emerge as a distinct tradition, in part, through its responses to the Marginalism controversies where Chicago economists began to articulate their notion of markets as *selection mechanisms*. In a series of papers, a number of empirical economists had posed a simple question (Hall & Hitch, 1939; Lester, 1946): do individual entrepreneurs *really* employ marginal calculus in making their production decisions? Based on survey results, they had claimed that almost all managers followed certain rules of thumb, routines and other criteria based on past experience. The central thrust of the response, articulated by Armen Alchian, Milton Friedman and Gary Becker, in slightly different ways, was to argue that, even if each and every individual firm followed a different (and non-marginalist) decision criterion, the industrial average would still tend towards the pattern of behaviour as predicted by the neoclassical theory. And the mechanism that would make sure that the industry average, the non-existent “representative firm”, approximates the behaviour of the profit maximizing firm would be the *selection mechanism of market forces* (Alchian, 1950). In the case of Friedman, for instance, since the selection mechanism will make sure that surviving firms will be the ones that “approximated behaviour consistent with the maximization of returns” (1953, p. 22), regardless of how actual firms behave, it is “not at

---

8 For surveys of the debate see, Loasby (1999) and Vromen (1995).

9 One of the distinguishing traits of Marshallian neoclassicism is the use of the representative firm (as opposed to the individual firm) in economic modeling (Marshall, 1920, Book 4, Ch. 13).
all unreasonable” to construct models that assume that individual firms maximize expected returns. Following a slightly different reasoning, Becker (1962) made a similar argument regarding the use of utility maximizing behaviour in economic models—regardless of how irrational individual household behave, the representative agent would have to adjust consumption according to the law of demand in response to the changes in relative prices. Chicago economists argued that, as long as the standard model has predictive powers (and the market as a selection mechanism confirms this), there was no need to ground it empirically or axiomatically.

A significant amount of intellectual energy in the post-war era was devoted to closing the gap that the Keynesian challenge introduced between macro- and microeconomics. In the North American context, while the neoclassical-Keynesian synthesis remained the dominant theoretical and policy framework until the 1970s, after the breakdown of the Philips Curve, both the MIT/Cowles and the monetarist Chicago approaches, in their separate ways, ventured to provide micro-foundations for macro-economic models of the economy. While the Socialist Calculation debate subsided in the immediate aftermath of the war, it resurfaced during the 1980s, when a rejuvenated Austrian tradition re-issued its critique of Walrasian neoclassicism, at the same time stimulating discussions on socialist economic models (Adaman and Devine, 1997). And finally, the Marginalism controversy has led to further consolidation of the Chicago approach around an understanding of market competition as a process akin to a natural selection mechanism—which also had the added advantage of serving as an alternative to the auction-metaphor used in the Walrasian general equilibrium analyses (Hahn, 1989; Madra, 2012).

The institutional context in the post-war era

In the post-war era, the controversies of, and challenges to, the neoclassical tradition were crystallized in the fault lines that divided the tradition into three camps. The MIT/Cowles group initially began with the construction of Walrasian models of the economy ground up from the axioms of rational choice as an inter-related system of markets (Debreu, 1959; Arrow and Hahn, 1971) and then proceeded to the more general project of establishing the conditions under which individual and collective rationalities can be reconciled either through price mechanisms or voting mechanisms (Arrow, 1963). When the formalist program of developing abstract models of the economy with a minimum number of assumptions and the greatest degree of generality was exhausted (Rizvi, 1994), and the dominance of the neoclassical-Keynesian synthesis came under attack in the 1970s (Tabb, 1999), they turned to the study of market failures arising from information problems. The members of the Chicago School, remaining in the shadows and on the defensive until the 1970s, chose to concentrate on partial equilibrium analyses of various industries, patiently advocating for their deregulation, and they extended “the economic way of thinking” to numerous social, political, legal and cultural problems by developing models based on the assumption that individuals maximize their utility
functions (where the arguments change depending on the situation under consideration) subject to some constraint (usually, time, but anything that can be represented as scarce would do the job) (Mirowski & Hands, 1998). 10 Finally, the Austrian tradition, while remaining politically (and institutionally) close to the Chicago School, methodologically and epistemologically drifted away from the neoclassical fold and developed into an evolutionary and constitutionalist framework (Caldwell, 2004). Nevertheless, the intertwined history of these three tendencies within the neoliberal horizon cannot be told without giving due attention to the history of their institutional context.

On one end of the spectrum, there is the history of the Cowles Commission/Foundation, a think-tank which was founded in Colorado in 1932, then moved to the economics department of the University of Chicago in 1939, and finally in 1955, as a result to growing methodological and political disagreements between the associates of Cowles Commission and the members of the then-emerging Chicago School, settled into its current home at Yale University (Mirowski, 2002, pp. 232-308). Among the affiliates of the Cowles Commission were Oskar Lange, Leo Hurwicz, Jacob Marschak, Trygve Haavelmo, Tjalling Koopmans, Lawrence Klein, Kenneth Arrow, Frank Hahn and Gérard Debreu. Many early affiliates were European émigrés with left-wing (interventionist) tendencies and a strong training in mathematics and engineering sciences. During its early years, in line with its aspirations for “social engineering”, the Commission placed a strong emphasis in econometrics, optimal planning, and operations research. Later on, however, with Arrow, Debreu and Hahn leading the charge, its focus shifted towards theoretical general equilibrium analysis and social choice theory (see also Arrow, 1991). Finally, once the limitations of the establishing the microfoundations of the economy-wide equilibrium with sufficient level generality became clear for the affiliates of the Commission, the tradition turned its attention to the design and implementation of incentive-compatible mechanisms that mimic or modify market structures (Florenzano, 2010; Lee, 2006).

