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# UTOPIAN LIBERALISM:

## STATE AND MARKET IN CLASSICAL LIBERALISM AND NEOLIBERALISM

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There is an apparent paradox at the core of the study of neoliberalism. Although a growing research literature in recent decades have documented how neoliberal ideas about free markets and privatization has been increasingly dominant in universities, government agencies and international organizations, this neoliberal dominance have not in meant any meaningful sense meant rollback of state power.

Among the more sophisticated works of the neoliberalism, we have seen an analysis stating that the goal of neoliberalism is not a simple realization of minimal state in which state power is rolled back in favour of market forces. Instead, researchers such as Michel Foucault, Philip Mirowski and Jamie Peck see neoliberalism as a project that is aiming towards a redefinition of the relationship between state and market. The goal is not only to deregulate, but also to use state power to actively reshape the economy.

This nuanced understanding of the relationship between state and market in neoliberalism, however is often made by contrasting it with a distorted version of the classic liberalism of the nineteenth century<sup>1</sup>, which is being portrayed as a simple realization of the principle of laissez-faire<sup>2</sup> and the minimal state. This idea of a sharp contrast between neoliberalism and classical laissez-faire liberalism can be traced back to the early neoliberal such as Hayek, who in the period after the Great Depression formulated neoliberalism, as a stated contrast to what they perceived as the dogmatism and simplicity

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<sup>1</sup> Liberalism purposes for the purposes of this article, us delimited as the self-identifying political liberal movement in line with Fawcett, (2015). "Liberals" from the period before the term was first used in Spain from the 18010s are therefore only touched upon sporadically

<sup>2</sup> The term laissez-faire originated from the physiocratic school in 1700s France (Viner, 1960), but in this article will be used to denote the period of the doctrines dominance within liberal economic thinking in the first part of the nineteenth century.

of classic laissez-faire liberalism. . This sharp contrast between classical laissez-faire liberalism and neoliberalism, which Hayek and the early Mont Pelerin Society developed in a special conjuncture in the 1930s and 40s, has since been taken as gospel for a great number of studies, beginning with Foucault's analyses of neoliberalism in the late 1970s.

This picture is far from accurate, however. Laissez-faire liberalism economic hegemony in the 1800s was not characterized by consensus on a naive rollback of state power. Instead, there existed a wide range of theoretical positions in relation to the state's role in the economy. In political practice the period also saw economic liberals employ an imaginative and active use of state power means to promote the project of laissez-faire. Furthermore, later neoliberals as Milton Friedman and his followers in the Chicago school, who came to influence the next generation of the Mont Pelerin Society, also set out a vision of the state, which is much closer to the classic notion of laissez-faire, than the writings of Hayek in the 1940s.

As such the flexible and active use of the state to promote the goal of market regulation is not a specific ideological innovation by neoliberalism, but rather something that can also be found in the classic laissez-faire liberalism. In the neoliberal thinking we see well enough a greater theoretical attention on the role of the state, than are found among 1800's laissez-faire liberals. But as we will see below, this is rather an expression and explication of an underexposed area within liberal economic thinking than any sort of break or innovation.

The article will attempt to clarify the question by a review of the hegemonic period of classical liberalism in Britain to show how various characters from the early political economy formulated a view of the state's economic role that is far more nuanced than simple laissez-faire. Then the article will show how laissez-faire thinking is also present in the neoliberal movement, while the final section will use Polanyi's analysis in *The Great Transformation*, as a starting point for a more adequate understanding of the relationship between state power, capitalist practice and economic theory.

## **1. In the shadow of Foucault**

Few works have had greater impact on the research in neoliberalism more than Foucault's treatment of the subject in his lectures on *The Birth Biopolitics* at the College de France in 1978-79 (Foucault, 2008). In these Foucault presents the idea that neoliberalism must be analyzed as a distinct, new theory complex, which is radically different from the classical economic liberalism that triumphed in the 1800s. He states that "Neoliberalism should not (...) be identified with laissez-faire, but rather with permanent vigilance, activity, and intervention. This is very clear in most of the neo-liberal texts" (Foucault 2008, 132). Foucault describes a turn towards a more positive view of the state in the neoliberal movement, especially among Hayek and former ordoliberal as Walter Eucken and Wilhelm Röpke, who in 1930 and 40s launched their economic thinking as a contrast to the classical idea of laissez-faire. The goal was not to minimize the size of the state, but rather to reshape its institutions and use state power to spread market regulation to new parts of society:

