

The Social Market Economy in Germany and in Europe — Principles and Perspectives

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The legal process of German unification was inaugurated by the Four Plus Two talks on 5 May 1990 in Bonn, and continued by the Monetary, Economic and Social Union of 1 July 1990. It will be completed in a legal sense by a final act signed by the Four Powers and the two German states, leading to the accession of the GDR to the constitution of the Federal Republic of Germany on 3 October 1990. This will mark the end of an experiment which lasted for 40 years. Two entire generations of East Germans were educated and indoctrinated with the aim of making them into 'new men' on the Marxist-Leninist model. The experiment ended with meetings in churches which finally led to the famous and courageous Monday evening demonstrations in Leipzig. In the first free elections for 58 years the parties which won a majority were those which had campaigned for German unification by joining the Federal Republic of Germany. Their main argument was the success of our social market economy.

Are we Germans now going to exchange one materialism for another — the theoretical materialism of the East for the practical materialism of the West? The answer is 'no', but with one reservation to which I shall return. If German unification is to succeed and to contribute to a new cooperative economic, social and political order in Europe we should base political decisions in the months and years ahead on these three main principles of Catholic social teaching: the preservation and advancement of the dignity of man; solidarity; subsidiarity. I propose now to investigate to what degree the social market economy of Germany reflects these principles and to draw some conclusions.

The social market economy in Germany is called an 'economic order', not an economic system. A system is a closed orbit. An order is open for adaptation to new developments and to different cultures. A system which fails to integrate new facts is bound to collapse. An order can adapt without losing its identity. The social market

economy is said to be a third way between a market economy in the liberal tradition and a state-run command economy in the Marxist tradition. The social market economy combines freedom and social justice by organising interaction between personal initiative and personal or collective responsibility. Freedom and social justice have a common root: the dignity of man. The dignity of man does not reflect only a Christian view of man; it is also a value common to humanism in the liberal as well as in the social democratic tradition.

The theory of the social market economy was developed by Walter Eucken, Wilhelm Röpke, Alexander Rüstow, Heinrich Kronstein, Franz Böhm, Alfred Müller-Armack and Ludwig Erhard. They followed in the tradition of Adam Smith; but they developed his theory to produce a so-called 'Ordo-Liberalism'. The market economy in their view needs an institutional framework in order to guarantee individual freedom and competition in the markets against the accumulation of private or public power. They integrated into their theories the findings of Max Weber and Josef Schumpeter. In criticising Marx, Schumpeter contributed to a better understanding of market economy by analysing the creative role of free enterprise and competition; while Weber showed to what degree philosophy, science and religion had an impact on the economic process. This is why the Ordo-Liberals studied Catholic social teaching. In so doing, during and immediately after the War, they realised that the dignity of man was a common denominator in the approach of Conservatives, Liberals and Social Democrats to creating a new economic order.

The Ordo-Liberals foresaw the disastrous end of the War and the need for a new beginning in Germany and Europe. After the War some of them joined the party of Konrad Adenauer — Ludwig Erhard was Adenauer's Economics Minister, Alfred Müller-Armack was Erhard's Secretary of State. Franz Böhm was a member of parliament who worked to assure support for Erhard and Müller-Armack. Their aim was clearly expressed by Alfred Müller-Armack in 1948 when he was still Professor of Economics at the University of Münster:

We must create a new economic order. An economic order cannot arise out of economic aims alone. Neither can it stem simply from partly outdated political ideas. An economic order needs a deeper rationale. In our time it needs a moral justification. We are committed to two objectives: freedom and social justice.

This moral approach reflected three elements in the German mentality at that time. Firstly, in the post-war period, people were receptive to moral values. Secondly, Germany was exposed to the communist challenge and its humanist propaganda. There was an urgent need for

a response. We might recall that the Oxford Group and Frank Buchman's 'Moral Rearmament' movement were very successful in post-war Germany. Thirdly, a moral approach suited the mentality of German intellectuals, who were still much influenced by idealism, the philosophical tradition of Immanuel Kant. This moral preoccupation was in fact not at all favourable to the implementation of a social market economy. It was much more suitable for a socialist approach. Even Adenauer's party, the CDU, approved a political programme in 1946 which used the term 'Christian Socialism' (in the Aalener Programme). The Ordo-Liberals were in a minority. But their genuinely new approach, their scientific seriousness, and Ludwig Erhard's eloquence gave them a predominant influence so that very quickly they became the decision-makers.