At the other end of the political spectrum, there is the story of the Volker Foundation and the Mont Pèlerin Society, with Hayek as the protagonist. After the war, along with other European émigrés, Hayek also relocated to United States. The Volker Foundation, a pro-market foundation aiming at popularizing ideas against the institutions of New Deal and the culture of government control over the economy (van Horn & Mirowski, 2009), initially approached Hayek to write an American version of The Road to Serfdom (Hayek, 1944), a book that argued that “the totalitarian trends inherent in the process of central planning of economies and societies” (Hayek, 1994, 17) were the ultimate causes of the rise of Fascism and Communism in Eastern Europe (see also Foucault, 2008, pp. 108-22). Later on, after Hayek’s bid to secure a position in the economics department of the University of Chicago fell through, in 1950, the Volker Foundation funded his

---

10 Embracing a pragmatist, instrumentalist methodology, Chicago economists never questioned the veridicality of the utility-construct and never asked what lies behind utility functions.
position in the Committee on Social Thought of the same University (Hayek, 1994, p. 126). Nevertheless, even before securing a position at Chicago, Hayek was already an important figure in connecting the department with the Volker Fund and enabling the formation of the neoliberal character of the economics, business and law departments at the University of Chicago (van Horn & Mirowski, 2009). Similarly, Hayek’s role in the foundation of the Mont Pèlerin Society in 1947 and in finding financial support for the Society from institutions such as the Volker and Rockefeller Foundations should also be noted. The Society has been particularly instrumental in linking the ordo-liberalism of the Freiburg School with the neoliberalisms of the Austrian and the Chicago Schools: among its members and past presidents were Hayek, Eucken, Röpke, Friedman, Stigler, Coase, Becker as well as public choice theorist James Buchanan and development economist Deepak Lal. The circle closed in 1962 when Hayek took a position at the University of Freiburg (home of German ordo-liberals Eucken and Böhme) until his retirement in 1968.

Nevertheless, this intricate web of institutional connections between the three variants of neoliberalism (Cowles’ tenure at Chicago, the Mont Pèlerin Society’s role in bringing American and European neoliberals together, and Hayek’s role in the establishment of the Chicago School) should not blind us to their differences. In fact, the need to account for the resilience of neoliberalism as an ontological project and its unfolding into a political horizon necessitates us to carefully register points of antagonism as well as convergence. What turns neoliberalism into a discursive horizon that structures public debates on economic and social policy is precisely the fact that there are different schools with distinct methodologies and political visions that struggle with one another while remaining in fidelity to a common set of ontological presuppositions and objectives. While Foucault’s reading of German ordo-liberals and American neoliberals focuses on their treatment of the state and the economic agent, the following discussion will also consider how markets are conceptualized and how the question of information is handled by each of the three forms of neoliberal reason.

Neoliberalism reason and its forms

Neoliberal governmental reason, positing “competition” as the principle of its conduct, aims to govern the social in a decentralized manner by manipulating the incentive structures faced by the subjects (individuals, households, enterprises, bureaucrats, etc.). Yet each form of neoliberal reason has a different notion of the subject, of how this “model” subject conducts itself, of how competition functions as the principle of conduct, and of how to conduct the self-conduct of these “competitive” subjects. Each form of neoliberal reason defines

---

11 In his introduction to an autobiographical dialogue with Hayek, Stephen Kresge quotes John Nef to suggest that he was not offered a position at the economics department because The Road to Serfdom was regarded by the economists at the University of Chicago “as too popular a work for a respectable scholar to perpetuate” (Nef, 1973, p. 37; cf. Hayek, 1994, p. 24). Van Horn and Mirowski (2009), in contrast, argue that there is not enough evidence to suggest that the associates of the Cowles Commission (such as Marschak and Koopmans), who were also members of the Chicago economics faculty, blocked the hire.
and formulates “the economic problem” in its own unique way. Austrian economists understand markets as dynamic, non-equilibrium, competitive discovery processes structured by constitutional rules of the game and activated by purposeful actions of entrepreneurs. Chicago economists view market outcomes to be rational and claim that markets select the more, if not the most, efficient firms, individuals, institutions. And now post-Walrasian economists of the MIT/Cowles tradition see institutions (market or non-market) as mechanisms that address potential irrationalities, inefficiencies and suboptimalities that may occur due to opportunistic behaviour of economic agents. In exploring the differences among these three forms of neoliberal reason, we will concentrate on four shared problematics (cutting across theoretical and practical concerns): the representations of the subject, the limits of markets and the problem of information, the use of different evolutionary models of social ontology, and the role of the state in relation to the market and the society at large. The highlights of the discussion are summarized in Table 1.