The problem of neo-liberalism was not how to cut out or contrive a free space of the market within an already given political society, as in the liberalism of Adam Smith and the eighteenth century. The problem of neo-liberalism is rather how the overall exercise of political power can be modelled on the

principles of a market economy. (Foucault 2008, 131). According to Foucault, the ultimate objective of the neoliberals were not to free market forces through a rollback of the state. Instead the aim was to develop a new governance of the self, which allowed the tools and techniques of the market to be spread to more and more areas of life. In this way the economics of individual competition and rationality of the market provided a normative model for society,. . This development culminated with Gary Becker of the Chicago school, who with his *Economics Imperialism* used the neoclassical methodology to model and describe all forms of human behaviour from marriage preferences to the prevalence crime.

Foucault was the first theorist to advance this idea of a sharp difference between new and classical liberalism, when it comes to the state. But he is not the only, to draw inspiration from the writings on Hayek and to ordoliberal. Important contemporary analysts of neoliberal theory as Jamie Peck (Peck, 2010) Philip Mirowski (Mirowski, 2013; Mirowski & Plehwe, 2009) have a similar take. It is no coincidence that this The idea of neoliberalism not only aim to roll back the state, but rather to transform and use the state, has been used as a counterweight to simplistic descriptions of the neoliberal project as a one-eyed attempt to roll the welfare state back or a simple market fundamentalist ideology, based on blind faith in market forces (see Giddens, 1999; Krugman, 2009; Stiglitz, 2009). This view became more popular after the millennium, as it began to be clear that the neoliberal wave of reforms since 1980 had not led to any significant reduction in government size, even in liberal core countries like England, Australia and USA (Cahill, 2014 ).

But there are also problems in this approach to neoliberalism. There is a danger of uncritically taking over an assumption of a dogmatic classical laissez-faire that were painted early neoliberal as Hayek for polemical reasons. A nuanced understanding of neoliberalism is thus provided, by contrasting it with a very un-nuanced image of classical laissez-faire liberalism,. This classic liberalism is portrayed as everything neoliberalism is not: Dogmatically hostile to government regulation, keen on a simple minimization of state power, and with no understanding of the active role of the state in constructing opportunities for new markets. Peck describes eg. How the “fundamental error in the foundations of 19th century liberalism [was that it] gave the state hardly any other task other than to maintain peace, and to foresee that contracts were kept. It was a naive ideology.” (Peck, 2010, 3).

Mirowski similarly discloses how " the dichotomies and rigidities that characterized classical liberalism with regard to its proposed firewalls between economics and politics" and how neoliberalism in contrast, must be “, neoliberalism has to be understood as a flexible and pragmatic response to the previous crisis of capitalism” (Mirowski, 2013, 55). He also stresses that "The starting point of neoliberalism is the admission, contrary to classical liberal doctrine, that their vision of the good society will triumph only if it becomes reconciled to the fact that the conditions for its existence must be constructed, and will not come about “naturally” in the absence of concerted political effort and organization.” (Mirowski, 2013, 61). In this way, it paints a picture of classical liberalism where laissez-faire was not just an ideological guideline, but also the actual executed policy. This image helps to highlight the neoliberal doctrine’s distinct breakthroughs. The problem however, is that the image thus drawn on classical laissez-faire liberalism is both simplistic and wrong.

## **2. the nuances of Laissez-faire**

The classic laissez-faire liberalism is particularly linked to nineteenth century Britain. Although there have been precursors among Enlightenment free-trade advocates such as Adam Smith and Bernard de Mandeville, it was in the period after the Napoleonic Wars that a genuine liberal political identity emerged (Fawcett, 2015). In Britain in the decades after 1820 a liberal movement with advocates such as Ricardo, Richard Cobden and Jeremy Bentham succeeded in implementing a political agenda of free trade, the rule of law and protection of private property. Among the important political results were poor law reform in 1836 and the dismantling of protectionist grain laws in 1846 (Hobsbawm, 2003). With their radical economic program centered around the market and free trade, the nineteenth century laissez-faire movements distinguished itself markedly from the more socially oriented orientation that came to dominate most liberal parties during the first half of twentieth century (Freedman, 1986). But their radical economic ambitions did not mean that the relationship with the state was unison or naive. Both when regards to theory and political practice, classical laissez-faire liberalism contained far more diverse and nuanced view of the role of government than assumed by Hayek and the ordoliberalists.

