Towards a European social market economy
Paris, Prof. Markus Vogt, LMU München

1. A success story without followers

The social market economy is one of the most ingenious inventions in the history of economic policy making. The unprecedented German *Wirtschaftswunder* of the last 60 years and the freedom and liberty we enjoy in our daily lives today would not have been possible without it: there are systematic linkages between the decentralised organisation of the market and a free democracy, just as between a just system of social security and human rights. The model of a social market economy does more than any other public and economic order comply with the Christian perception of men, which can contribute to its moral compass and to the necessary continuous evolution of the concept.

However, there are several irritations and a high level of confusion concerning the understanding, acceptance and the concrete implementation of the model:

- The public appreciation of the social market economy is decreasing sharply (almost 70% are indifferent, only 31 % support the current model)
- Is the demand for a renaissance of the social market economy merely inspired by nostalgia?

The model of a social market economy has been praised as the facilitator of the unique German *Wirtschaftswunder* after the Second World War. However, we have gradually undermined the concept, or at least failed to adapt it to current requirements so that it can successfully integrate freedom, free market competition and social responsibility.

Not only leftist critics provide evidence for this diagnosis, but also scholars of conservative Christian ethics, such as Alois Glück. To quote from his political Memoires ‘Warum wir uns ändern müssen’ – why we need to change, published in 2010:

- An economic order that primarily caters to the inner logic of capitalism reduces the state and its social function to work towards a social equilibrium to the paramedic or the repair shop of a generally booming business. (89 f.)
- A process of globalisation, which is determined by the rules and regulations of free trade, ruins our planet and our shared existence in society. (100)
- The bankruptcy of *Turbocapitalism* and the growing instability within societies worldwide demand intellectual and political concepts that unify economic and social thinking in the tradition of the social market economy. (124)

The current lack of orientation has become bluntly apparent in the current financial and debt crisis. As early as 2004, the compendium of the catholic social teaching characterizes the disengagement of the financial and the real economy as a reversal of the current order of things that threatens to lead the economic cycle into a
maelstrom of a maximization of benefits for few, instead of serving the general value creation and the people. Social market economy is not to be understood as a mild version of capitalism, it is of a completely different nature. (Glück 2010, 92) It is based on a value system that is built around the people, shaped by the principles and basic laws of our constitution, namely the dignity of man, freedom, and justice.

*There is no middle ground*

The attempt to find a middle ground, or a compromise between the ethics of market competition and the ethics of solidarity in the process of reforming will not provide any solution, since direct interventions in the market destroy the informational role of prices. Functional and appropriate solutions can only be found through a thorough differentiation of the preconditions, structures and limitations of free market competition. An ethical reflection on competition should hence be the core of any reflection on social market economy. Agricultural trade is a prime example of the incompatibility of ethics of competition and ethics of solidarity: the annual subsidies create wrong incentives on the ground that are costly, do not alleviate the economic hardship of many farmers and even foster ecologically harmful surplus production.

2. The challenge: evolution instead of restoration/mending

The model of social market economy has been met with fascination and suspicion ever since its initial introduction in Germany. It did not emerge out of a political consensus on its ethical-political justification, but out of a compromise between different ideologies: liberalism (constitution of freedom), ordo-liberalism (constitution of market competition), democratic socialism (constitution of the social welfare state), and the Christian social doctrine (constitution of social principles). These four schools of thought have mutually suspiciously examined each other and their interaction is still characterized by several tensions. This is why the social market economy remains an instable order that needs to constantly reassure and reassess the balance of its manifold heterogeneous elements in the face of changing circumstances.

An expression of mistrust between the different schools of thought is that the German constitution (Grundgesetz) does not include any regulation concerning the economic order of the state. The legal status of the social market economy was only strengthened by the German-German Treaty on Monetary, Economic and Social Union (1990) and the Maastricht Treaty (1991). Also the Catholic Church did not clearly and explicitly endorse the model of the social market economy until it issued its encyclical *Centesimus annus* in 1991.

The concept of social market economy was explicitly endorsed in the Lisbon Treaty on the European Union. A plethora of initiatives and declarations have preceded this move, backed by the 2001 decision of the European Parliament to design a common economic policy of the union based on the principle of Social market economy. The model will thus evolve from a general principle to a legally
enshrined objective of the economic constitution of the EU. Europe is to become a ‘highly competitive social market economy’.

Originally, the concept has been met with scepticism by other members of the Union. Even though the founding principles of the EU pertain to the same premises, such as free market competition and solidarity, it was repeatedly emphasised that the concept has grown out of a unique German context and cannot be easily applied in other states. Further, the main theoretical works on the concept, by Walter Eucken, among others, are only insufficiently accessible in languages other than German. Even today, after the codification, the major principles of the model social market economy are interpreted and implemented in different ways by the members of the Union.