[Insert Table 1 around here.]

Representations of opportunism

All three positions within the neoliberal horizon deploy the theoretical construct of *homo economicus* as “the grid of intelligibility”, as “the surface of contact between the individual and the power exercised on him” by the government (Foucault, 2008, pp. 252-3). The particular accent, however, shifts from one to another: While the Chicago and Austrian traditions approach opportunism in a celebratory manner, post-Walrasians think that the opportunism of *homo economicus* undermines social welfare. For the typical Chicago economist, *homo economicus* is a risk-taking self-entrepreneur who invests in her “human capital” and whose opportunism improves social welfare. For the Austrian economist, the opportunism of the *entrepreneur* enables her to exploit the profit opportunities by articulating tacit knowledge in a cognitive discovery process, and thereby animating the price mechanism. In contrast to the Chicago (and the post-Walrasian) model of the economic agent as an optimizing machine, the Austrian School developed a distinct understanding of human behaviour as an entrepreneur who, while responding “rationally” to the incentives given to her by the institutions of private property and competitive markets, does not “solve” an optimization problem—if only because Austrian economists do not conceptualize the economy as a Cartesian domain with well-defined choice sets and objective functions (Hayek, 1948; Kirzner, 2000).

In contrast to these celebratory approaches towards opportunism and the pursuit of self-interest, post-Walrasian economists emphasize situations where opportunism leads to suboptimal outcomes. As exemplified in the Prisoner’s Dilemma game, opportunism of agents can lead to social outcomes that can only be improved either by redesigning the game and thus changing the pay-off structure (viz. turning it into a repeated game) or by stepping outside of the individualist-formalist ontology and introducing institutions (e.g., norms, states) or “pro-social” behavioural attributes (e.g., trust, reciprocal behavior) (Adaman and Madra, 2002). In fact, the
regulation and correction of the undesirable consequences of opportunism from within the individualist ontology is the raison d’être of the post-Walrasian mechanism design approach (e.g., Hurwicz, 2008; Myerson, 2009). Precisely for this reason, the privileged agent for the post-Walrasian approach is not the opportunist economic agent but the mechanism designer—those who possess the expert knowledge to correct market failures by designing incentive-compatible institutions.\textsuperscript{12}

The very presence of these two contrasting positions (celebratory and critical; pro-market and post-market) within the neoliberal horizon is what gives the latter, in part, its hegemonic resilience in the face of the cyclical crisis of capitalist economies. For instance, during the 1970s, when the regulatory structures weighed heavy and society was perceived to be suffering from “institutional sclerosis” (Olson, 1988), demands for deregulation were voiced and the public embraced opportunism as a positive force for revitalizing the economy. Yet, during the recent financial meltdown, when the negative consequences of opportunistic behaviour became widely visible and legible, the post-Walrasian approach gained the upper hand and responded to the demands for regulation (Rajan, 2010; Stiglitz, 2010). Needless to say, there are many other factors that overdetermine the shifts and oscillations between the two poles. Our point is that the mere presence of two contrasting positions locks the debate within the neoliberal horizon and makes it possible to continue to subscribe to the opportunism assumption without questioning it.\textsuperscript{13}

The problem of information

The Walrasian tradition was confronted with the problem of “information” already in the context of the Calculation debate, as Austrian economists embarked upon developing the concept of “tacit knowledge” and the idea of the market as process as an alternative to the assumption of perfect information and the equilibrium construct (Caldwell, 1997). In the post-war period, the MIT/Cowles economists, the descendants of the Walrasian socialists, beginning from the absence of future markets and information asymmetries traced the path back to the problems of adverse selection (due to the limitations on information necessary for adequately distinguishing among contracting agents) and moral hazard (due to the difficulties in monitoring and assessing the performance of the contracted agents). New information economics, based on an “agency-theoretic” understanding of information as a "power" concept, emerged out of this research program (Bowles & Gintis, 1993; Stiglitz, 1991, 1993). In contrast, the Chicago approach simply extended their standard cost-benefit

---

\textsuperscript{12} From the perspective of mechanism design as long as institutions are incentive compatible, their ownership structures do not matter; given the endemic nature of adverse selection and moral hazard problems, a well-designed institution with public ownership could potentially be at least as efficient as an institution with private ownership (Bardhan and Roemer, 1992; Adaman and Devine, 1996). This is significantly different from the Austrian and the Chicago positions for which private property is a key institution for markets to be incentive compatible for the participants.

\textsuperscript{13} For a more extended discussion of oscillating and contrasting representations of “greed” in the history of economic thought and in the context of the contemporary economic crisis, see Özselçuk & Madra (2010).
analysis framework to the question of information and treated it as just another commodity that can be bought and sold at the right price (Stigler, 1961). A rational actor, faced with the costs of retrieving information (i.e., “search” costs), will assess the potential benefits and will undertake the necessary expenditures only if the opportunity cost of not doing so is not greater.