In the intellectual sphere nineteenth century laissez-faire liberalism contained both supporters of a minimal state, such as the Manchester School of Richard Cobden and John Bright, as well as liberals who had a much more positive view government intervention - eg. in the utilitarian tradition of Jeremy Bentham and John Stuart Mill. In *Principles of Political Economy* JS Mill in 1848 described the how the state's role in the liberal community was not only to maintain peace and order, but also to assume a variety of substantial economic roles. This included areas such as poor relief, education, the establishment of colonies and in special cases where the market could not solve it, the construction of "roads, docks, harbours, canals, irrigation systems, hospitals, schools, universities, printing presses (Mill, 1848, 54)." The economic historian of economic thought Roger Backhouse describes how the majority of the period's politically active economists, including Ricardo, were organized in the Political Economy Club, founded in 1821. These were supporters of free trade and opponents of government regulation, but had "a pragmatic outlook [on the role of the state] in which the role for laissez-faire was severely circumscribed" (Backhouse, 2002, 150).

When it came to political practice classical liberalism characterized where not characterised by a unilateral laissez-faire either. On the central question of the organization and disciplining of labour, both state and private power played a key role. The creation of a free market economy depended on the access to free but obedient workers, who willingly sold their labour for fair But his was a creature that existed naturally, but rather one that had to be created. The process of commodification of labour was not an automatic historical development. Nineteenth century economic liberals understood that in order to create a genuine market for labour, they had to remove other substantive options than participation in the labour market. Here legislation and state power an played active and decisive role. The main barrier to the realization of the desired labour market was the English poor laws (Blaug, 1964). As long as the workers could receive support from the parish, the early liberals saw it as impossible to get the necessary amount of workers to offer their labour for sale. The English Poor Law system, which was based on a social benefits financed by the local parish, had its roots to the Tudor era, but was enhanced considerably by humanitarian reformers in the late 1700s (Cowherd, 1977, 14).

These welfare reforms were met with fierce resistance. At first this resistance was driven primarily by a moralistic criticism, with Thomas Malthus as a leading figure, where it was seen as a moral

imperative that the poor were subjected to hard work. It was not until the next wave of opponents however, that the criticism of poor laws were effectively organized. This group, whose work culminated in the major poor law reform in 1834, with Jeremy Bentham as a central figure and consisted primarily of economic liberals who supported the project of laissez faire. (Cowherd, 1977, 82). Bentham's opposition to the existing poor laws were based on utilitarianism and his belief in the free market. He believed that wealth came from the freedom to the investment of capital and that such freedom demanded the complete commodification of labour (Bentham, 2001). In order to create the social situation which made possible a real labour market, ie the absence of other subsistence options than participation in labour for wages, it was necessary to actively use legislation and state power to remove the protective institutions and norms that stood in the way of this development. Bentham, formulated in 1801, his relationship to state power as follows:

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*I have not, and never had, nor ever shall have any horror, sentimental or anarchical, the hand of government. I leave it to Adam Smith and champions of the rights of man (...) to talk of invasion of the natural liberty, and to give as a special argument against this or that law, an argument which would be to negative upon all laws (quoted from Hutchison, 2002, 37) .*

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The liberal reformers triumphed with poor law reform in 1834, which sharply reduced the poor relief. Eric Hobsbawm emphasizes that "the Poor law of 1834 was designed to make life so intolerable for the rural paupers as to force them to migrate to any job that was offered" (Hobsbawm, 2003, 188). For the radical liberals behind the reform, this was not a problem, but the target itself. The threat of unemployment and hunger as a motivating and disciplining factor that could be used to achieve a controllable workforce, without the use of direct coercion or violence as during the feudal system. This sentiment is even expressed by John Stuart Mill, who in Principles of Political Economy states that public assistance makes impossible any form of civilized management, because without the power to dismiss it was only possible "to extract real work from day laborers using the whip's power" (Mill, 1848 263)