This is mainly due to the reason that social policy is still made on the national level, and there is competition between different models of social welfare states: the historic and confessional constellations in the European states, especially the different outcomes of the conflict between the state and the church have given rise to a plurality of justifications and designs of the welfare state, which Manow terms the ‘confessional map of European Welfare states’ (Manow 2008, 27): Countries under the influence of reformed Protestantism as Switzerland and the Netherlands were rather reluctant to implement policies to work towards a social welfare state and rather relied on elements of capital cover and a combination of universal basic services and individual responsibility for prevention. In Scandinavian countries the Lutheran, state church oriented Protestantism, state-centric concepts emerged, with a universalist orientation, linked to the status as citizen. This model does not need to rely on corporative or intermediary charity (Gabriel 2006). The strength of the catholic model is the fostering of solidarity from below, which can still draw on a strong potential in congregations and religious organisations. The existence of an active civil society can provide new impetus to the concept. The future of the European welfare state will be determined by the balance between these three models (Vogt 2011).

In order to establish a social market economy model on a European – or even international – level, it needs to be revised and constantly adapted to the manifold challenges of our time. The international economic crisis and the looming threat of climate change are but two examples. Whoever evokes the notion of a renaissance of the concept of social market economy should not speak of a mending or restoration of the traditional model. Social market economy is an evolutionary concept (Müller-Armack 1974, 10). Only on the basis of a substantial development can it serve as an economic model for the future. The structural elements freedom, competition and social compensation, that are integral elements of the concept, need to be supplemented by a fourth element: ecological sustainability. Social market economy needs to be turned into an eco-social market economy if it is to cope with the manifold challenges of today.

Concerning the catholic social doctrine: the canon of the classic social principles needs to be widened and enhanced. In addition to personality (securing of
freedom), subsidiarity (decentralized coordination of action) and solidarity (protection against basic risks) it needs to address sustainability (securing of the ecological sustainability of economic actions)

3. Orientation: anthropological coherence of the social market economy

The concept of the social market economy is shaped by the elements competition, cooperation and solidarity. We compete on the free market, cooperate in the division of labour and guarantee solidarity in the system of social security. These elements need to be rebalanced in the face of global change and the global financial crisis, in order to ensure responsible and effective economic action. This is easier said than done, as the concept relies on very heterogeneous elements that need to be assembled in the right way if they are not to undermine each other: interventions to strengthen the social dimensions of the market may end up triggering misguided incentives and unjust and anti-social results. The social market economy is a highly complex and sensitive structure.

I see the analysis of different conceptions of man in economics in the light of a research-idea that has fascinated and inspired me for some time: the basic elements of the social market economy go back to the same anthropological premises as the Aristotle’s theory of justice. This basis is formed by the concepts of competition, cooperation and solidarity.

- we constantly compete with others, we are aggressive, want to try our strength against others and engage and assert ourselves in competition. Especially in the agonal, i.e. focused on competition, culture of ancient Greece, this characteristic has given rise to glorious times in terms of sports, arts and combat. Modern democracy itself is an order based on competition, a competition for votes. Productive competition however, is only possible when rules exist and are followed. Regarding the political and economic order, legal frameworks need to be defined and controlled. Ethical systematology evokes the Aristotelian notion of legal justice (justitia legalis) in this regard. The constitutional state, that ensures that aggression is not played out violently and disorderly is a prerequisite for the functioning of the social market economy.

- We are not merely aggressive but also egoistic, constantly trying to maximise our benefits. According to Aristotle, the pursuit of personal benefits in the act of trading is one of the original motives and drivers of human socialization. Based on the economic theory of Adam Smith, the pursuit of benefit is the source of the wealth of nations, as the invisible hand integrates this individual behaviour to the benefit of all. In a society based on the separation of labour, the individual takes on the maximisation of benefits leads to an interlocking and merging of interests and hence limits aggression. In order to facilitate the social dynamic of exchange, a medium is needed. In our modern society, this medium takes the form of money. If trade and exchange are to be just, the equivalence of the goods exchanged needs to be secured, i.e. there needs to be a balance
between giving and taking. A stable and transparent mechanism for exchange and trade can only be built on symmetric power relationships and equal levels of information, a stable currency and the limitation of monopolies. These principles can be summarized as equal/just trade.

- Human beings are not only aggressive and egoistic, but also compassionate. It is not only an external drive to help others, but one that is deeply embedded in human nature. We have a spontaneous tendency to solidarity with others. The principle of solidarity, that can be justified on Christian or humanitarian grounds, can be found in all societies, albeit in different shapes. Under the constraints of modern society, the impetus to take on social responsibility needs political institutions based on the idea of the welfare state in order to develop to its full potential. A market economy without social components runs against the nature of man and does not meet the standards of a humane society. Aristotle demands that goods are to be distributed according to the principle of distributive justice – which has been and still is subject to strongly varying interpretations.

The social market economy institutionally endorses these elements through a political order based on the rule of law, a market economy and the welfare state. Its inherent dynamic stems from the fact that these elements do not only coexist, but mutually penetrate and reinforce (durchdringen), limit and stabilize each other.

My thesis is that the dynamic and social character of the model of the social market economy is based on the incorporation of these three impulses. The better the balance and the coaction of these anthropological elements, the better man are able to thrive and to manage their conflicts peacefully. This provides a benchmark for a just and humane economic model.

This is not to deny that the social market economy requires high cultural and institutional standards. These are not yet established in many places. The model of the social market economy is a venture of freedom, which cannot succeed without education, culture and the rule of law.