This difference manifests itself in how each approach theorizes non-market institutions of “command”. For the Chicago approach, vertical institutions of command, such as firms and governments, will replace the price mechanism, a horizontal institution, only when the cost of conducting a certain economic activity through the price mechanism exceeds the costs of conducting it by means of vertical institutions. This “self-reflexive” application of the logic of cost-benefit analysis to determine the scope of markets themselves amounts to the elevation of the Market into a meta-model. Indeed, Coase’s highly influential “The Nature of the Firm” (1937) has already led the groundwork for such an elevation: firms come to existence when the cost of handling transactions (needed to produce goods and services) through markets exceeds the cost of handling them in long-term contracts. In contrast, while acknowledging the importance of transaction costs, post-Walrasian approaches theorize firms as institutional solutions to the absence of futures markets and informational asymmetries. In particular, the “efficiency-wage” models incorporate moral hazard and adverse selection into the theory of the firm and provide analyses of the development of hierarchical “power” relations within the firm in order to guard the latter against opportunism (Akerlof, 1982; Shapiro & Stiglitz, 1984; Bowles, 1985; Bowles & Gintis, 1993).

The Austrian tradition differs from the other two in its refusal to posit an idealized notion of market as a reference point to measure the extent of the “failure” (Hayek, 1948). Abandoning such idealized equilibrium constructs, Austrians were able to formulate a new concept of markets’ accomplishments without reverting to claims of efficiency and perfection. For Austrians, markets’ function is not to compute “the solution to that set of simultaneous equations marking out the relevant optimal pattern of allocation” (Kirzner, 2000, p. 80). Rather, it is to overcome the “knowledge” problem by promoting coordination among market participants to exploit available “opportunities of mutually gainful exchange” (p. 81). As long as markets perform this function, they cannot be considered imperfect—even if they exhibit “failures” when compared to the idealized model where imperfections do not exist. In fact, when governments intervene to make up for such “failures”, they are “obstructing a process of discovery without offering any substitute for it” (p. 82). Yet, Austrian economists do consider a particular kind of limit to the markets: the “institutional prerequisites” without which “the market cannot operate” and which “cannot be created by the market itself” (p. 83). The constitution of markets requires the establishment and the governance of a juridico-institutional framework (the rule of law guaranteeing property rights and contractual freedom and enforceability) that internally regulates the entrepreneurial game (Vanberg, 2001, pp. 77-88; Foucault, 2008, p. 173).
For Chicago economists, market failures are caused by transaction costs. Hence, they formulate the problem of information in terms of the costs and benefits of retrieving information and argue that market failures can be efficiently resolved only by introducing new markets where information is traded. For post-Walrasian economists, market failures emanate from the endemic existence of incentives for strategic manipulation of asymmetric information and can be solved by designing safeguards against opportunism. Recognizing the possibility of failure and theorizing its solution, these neoliberal approaches define their object of intervention and prepare the conditions of the expansion of the logic of market. For Austrian economists, because markets cannot create and maintain the legal and institutional framework necessary for their smooth functioning, they assign this task to the government. As a result, all three positions, albeit in different ways, contribute to the materialisation and expansion of opportunism through social institutions by advocating to replace them either with markets or market-like institutions, i.e., with dispositifs that are designed to expect and demand entrepreneurial engagement, competitive behaviour, and opportunist vigilance from its participants to function properly.

*Uses of evolutionary metaphors*

All three approaches, confirming Marshall’s famous prediction (“Biology is the Mecca of economics”), mobilize evolutionary metaphors in conceptualizing the adjustment process in markets and turn these evolutionary metaphors into interpretative meta-models to theorize the formation and functioning of social organizations, including markets and firms. The introduction of evolutionary metaphors to explain not only how markets function but also how they come to exist or reproduce themselves is an important step towards economisation through naturalisation of the constitution of economic as well as non-economic institutions (e.g., organizational forms, social norms, rules of conduct).

Austrian economists, consider markets as dynamic, non-equilibriating, evolutionary processes that facilitate the dissemination of information, articulation of tacit knowledge, and exploitation of available profit opportunities (e.g., Kirzner, 1992). In his later writings, especially in *The Fatal Conceit* (1988), Hayek extended this evolutionary perspective to the analysis of the emergence and evolution of the institutions of market society and explained their emergence as an outcome of cultural evolution. Nevertheless, Hayek’s evolutionary turn, while in line with his overall critical stance towards rationalist and constructivist forms of social engineering, appeared for many within the Austrian tradition to be in contradiction with his rational liberalism and liberal constitutionalism. Reflecting the enduring influence of German ordo-liberals’ critique of the “naïve naturalism” of classical liberals, Kirzner notes that it would be wrong to rely only on “spontaneous social forces” for

---

14 Neither a discussion of the causes nor an assessment of the appropriateness of the increasing circulation of evolutionary metaphors in the post-war period can be made within the confines of this essay. For a comprehensive treatment, see Hodgson (1993).
fostering the market institutions (2000, p. 83). Again, a contemporary representative of the Freiburg School, Victor Vanberg, argues for a liberal perspective that sees a role for both “deliberate legislation in constraining evolution, and in designing institutions” and “evolution in assisting and testing our efforts in deliberate institutional design” (2001, p. 76).