When you look at the 1800s economic liberals, it is important not only to recognize the doctrinal differences, but also to distinguish between self-representation and political practice. On the one hand, almost everyone in the period were nominal supporters of letting the self-regulating market forces rein, on the other hand, the vast majority were also open to the use of state power and legislation to remove barriers to commodification, and saw the need for expanding state power over the individuals when it came to disciplining labour.

### **3: Differences within neoliberalism**

The thesis of the fundamental difference between classical laissez-faire and neoliberalism is not problematic because of a simplistic understanding of the classical liberalism, but also of a one-sided understanding of neoliberalism. If we look at the neoliberal movement through its history, it is difficult

to see a completely unambiguous rejection of laissez-faire or a markedly more positive view of the state than in the classical liberalism. When the early neoliberalism was formulated in the interwar period, it was during a period with growing power of governments, who with financial planning and fiscal policy were able to intervene much more forcefully in the economy than had been the case previously. At the same time the Great Depression that followed the stock market crash in 1929, had shaken the faith in the market's self-regulating abilities among the public.

It was in this atmosphere that Hayek and the ordoliberalists saw a rhetorical and political necessity in distancing themselves from a perceived discredited ideology of laissez-faire.

If we read Hayek or ordoliberalists we therefore see an opening for a larger and more active role for the state and active polemic against what they perceived as the naive laissez-faire of classical liberalism (Bonefeld, 2012; Gamble, 1996; Gray, 1984). In 1944 Hayek states that "Probably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of laissez-faire". (Hayek 2006, 18)<sup>3</sup>. Both in Hayek and ordoliberalists we see what Philip Mirowski call a "market constructivist" position, that is, a notion that the self-regulating market is not just something naturally existing, but rather an institution that must be created through political action. The state's role is not only to step back and let market forces act, but rather actively go in and construct the market.

However, these amounts far from the whole neoliberal spectrum, and especially Milton Friedman marked a markedly different attitude towards the state and the classic laissez-faire liberalism (Burgin 2012). Friedman and Hayek, both prominent members of the Mont Pelerin Society, agreed on the essential elements of the neoliberal programme and were for example both centrally involved in the development of a far more positive attitude to private monopolies, even in cases where it counteracted the free competitive market. This marked a clear breakthrough compared to the adherents of classical liberalism, where there, inspired by Adam Smith, generally were a critical stance towards any sort of monopoly power; from private companies as well as the state or trade unions (Van Horn 2009).

On two key issues, however, there were fundamental disagreement between the two. In the methodological area Friedman preferred the highly mathematical form of neoclassical economics, while Hayek denounced this methodology, in favour his on Austrian school of economics. In the political sphere there was disagreement about the relationship to the state and classic laissez-faire doctrine. In *Capitalism and Freedom* Milton Friedman advances a limitation of the state's size and rollback of the scope of regulation, and directly describe his work as being "in continuity with nineteenth-century liberalism" (Friedman, 1982, 13). Writing in a period where capitalists and markets were not as unpopular as in the wake of the great depression, Friedmans very influential popularization of neoliberalism, presented in books and newspaper columns from the 1950s to the 1990s contained a much clearer defence of classical laissez-faire liberalism, than the early neoliberals. Although Chicago School contained a variety of theoretical perspectives, it was especially Friedman's neoclassical oriented approach that came to dominate, with a prominent representative in Robert

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<sup>3</sup> Hayek changed between different denominations throughout his life. At the founding of the Mont Pelerin Society, he used neoliberal, but abandoned it later. In *The Constitution of Liberty* from 1960 he completely renounces the term liberal in favour of "Old Whig." With that he wanted to highlight its commitment to the defence of individuality and property, which characterized the English revolution of 1688 or the Scottish enlightenment, but also mark the distance to the politically radical turn, he thought liberalism later took



Lucas, who with his theory of rational expectations tried to delegitimize not only Keynesian macroeconomic policy, but any attempt to pursue an active economic policy by the State (Lucas, 1976)

In order to maintain the thesis of the strong difference between neoliberalism and classical laissez-faire requires that we assume that Hayek expresses a more real version of neoliberalism than Friedman. Whether you describe these differences to the growing power and confidence of the neoliberal movement in later decades, or to philosophical differences, it is nevertheless clear that Hayek's early work cannot be seen as the unproblematic ideal type for neoliberalism.