4. Perspectives: catholic background of ‘social capitalism’

The catholic model of the welfare state was strongly inspired and shaped by the Rhine capitalism. This has given rise to the concept of ‘social capitalism’, which, on the basis of structural integration of charity, social protection and dialogue, works towards a reconciliation of interests between capital and labour. Its anthropological and normative principles strongly differ from selective ethics focused on output and efficiency that calculate that the fear of social decline mobilizes individual action.

The focus on solidarity in the concept known as Rhine Capitalism does not limit efficiency and competitiveness, but fosters the ability and willingness to take on social responsibility and to contribute to society. In economic terms: this form of capitalism relies on the protection and development of social capital. It aims to
provide help to the marginalised without undermining the processes of the free market. Under current conditions, one can term this concept as a meritocracy shaped by solidarity (Glück, 2006). It is clearly different from a paternalistic state that incapacitates its citizens and creates dependencies, but also differs from individualist ethics based on incentives that is limited to considerations based on categories of competition and abstract functionality, without taking the (economic) potential of social networks and mutual trust into account.

In as far as social policy provides the precondition for efficiency through risk protection, accessibility of education and participation is to be considered as an integral part of the market economy. The social element is an investment in the development and the capabilities of future market participants. The welfare state is an investment in improved functioning of the market and competition, empowerment, the motivational potential of the welfare state and help for self-help – the challenge is to not compensate the ones left behind, but to reintegrate them into society. This entitlement to reintegration needs to be re-established and reinforced in the face of global economic competition and demographic change.

However, there has been a policy shift in Europe concerning the welfare state. A fundamental reform of the welfare state is considered essential and unavoidable in Brussels, and the nation states are to redesign their social policies in the face of the competition between different European models of the social welfare state. The elements of a redistribution based on solidarity is commonly reduced to the granting of equal opportunities. Universal legal claims are turned into conditional grants. If we consider the religious dimension of the development of the social state, we have to accept the following: the influence of the Calvinistic-reformed Protestantism has shaped the development of the welfare state that we see today.

The idea that a certain amount of solidarity is compatible, or even the precondition, for market competition is currently replaced with a partial emphasis on individual responsibility. The principle of subsidiarity is commonly evoked as a justification. However, the principle of subsidiarity does not only imply a prohibition to accrue competencies in order to limit the activities of the state to allow for increased individual and cooperative autonomy. It also implies an imperative to support individual autonomy.

The future of the social market economy depends on whether the basic principle of the integration of market competition and social redistribution can be redesigned and implemented today. The social element is only economically feasible if it is understood as a means to discover ‘the strengths of the weak’, i.e. the potential of the marginalised. Social policy does not only serve to counter the disadvantages faced by the weakest members of our society, but is at the same time a crucial element of a functioning market economy. By granting a protection against economic risk, access to education and participation, a society creates the basis for more efficiency and equality. This is how the welfare state enhances the mechanisms of the free market. It is an investment in the capabilities of the
citizens, so that they can thrive and develop to their fullest potential regardless of unfavourable preconditions.

The model of social market economy can only be built on a social policy that is considered an integral part of economic policy. Consequently, we have to overcome the conception that competition, as the preferred option for the strong, is categorically contrary to social options for the weak. Even under ethical considerations, competition can serve as an incentive for economic action and as a coordinating instrument (see Vogt 2008 a). It is only turned into an ideology if used as a world view (Vogt 1997). Competition with a humane countenance needs ‘compassionate capitalists’ that discover, support and make use of the potential of the weak. There is no panacea on how this can be achieved, but there are several possibilities, such as: the satisfaction of employees that experienced support from their colleagues in times of crisis and are in turn willing to stand up for them and the business. Social policy was shaped to a large extent by business initiatives that provided health and child care for their employees and thus built successful companies. Statistics prove that 30% of the success of a business depends on the satisfaction of the employees (SZ, 28.12.07). A smart social policy is one of the best investments in the economy and society. Especially in the face of the current economic crisis in many states around the world, this is what Europe should aim for.

5. How will/should the concept of social market economy evolve?

1. The model of social market economy needs to be based on a strong welfare state, especially in the light of the current economic and social challenges. The welfare state in Germany is strained by the problems emanating from years of neglect concerning education, family policy and labour market policy. This situation demands an affirmation of the normative basis of the welfare state and a proactive labour market policy.

2. Education is the key for successful economic development in resource-poor countries such as Germany. Education creates common values, equality and new perspectives. This is why each society has to ensure that the talents and interests of each member are respected, and that each individual has access to the qualifications that will allow him to thrive. The aim to integrate all citizens into the educational system is not only a social endeavour. Given the demographic development in Germany, education becomes an imperative of economic reason.

3. Institutional reform and an eco-social market economy model on a global scale is the prerequisite for the survival of our civilization. The concept of social market economy needs to evolve to a global framework for eco-social market economy: all economic processes are geared towards the protection of nature and our environment as part of our model of wellbeing. The model of an eco-social economy could become one of the most important traditions that Europe can contribute to the process of globalisation.