Chicago economists have already began during the Marginalist controversy (see above) to rally evolutionary metaphors to explain how markets function. In contrast to the MIT/Cowles approach which started from the idealized, auction-based model of general equilibrium theory and arrived to the conclusion that the outcomes of real markets, to the extent that they do not satisfy the idealized conditions of the model, are bound to fail, Chicago economists mobilized selectionist models of the market and theorized market outcomes to be either the most efficient (Friedman, 1953) or better-than-the-rest (Alchian, 1950). Like the Austrians, they also did not limit their otherwise “pragmatic” mobilization of evolutionary metaphors to explain only the functioning of markets. Elevating competition-qua-selection into an interpretative meta-model, they explained the survival and extinction of different institutional forms (e.g., feudal institutions, small-scale capitalist firms, property regimes) as an outcome of a selection process. For instance, Oliver Williamson, an economist who developed Coase’s nascent theory of the firm into a theory of organizations and institutions, argued that “institutions emerging from the competitive process will be comparatively efficient” (Williamson, 1993, p. 107).

Responding the increasing mobilization of evolutionary metaphors that serves to justify the actually-existing constellation of the institutional landscape (a tendency which takes the form of “market triumphalism” in the post-communist context; see, for instance, Cheung, 1992), post-Walrasian economists invoked the concept of path dependency (or other concepts of evolutionary theory, such as “differential replication” and “group selection”) and argued that “the inference that survival entails efficiency is unwarranted” (Bowles & Gintis, 1993, p. 97). While this objection did address the Chicago and new institutionalist economists’ Panglossian uses of evolutionary metaphors (Hodgson, 1993) and countered the triumphalist declarations of the superiority of capitalism over a failed (actually existing) communism, it failed to engage directly with the Austrian notion of spontaneous order which does not have a universal efficiency claim on self-perpetuating conventions and institutions (e.g., Sugden, 1989). Nonetheless, the post-Walrasian thought remains within the horizon of neoliberal reason. The concept of “path dependency”, not unlike the way the concept of “imperfect competition” implicitly refers to “perfect competition”, presupposes a central tendency of History, in this case, of the unfolding “competitive process” as a meta-selection mechanism that would have “chosen” the more “efficient” institutions if not for “path dependency” and similar limitations over the competitive process. In other words, even though they invoke path dependency, to the extent that they take the persistence of

---

15 Path dependency means that a particular constellation of events and factors might end up protecting and enabling the reproduction of an inefficient institution in such a manner that, after a while, it becomes too costly to change paths, so to speak, and switch to a more efficient alternative (David, 1985).
“inefficient” institutions as the central question to be answered, post-Walrasian economists also rely upon the underlying metaphor of an over-arching selection mechanism (a meta-market) that governs the survival of institutions.

Neoliberal theories of the state and its functions in society

Hayek’s critique of constructivist rationalism, “directed against the claim that we can create a desirable social order by discretionary planning and particular commands” (Vanberg, 2001, p. 78), is informed by the notions of spontaneous order and cultural evolution. Because “the process of selection that shaped customs and morality could take account of more factual circumstances than individuals could perceive”, Hayek writes, “the tradition is in some respects superior to, or ‘wiser’ than, human reason” (Hayek, 1988, p. 70). Yet, even in its Austrian form, it would be incorrect to claim that neoliberal reason is disengaged from using the government to accomplish things in the society (with the exception of Rothbard [2009], who argues that even law could be managed privately). According to Foucault, neoliberalism comes into its own as a counter-revolution against the post-war welfare state. For this reason, neoliberal reason inherits (and aims to transform) a state which is already heavily involved in the social field and which has a material existence in a relatively dispersed set of institutional dispositifs and functions that regulates and governs not only the market but also the entire life-world. Neoliberalism does not necessarily entail the withering away of the state, but rather the reconfiguration of its relation to the society through economisation.

Keynesian aggregate demand management (coming into its own during WWII), combined with the regulative institutions of the New Deal, eventually took the US economy out of the Depression and placed it onto a sustained growth path in the post-war era (see, e.g., Harvey, 2005; Duménil & Lévy, 2011). Partly due to this historical context; partly due to the socialist leanings of some of its important figures; partly due to a widely shared modernist commitment to “social engineering”; and partly due to its research engagements with the US Military and its affiliated think tanks, the MIT/Cowles approach was quite sympathetic to government involvement in the economy (Mirowski, 2002, pp. 232-5). If we limit ourselves to its standard general equilibrium framework, an explicit reference to the role of the state appears in some significant sense only in the infamous Second Welfare Theorem (Debreu, 1959; Arrow & Hahn, 1971), according to which, if initial endowments are redistributed (by the state) prior to market exchanges, a socially-desired final equilibrium outcome can be chosen among all possible Pareto-efficient outcomes. From the perspective of general equilibrium analysis, therefore, a case could have been made in favour of the suspension of the property rights by the state to reach “a desired social outcome”. More controversially, since its assumptions cannot be met in

16 For the “market socialist” implications of the theorem, see Roemer (1995). Under some admittedly restrictive set of assumptions, the priorities that would define this “desired social outcome” can in turn be determined as a “social welfare function”, which is obtained by the aggregation of the (exogenous) preferences of individual citizens (Arrow, 1963).
“real-world” economies (e.g., when there are externalities, when certain public goods cannot be provided by competitive markets, when there is less than perfect information, when certain future markets are missing, and so forth), the general equilibrium model sanctions further government interventions to remedy these “market failures” (Hahn, 1984).