Furthermore, if you look at how neoliberal ideas have had impact in the community over the last decades, Friedman's neoclassical approach seems to have had a much greater role than Hayek's approach. This is true in economics science, international organizations like the IMF and the World Bank and at the national level (Backhouse, 2009; Fine & Milonakis, 2009; Chwieroth, 2009; Ban, 2016; Hay, 2004; Stahl & Henriksen, 2014).

However, while Friedman and his followers have dominated in the theoretical sphere, this has not necessarily meant a simple rollback of the state in political practice. Rather the public share of the economy has been relatively stable over the period since 1980<sup>th</sup>. This points towards a situation where the understanding of the state of liberal economy cannot be understood as a simple contrast between subversive classical liberalism and market constructive and positive state neoliberalism, something else must be at play. Philip Mirowski solves this dilemma by putting forward a theory that neoliberalism contains a "double truth-doctrine," where it is assumed to have both an exoteric and an esoteric version of their ideology. Outwardly the Mt Pelerin Society members preach free markets and deregulation, while internally they all understand that it is necessary to use state power to attain these goals. A much simpler assumption, however, is that the neoliberal movement contains ideological oppositions, and that there is no less reason to take Friedman seriously when he talks about continuity with the classical laissez-faire than when Hayek criticizes this view.

#### **4: The utopian element of liberalism**

Jamie Peck argues that neoliberalism have only ever "existed in the 'impure' forms, it can actually exist only as messy hybrids. Its utopian vision of a free society and a free economy are ultimately unworkable" (Peck 2010, 10). This characteristic seems obviously correct. But, as we have seen, the tension between the utopian element and the actually existing political practice is not a unique innovation for neoliberalism. It also existed in the classical laissez-faire liberalism. This suggests that we are not dealing with a specific question of ideological innovation within the neoliberal movement but instead with a general tension between liberal economic ideology and political-economic practices.

The seedlings of a better understanding of this antagonistic relationship between state and economy in liberal economic thinking can be found in Karl Polanyi's work, where the utopian element of liberal thinking plays a central role. The goal of Polanyi's magnum opus *The Great Transformation* (1944) is to show the effects of the attempt to realize the "stark utopia" of the self-regulating market. This involved the creation of a sphere of production and exchange that were completely decoupled from the coercive state, and governed exclusively the free and equal exchange of goods by independent

individuals. But at the core of this utopian project lies a paradox - the only feasible way to this utopia of self-regulation goes through direct and continuous government intervention<sup>4</sup>:

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*There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures - the leading free trade industry - were created by the help of protective tariffs, export bounties, and indirect wage subsidies, laissez-faire itself was enforced by the state. The thirties and forties saw not only an outburst of legislation repealing restrictive regulations, but also an enormous increase in the administrative functions of the state, which was now being endowed with a central bureaucracy able to fulfil the tasks set by the adherents of liberalism.*

*(Polanyi, 2001, 145).*

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For Polanyi the attempt to realize the utopia was essentially a Quixotical project. An attempt to realize the complete commodification of land, labour and capital, which was necessary for the self-regulating market mechanism to function, would undermine the very society that market was embedded in (Polanyi, 2001, 119). Man cannot stop eating, because the price of basic food items in a period increases beyond the scope of their income. Communities and families cannot survive if the local farms and factories close or relocate, and men and women are forced to migrate to find work. Therefore, these effects attempted mitigated by social reforms, economic regulation and more fixed and regulated working conditions. Thus remained the theory of laissez-faire just theories in their utopian force could act as both legitimating ideology and draft continued reform of society<sup>5</sup>.