The first series of decisions was taken after the currency reform of 1948; one result was the liberalisation of prices. The moral climate of the time and the increasingly evident success of the measures taken by Ludwig Erhard facilitated the approval in 1949 of a Constitution which was both liberal and based in moral values. This constitution corresponds fully to the requirements of a social market economy. It could even be described as complementary to such an economy. Let me quote Article 1 of the Constitution (the *Grundgesetz für die Bundesrepublik Deutschland*): 'The dignity of man is inviolable. To respect and protect it is a commitment of every institution of the state.' It is in this article that a catalogue of human rights is introduced which the authors of the Constitution considered fundamental to it. In its concern to protect the dignity of the individual citizen, the Constitution guarantees, in addition to human rights, the rule of law, political pluralism, the separation of powers, the federal structure, and a supreme court set up explicitly to protect the Constitution.

With the GDR joining the Federal Republic, German unity will be realised in an ordo-liberal framework. The process of unification is following the same sequence as in 1948-49 when this framework was established in West Germany: first hard currency and liberalisation of prices, then the introduction of a liberal constitution. But there is one difference: people are not the same any more. Before I draw a conclusion from this last sentence, let me assess the social market economy as it has developed in practice. How does it guarantee the dignity of man? To what degree is there solidarity in our society? How have we succeeded in organising subsidiarity?

The dignity of man is promoted in two ways in our economic and social system: freedom gives space for personal development; and social justice provides security. Freedom requires competition. Competition involves the free choice of profession or job, free

enterprise, and freedom to dispose of private property, including the means of production. Competition also involves freedom to negotiate wages and working conditions between social partners. This basic freedom of a market economy creates a series of supplementary freedoms: a variety of goods; consumer choice; the rewarding of personal skill and energy by financial success; the rewarding of creative initiatives by moral satisfaction. A citizen cannot make use of these opportunities without taking personal initiative and responsibility. Competition stimulates personal initiative, and under special conditions it also stimulates responsibility.

Let us move on to consider solidarity. Solidarity is not simply a feature of public institutions. Far from it: solidarity begins at home. It is an aspect of personal responsibility. Free men and women have to make provision for themselves and their families; they have to make provisions for their retirement; they have to take care of their neighbours and colleagues in everyday life; they have a duty to act responsibly for the common welfare by joining associations, unions or political parties. If the aim is to achieve social peace, freedom cannot be separated from solidarity; and in the final analysis freedom and solidarity are a product of individual attitudes. One of the main aims of the Ordo-Liberals in the Adenauer period was to educate people in such attitudes. The mood of 1968 and the following years, however, challenged these attitudes by preaching emancipation. Emancipation was seen as freedom from responsibility, with the aim of putting an end to 'capitalism'. Nevertheless, it remains true that the typical outcome of a social market economic order is a peaceful social climate established on the following foundations. A spirit of social partnership prevails within companies and between unions and managers. By law every company and every state agency has a freely elected council to represent the interest of the employees in all matters concerning employment. There is no hire and fire. By law, wages and working conditions are a result of free negotiations between the association of the employers and the union. They themselves decide on the period of validity of their agreement. Unions are federated; there is no competition amongst them, so they are able to behave responsibly. By law, in companies with more than 2,000 employees, 50 per cent of the seats on the Board of Trustees are reserved for representatives of the employees and the unions. They know what happens in the company and on the markets and behave accordingly. Responsibility for pensions, medical insurance, accident insurance and unemployment insurance lies with independent public agencies. Freely elected representatives of those insured form the Boards of Trustees. Of course, the state is obliged to cover deficits. But there should be none. And there are none in times of economic expansion.

The hierarchy of solidarity thus starts at the level of private responsibility within the family and rises through different stages right up to the level of the federal budget.