In the post-war era, the welfare state extended its reach and control through its social policies, less through “wealth redistribution” and more through remediying market failures and correcting the un-levelled playing field. As the vanguard of the neoliberal counterrevolution, Chicago economists pursued research on all the domains of social life where they found an institutional device of the welfare state, and they tried to produce reform policies according to the logic of selection: such selected areas included the household, education, the labour market, discrimination, health care, social security, crime, and addiction (e.g., Becker, 1976). Foucault argues that this generalization of the economic grid was undertaken not only to render social processes “intelligible”, but also for “anchoring and justifying a permanent political criticism of political and governmental action” (2008, p. 246, emphasis added).

Two instances, one pertaining to the correction of “market failures” and the other to the non-economic social policies of the government, may suffice to illustrate this point. Consider how the Chicago approach, using Coase’s (1960) critique of the Pigouvian taxation-based approach, developed a market-based solution to externality-related market failures. According to the Coase Theorem, as long as all the relevant property relations are fully specified and no transaction costs are involved in the relevant exchanges and side payments, there is no need for third parties to get involved in order to dissipate the problem of social cost (Stigler, 1965, p. 113). A third party is required only due to the need for the judicial system to arbitrate potential conflicts among negotiating parties according to the rule of law (Davies, 2010). And, if transactions are costly, these costs themselves could be dissipated through the introduction of new “competitive” markets where services to facilitate transactions are exchanged in increasingly efficient ways. In this manner, in response to any demand for corrective government intervention, Chicago economists ask whether government involvement is really necessary and whether it is possible to resolve the problem through negotiations between affected parties, that is, through the judicial system and according to the rule of law. For a critique of a non-economic social policy of the post-war government, we will consider Stigler’s (1970) models of the economics of crime, a model considered by Foucault as well. When dealing with the enforcement of criminal activities, Stigler proposes that, since enforcement is costly, its goal “is to achieve that degree of compliance with the rule of prescribed (or proscribed) behaviour that the society believes it can afford” (1970, p. 526, emphasis added). In this manner, the Chicago approach submits all public activities to the grid of cost-benefit analysis and turns its

---

As others have noted, there is no clear statement of the “Coase Theorem” in Coase’s 1960 essay. Steve Medema (1994, p. 63) notes that the first person to use the term “Coase Theorem” is not Coase, but the eminent Chicago economist, Stigler.
“economic approach” into “a permanent criticism of governmental policy” (Foucault, 2008, p. 247). To complete the picture, the economic grid is extended to theorize the motivations of the criminal as well. A criminal, according to Stigler, is someone who takes the “risk of being condemned to a penalty” (p. 251).

Even though the main crux of the intellectual output of the Austrian tradition was pitched at a philosophically more sophisticated level than the hands-on, industrial-level analysis and policy-relevant groundwork undertaken by the intellectual community of the Chicago Schools of Economics and Law, and even though the evolutionary conceptualizations of Austrian economists may sound closer to classical liberalism than that of interventionist forms of neoliberalism, on practical policy issues, Austrian economists, again and again, sided with the pro-market positions of Chicago economists against the post-Walrasian positions. On the issue of monopolies, they advocated, like other Chicago economists, a hands-off approach (Hayek, 1967, p. 73). On the issue of externalities, they advocated the private internalization of externalities à la Coase (Littlechild, 1979, pp. 57-64). On the issue of the application of the economic grid to non-economic domains, they embraced Beckerian approaches with the proviso that their incorrect reliance on a “universal, omniscience-based, equilibrium” is discounted (Kirzner, 2000, p. 270). But perhaps most importantly, in contrast to the pragmatist economists of the Chicago School—experts in deregulation and privatisation, who focused on the actual take-over and transformation of the state and judicial apparatuses in the 1980s and 1990s—the Austrian School supplied the ideological ammunition and institutional support for the individualist revolt against the paternalism of the post-war welfare state during the same period (Mirowski, 2007, pp. 367-9).

In all three forms of neoliberal reason, as the citizen is re-cast as an economic agent who moves in the world by perpetually calculating and systematically responding to incentives, it is only the next logical step to apply the “economic grid” to the internal organizational structure of the government and to submit its bureaucracy to perpetual audits of effectivity, corruption and efficiency. The Austrian contribution to this critique of the state was to provide an epistemological critique of what they considered to be the logic of a productive, interventionist state, namely the logic of rational constructionism; and based on this critique, they argued that planning cannot mobilize tacit knowledge as effectively as a competitive discovery process (Hayek, 1973; Vanberg, 2009). The Virginia School of public choice (standing in close proximity to, yet distinct from, both the Austrian and the Chicago approaches) spearheaded a critique of the assumptions of modern public economics and argued that, since bureaucrats should also be assumed to behave opportunistically, in addition to market failures, economists must concern themselves with government failures (e.g., rent-seeking behaviour, corruption, and so on) (Buchanan & Tullock, 1962; Krueger, 1974). For Chicago economists, it was a matter of efficiency: while bureaucrats indeed behave opportunistically, the regulation of industries, for

---

18 In this regard, Austrian and Chicago economists differ from German ordo-liberals who advocated for the control of monopolies (Foucault, 2008, pp. 134-137).
instance, had to be theorized as an outcome of the optimizing behaviour of interest groups (e.g., industries) (Stigler, 1971).