The tension between the utopian and practical element of liberal economic thinking that Polanyi outlines, points toward a more general difference in the political use of economic ideas. The Canadian political scientist Radhika Desai talk about economic ideas may have either *directive* or *legitimizing* function when they are used politically (Desai, 1994). The directive function is when ideas appear as plans or blueprints - ways to reduce complexity in a chaotic world, and opens new avenues for political action – such as Keynesian fiscal policy in the post-war period or monetarism in the 1980s. In contrast to this is the legitimizing function is when ideas assume an ideological and, rather than blueprints for action acts as an ideological justification of political or economic projects. The success of both Classical laissez-faire liberalism and neoliberalism is due to the fact that both political

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<sup>4</sup> Polanyi is not the first to point out this paradox. In Prison Notebooks from 1932-34 Antonio Gramsci points out that “it must be made clear that laissez-faire too is a form of State “regulation”, introduced and maintained by legislative and coercive means. It is a deliberate policy, conscious of its own ends, and not the spontaneous, automatic expression of economic facts. Consequently, laissez-faire liberalism is a political programme” (Gramsci, 1991) 273)

<sup>5</sup> In the colonies and peripheral countries the experiment with the self-regulating market were allowed to run much longer than in the core countries and with consequences that were even more destructive than what Polanyi drew up. In Ireland in the 1840s and India in the last half of the 19th century, the full commodification of food production was allowed to run out of their logical conclusion, and millions starved to death when drought or plant diseases drove their incomes below subsistence level (O Grada, 1993; Davis, 2002; Stahl, 2016).

movements contained both these aspects. Both a market utopian element that described the possibility of society based on individualized voluntary exchange, freed from state and collective coercion, as well as a practical openness for using the institutional means of power made available by the modern state, to realize this project.

## **5: Conclusion: What remains of neoliberalism?**

In recent years we have seen a number of researchers, with Mirowski and Peck as prominent examples, develop a much more nuanced understanding of the role of the state in neoliberal thinking. This has helped break down the simplistic contrast between state and market that has characterized much economic discussion, by demonstrating how the state in neoliberal theory and practice just been used to expand market regulation in society. This realization is unfortunately often highlighted by contrasting neoliberalism with a caricatured version of the classic *laissez-faire* liberalism, which is portrayed as a naive rejection of government intervention. Inspired by Polanyi's analysis, this article have tried to show that this is not the case. If we look at the classical *laissez-faire* liberalism in the nineteenth century, a far more nuanced picture appears. We see a much greater openness to the use of state power to actively construct new markets, both in terms of theory and political practice, than portrayed in the simplistic picture. At the same time, we also see differences within the neoliberal movement, and especially Friedman and his followers in the Chicago school are relatively close to the classical *laissez-faire* tradition. Thus it seems that the tension filled love-hate relationship to the state is not a specific feature of the neoliberal movement, but rather a general tension within liberal economic thinking. This continuity has led some to completely refrain from using the term neoliberalism. Andrew Gamble, one of the leading English readers of Hayek, for example, speaks of economic libertarianism (Gamble, 2013), while the economist John Quiggin talking about market liberalism (Quiggin, 2010).

By giving up the term neoliberalism however, one loses sight of the fact that the form of liberal ideological hegemony we see today is historically distinct and shaped by specific institutional and ideological conditions. Even though neoliberalism has reinvented, and thus inherited, the dilemmas from the classical liberal period, it is a distinct intellectual formation, which can be traced to the Mt Pelerin Society. This was not only well-organized movement among intellectuals and wealthy patrons spreading known ideas. You can see distinct theoretical innovations from the network, such as the development of a much more positive view of large companies and their monopoly power. Simultaneously, as neoliberalism was formulated in a period of increasing macroeconomic activism by the state and a strong labour movement, much of the neoliberal project was focusing on criticising and overcoming Keynesian economic and the welfare state.

In short, it is possible point to a number of significant differences between neoliberalism and the classical liberalism. But it is a fiction that we see a distinct divide between a naïve, *laissez-faire* liberalism classical and a state-positive neoliberalism. What we see is is rather a new phase in a much larger and longer conversation about the relationship between state and market in a liberal economy. Here we see a constant tension within the liberal economic thinking between a desire to limit the state

to let the market have freedom, and a continuing need to use just state power to bring this project to fruition.

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