The hierarchy thus produced reflects the third principle we are considering. We have discussed the dignity of man and solidarity: now we turn to subsidiarity. The whole constitutional and legal framework, as far as it is of economic and social relevance, is organised according to the principle of subsidiarity. This principle is based on the concept of sensible interaction between state, society and the individual. Subsidiarity primarily means self-responsibility and self-determination for the citizen as far as the organisation of his own life is concerned. The state and its agencies support the individual citizen, if and when he is unable to cope. The state itself — over and above its inherent tasks — is called upon to act, then, only in those cases where the individual and associations cannot cope; but this does not mean the state should be weak. Far from it. The social market economy needs a strong state in order to preserve competition, to establish the rule of law, to establish a hard currency, to ensure political pluralism, to provide schools and universities, to preserve the environment, to compensate for structural, regional or personal weaknesses by subventions, to preserve open markets, to help the developing nations and to defend Ordo-Liberalism within the European Community. The question is not whether or not the state should act in economic life. The question is when, where and under which conditions the state should act. If the state acts in the spirit of subsidiarity, its priority is to give freedom to the individual and society to act according to their means, interests and responsibility. A state which practises self-restraint helps its citizens in multiple and subtle ways to exercise their right of self-determination. This self-restraint has to be guaranteed by institutionalisation without weakening the state and its public authority. We solved this problem by decentralisation and federalism. A federal structure cannot be invented. A federation has to grow up from the bottom to the top. If there is no regional identity or tradition it is difficult to decentralise, but there is no country in Europe without strong regional identities. Even in France, the government recently put to Parliament a draft law on decentralisation and 'de-concentration'. The French are apparently convinced by the German experience with its regionally balanced economic structure, itself a consequence of a decentralised state. The German states, particularly Bavaria, are now lobbying for a decentralised European Community which recognises the regions along with the nations. In cooperation with the Federal Government we are fighting against centralising tendencies in the European Community headquarters. We therefore support the British Govern-

ment which prefers deregulation to harmonisation of the legal framework, because harmonisation often produces centralised and bureaucratic structures limiting self-determination and self-responsibility.

Let me sum up. With the social market economy we tried to find a third way between the liberal market economy and the socialist command economy, and we succeeded. The social market economy was developed in Germany but its roots are European. It is designed around a European anthropology, the realistic anthropology of Christianity. The Marxist-Leninist economic and political system collapsed because it ignored this realistic view of man.

The social market economy is both a market economy and a social economy. In economic matters as such it relies on competition; in social matters it relies on a combination of personal and collective responsibility. The social market economy needs a strong state with decentralised and partly independent agencies. An independent central bank, whose job it is to preserve the stable value of money, for example, is as important as independent courts which guarantee the rule of law. Regional authorities to handle local problems are efficient to the degree that they reflect the local desire for self-determination and have their own funds and competences. The legal framework and the areas of competence of state agencies must be designed in the spirit of subsidiarity so that they cannot easily kill market forces. Subtle distinctions are also needed in the course of political decision-making in order to preserve personal initiative and responsibility. The Ordo-Liberals refer to this as their 'Style' of economic policy. If care is not taken, freedom is lost, and with freedom, economic productivity.

What is to be done if the majority of a given population do not take personal initiatives and do not feel any personal responsibility? Is there a danger of paralysis? The population of the GDR have had four decades of conditioning against personal initiative, against any action taken without orders from above. Yet given personal freedom, the rule of law, a hard currency and the skills of a well educated people, which last at least was an achievement in the GDR, it is nearly unimaginable that such a situation could be long lasting.

At the same time, people must become aware of their inherent dignity, to be able to distinguish freedom and responsibility from permissiveness and irresponsible greed. Christians learn this from the Gospel. A time of change can and should be a time of re-evangelisation. Cardinal Ratzinger once stated that the existence and continuity of public institutions guaranteeing the personal freedom of

the citizen depend on values which they themselves cannot generate. The social market economy grew in Christian soil. If this seed-bed is to be further eroded, so also will be the achievements of the social market economy.