In its early years, the post-Walrasian school, too partly conceding to this systematic economic criticism of the welfare state, and partly, in order to tackle the information problem, turned its attention to developing a theory of organizations in which the behaviour of the members of an organization were analyzed as opportunistic and prone to exploit strategic informational asymmetries (Arrow, 1974). This path subsequently led to the systematic exploration of the conditions under which “informationally decentralised, incentive compatible mechanisms that simultaneously result in decisions maximising the total welfare [can be established with] the voluntary participation of the individuals and balanced transfers” (Florenzano, 2010, p. 1071). The mechanism design approach concerns itself with its applications in auctions, bargaining mechanisms, exchange mechanisms (markets), regulation mechanisms (both of and in firms) and matching problems—in short, wherever a social transaction suffers from “thinness” (not enough voluntary individuals are attracted), from “clogged” information channels, and from “incompatible” incentive structures that fail to prevent agents from performing welfare-reducing behaviour or from transacting elsewhere (Roth, 2008, p. 286). In short, the mechanism design approach aims to solve economic and social problems not through the actions of bureaucrats or through deliberative democratic self-governance but rather by “microeconomic engineering”, that is, by turning the problems into technical ones that can be reconciled through incentive-compatible mechanisms.

Conclusion: De-politicisation through economisation

In contrast to classical liberalism that sought to isolate as much as possible what was imagined to be spontaneously-evolving markets from arbitrary and unnecessary state interventions, and to secure the freedom of exchanging subjects from all forms of coercion, neoliberalism actively seeks to construct the necessary conditions for markets and non-market institutions to function, primarily to govern the social by restructuring the state according to a competitive logic through a generalisation of the logic of economic incentives throughout the state apparatus and beyond the economic domain. In short, while classical liberalism aimed to protect the economic from the political, neoliberalism seeks to de-politicise the social through economisation.

Neoliberal reason represents the economy as a sector of the social that functions according to the immutable and transcendental laws that are micro-founded in the (purportedly) predictable and non-random behaviour of economic agents. This microfoundation involves fixing the question of subjectivity around the concept of the economic agent (a purposeful and rational entrepreneur or an expected utility maximising self-entrepreneur or an opportunistic agent), which functions as the “grid of intelligibility”, as the “surface of contact” between the government and the individual. Subsequent universalisation of this category itself has led neoliberal reason to represent the entire social field (including both non-market economic and non-economic domains) through its
grid of intelligibility. Once categories of politics, cultural difference and historicity are replaced by the transhistorical formalism of an economic grid that draws upon evolutionary models, neoliberal reason posits itself, in part through a strategic war of position within a public sphere that stretches across academic institutions, think tanks, policy circles, and the mass media, as a set of privileged expert discourses (of economization) that is supposed to furnish governments with policy advice and the general public with opinion on all matters (Mirowski, 2007).

The definition of neoliberalism qua economisation of the social enables us to read, along with the Chicago tradition, both the Austrian and the post-Walrasian traditions as forms of neoliberal reason. In particular, we have argued that, even though they emphasize the endemic nature of market failures, argue for remedial institutional design, and are genuinely concerned about issues of social justice, post-Walrasian economists continue to posit *homo economicus* as the model of individual behaviour and aim at designing institutions to accommodate market failures that arise from the (postulated) opportunism of economic agents. In other words, the “artificial institutions” designed to appropriately mimic or modify the selectionist logic of competitive markets, even though they are intended to incorporate socially-sanctioned priorities, remain within the strictures of the neoliberal ontological project as they demand a social subjectivity that responds to economic incentives in a non-random and predictable manner. Ironically, such incentive-compatible mechanisms that aim to safeguard institutions against manipulative behaviour tend to act in a performative manner and end up breeding and legitimating opportunistic behaviour where there was none (e.g., Bowles & Hwang, 2008). By conceding to the neoliberal rules of the game, by conceptualising the role of the government as an appropriate calibration of incentive structures, they also contribute to the de-politicisation of the social through its economisation.

The status of the Austrian tradition is no less contested. As noted above, commentators either fail to distinguish it from the Chicago School or reject the neoliberal designation altogether. Indeed, many consider the Austrian tradition, in particular because of the concepts of spontaneous order and cultural evolution, to be closer to classical liberalism than neoliberalism (Caldwell, 2010). Yet, even if we leave aside their track record on practical policy issues and their ideological and institutional contributions to the neoliberal counter-revolution, it is still possible to consider them as producers of a discourse of economisation. In particular, the use of evolutionary metaphors, by elevating the logic of competition to the level of a meta-grid that selects the most effective institutional framework, contributes to the de-politicisation of the social. When Hayek and others prefer “a constitutionally limited democracy” to more populist and participatory forms of democratic sovereignty (Hayek, 1973, p. 1) and conceptualize the political process as a process of exchange (Vanberg, 2009, p. 15), they actively represent the political process through the economic grid. Similarly, by subordinating the determination of the rules of the games to the “test” of evolution, the Austrian tradition effectively proposes to organize political power through the “competitive” logic of markets.
Let us conclude by stating explicitly an important implication of our reading. We cannot anymore treat neoliberalism as a particular (right-wing) ideological position within a broader political horizon; today, neoliberalism posits itself as a political horizon that can host within it a spectrum of ideological positions, a governmental reason that can accommodate a certain degree of political variation, and an economic mainstream that can cultivate a range of epistemological and methodological diversity. In making this argument, we do not claim that there is an essence of neoliberal reason, and that the three forms discussed in this paper are different manifestations of this essence. On the contrary, we argued that neoliberal reason, as a heterogeneous field, has been historically and collectively forged through the concrete theoretical confrontations and institutional entanglements of these three traditions within the broader socio-economic context of the twentieth-century.

One possible path for future research lies in the exploration of the aspects of a two-way interaction between the theoretical developments sketched in this paper and the shifts and transformations that have occurred at the level of the social formation. One aspect of this research agenda is to study the degree of success (or failure) of the performativity of neoliberal economic theory. In this regard, it is worthwhile to explore the implications of the recent research in the field of behavioural economics which suggests that incentive-compatible mechanisms that aim to safeguard institutions against manipulative behaviour tend to act in a performative manner and end up breeding and legitimating opportunistic behaviour where previously there was none (e.g., Bowles & Hwang, 2008). Another aspect of this research agenda is the study of the relationship between the cyclical crises of capitalism and the oscillations and transformations within the discipline of economics (e.g., Arestis & Sawyer, 2004); such study would take the measure of the scope and limits of the self-criticisms that have emerged within the mainstream in response to its (self-perception of the) failures in preventing, anticipating, or addressing such crises—we have commenced this task in this paper. And, finally, another possible path for future research, one that aims to break from the epistemic horizon of the neoliberal ontological project, lies in the study of the ways in which concrete communities all around the world can reverse the de-politicisation processes enacted (with varying degrees of success) by neoliberal theory and policy-making in the last three decades (e.g., Gibson-Graham, 2006).
Bibliography


### Theory of Subject

<table>
<thead>
<tr>
<th>The Post-Walrasian approach</th>
<th>The Chicago approach</th>
<th>The Austrian school</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunism; optimising behaviour; strategic behaviour under imperfect information</td>
<td>Opportunism; Maximisation of expected-utility</td>
<td>Rational pursuit of interests;</td>
</tr>
<tr>
<td>Critical of opportunism</td>
<td>If the individual is not rational, the market will be</td>
<td>Entrepreneurial activity articulates and mobilizes <strong>tacit knowledge</strong>, which is the source of innovation</td>
</tr>
<tr>
<td>Celebratory of the pursuit of self-interest</td>
<td>Celebratory of the pursuit of self-interest</td>
<td></td>
</tr>
</tbody>
</table>

### Locus of Agency

| Mechanism designers are the privileged agents guarding the society against opportunism. | Theories of human capital propose that everyone should be an entrepreneur, a self-entrepreneur. | The privileged agents are the entrepreneurs. |

### Conceptualization of Competition and Historical Change

| Even if there is an overarching evolutionary process, it does not select the most efficient outcomes due to path dependency. | Competition is akin to the natural selection process. | Property rights and markets emerge through cultural evolution. |
| The economic approach is applicable to all social phenomena. | | Critical of the use of mathematics, equilibrium analysis, and narrow notion of rationality. |

### Limitations of Markets

| Market failures are due to asymmetric information and they are endemic. | Market failures are due to transaction costs and can be remedied by the introduction of new markets. | A market is a dynamic cognitive discovery process. |

### The Role of State

| Adverse selection and moral hazard problems require targeted, incentive-compatible, institutional mechanism design. | Government failures are due to lack of markets. Monopolistic structures are permissible. **Deregulation** should be actively pursued. | Very critical of rationalist constructivism. |
| Post-Market | Pro-Market | Human action vs. human design. |
| | | Pro-Market |

### Theory of State

| Conceives of the state as a nexus of principle-agent relations. The legitimacy of the decision-makers is based on the social welfare function. **“Who will guard the guardians?”** | Conceives of the state as a market where opportunistinc bureaucrats arbitrate the demands of competing interest groups. Yet still, the state should be replaced by the legal system. | Conceives of the state as a site of rent-seeking and corruption, as a source of inefficiency. A constitutional framework should delimit the discretionary powers of the state. |

### The Role of Property Regime

| Ownership structure does not matter. | Ownership structure matters. | Ownership structure matters. |
| | | |

| **“Prisoners’ dilemma”** | **“Invisible hand”** | **“Spontaneous order”** |
| | | |
| **“Markets are never enough.”** | **“There aren’t enough markets.”** | |

| **“Markets are products of cultural evolution and superior to human design.”** | | |

---

Table 1. Comparing post-Walrasian, Austrian and Chicago approaches