

The European Heritage in Economics and the Social Sciences
Series Editors: J. G. Backhaus · G. Chaloupek · H. A. Frambach

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Origins and Change of the Social Market Economy

History and Theoretical Foundations

 Springer

The European Heritage in Economics and the Social Sciences

Volume 26

Series Editors

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The European heritage in economics and the social sciences is largely locked in languages other than English. Witness such classics as Storch's *Cours d'Economie Politique*, Wicksell's *Finanztheoretische Untersuchungen* and *Geld, Zins und Güterpreise* or Pareto's *Trattato di Sociologia Generale*. Since about 1937, partly caused by the forced exodus of many scholars from the German language countries and the international reactions to this event, English has become the undisputed primary language of economics and the social sciences. For about one generation, this language shift did not result in a loss of access to the European non-English sources. However, after foreign language requirements were dropped as entry pre-requisites for receiving the PhD at major research universities, the European heritage in economics and the social sciences has become largely inaccessible to the vast majority of practicing scholars. In this series, we hope to publish works that address this problem in a threefold manner. An aspect of the European heritage in a language other than English should be critically documented and discussed, reconstructed and assessed from a modern scientific point of view, and tested with respect to its relevance for contemporary economic, social, or political discourse. We welcome submissions that fit this bill in order to make the European heritage in economics and the social sciences available to the international research community of scholars in economics and the social sciences.

Jürgen G. Backhaus • Günther Chaloupek
Hans A. Frambach
Editors

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Introduction



Günther Chaloupek and Hans A. Frambach

The year 2023 marks the 75th anniversary of the social market economy of Germany. The currency reform took force on the 20th of June 1948 in the three western parts of the country, several months before the Federal Republic of Germany (FRG) was constituted by the adoption of the *Grundgesetz* in May 1949. In parallel with the currency reform, which replaced the *Reichsmark* by the newly introduced D-Mark, thereby reducing the money supply by more than 90 percent, most price controls and rationing of foodstuffs were repealed, and free markets were re-established in major parts of the economy. The result of the first parliamentary elections of the FRG, which brought a majority for a coalition of Christian Democrats (CDU) and Free Democrats (FDP), ensured that the conception of the social market economy would determine the future course of economic and social policies of the FRG.

At the political level, Ludwig Erhard, who served as minister for economy of the FRG from 1949 to 1963, and Alfred Müller-Armack (state secretary 1958–1963), became the main advocates of the social market economy doctrine. At the theoretical level, it was based on the concept of ordoliberalism, developed by economists Walter Eucken, professor at the University of Freiburg from 1927 until his death in 1950, Leonhard Miksch, Wilhelm Röpke and legal scholars Franz Böhm, among others. The principal idea of ordoliberalism is that in an economy based on private property and market coordination, the state is responsible for a legal framework that enforces the functioning of market competition while at the same time granting

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stability of monetary, financial and other legal conditions under which economic activities are performed. Thus, an economy can be created that serves the welfare of the entire population, while the state should refrain from interventions into the economic process with respect to allocation of resources, as well as on the demand side. Ordoliberalism and the social market economy presented themselves as a distinct economic order, as a kind of a “third way”, different from socialism as well as from laissez-faire capitalism, whose failure had become evident in the Great Depression of the 1930s. The conclusion from this experience was that a laissez-faire economy cannot establish by itself the basic structures necessary for its stability, hence the enhanced economic role of the state, which was at the same time limited to this function.

It was Alfred Müller-Armack, then professor of economics at the University of Münster, who introduced the term *Soziale Marktwirtschaft* in 1946 (Hagemann 2017, 64; Zinn 1992, 43ff). While he shared Eucken’s principal approach towards economic system and economic policy, Müller-Armack pleaded for a “socially controlled” market economy. In his concept, he advocated not only a strong role of the state a guarantor of the order of the economy, but he also allowed for state interventions in international economic relations, measures against cyclical fluctuations and for the promotion of economic growth while at the same time emphasizing the need for a certain measure of correction of income distribution resulting from unconstrained market forces. In this way, Müller-Armack’s concept of the social market economy lacked the theoretical rigor of Eucken’s ordoliberalism, whereas it provided the flexibility and “suppleness” for political implementation and, most important, for adaptation to changing circumstances in the long run.

Of the fundamental principles stated by Eucken, emphasis on competition turned out to be less important than monetary stability, a point stressed by Friedrich Lutz, “Eucken’s internationally most renowned student”, as early as 1949 (Hagemann 2017, 63; Lutz 1949). The strong position of the D-Mark in the international currency system emerged as central element of Germany’s economic policy.

Of the different versions of ordoliberalism, Eucken’s was closer to old-style liberalism of the Austrian School of economics. If he denied the idea of an economic order as product of spontaneous forces, his attitude towards interventions was more restrictive than that of Müller-Armack, who, with respect to economic theory, relied more on the approach of Joseph Schumpeter.

Originally confronted with considerable political and theoretical criticism, due to its continued success, the concept of social market economy increasingly became acceptable for other countries and political currents, while at the same time, its content came to include ideas that lay beyond the focus of its founding fathers. As economic policy concept, in its early period, it faced considerable opposition in Germany and internationally, both on the political and the theoretical level. In Germany, it was opposed by the trade unions and the Social Democratic Party (SPD), who advocated an economic policy based on regulation of the market process, state control of investment and strategic use of nationalized industries and therefore rejected the abolishment of the control apparatus inherited from the war economy. In comparison with western Germany, a return to a market-oriented

economic system took considerably more time in major west European countries. Great Britain's Labour government (1945–1951) gave priority to implementation of comprehensive welfare state schemes, nationalization of major industries and Keynesian fiscal and monetary policies oriented at the goal of full employment. Britain's Keynesian economists expressed serious doubts about the market orientation of the German model (Hutchison 1981, 164ff). In post-war France, an encompassing system of indicative planning, relying on nationalization, financial incentives and coercion, emerged from wartime economic controls (Ward 1976, 722f). The model, called *planification*, which gradually became more market-based, was formally maintained for three decades before it was abandoned in the late 1980s.

The German model of the social market economy has proved a success ever since the early return to a “free market system”. It provided the basis for swift reconstruction of the economy after World War II, which was followed by a period of sustained growth, during which Germany regained a position of one of Europe's and the world's leading economic powers. Thereafter, it proved capable of coping with changes in external and internal conditions, such as oil price shocks, inflation and rising unemployment (1973–1990), re-unification and globalization (1990–2008) and the financial crisis of 2008 (Paqué 2018), while its attractiveness has continuously increased. It should be noted that external circumstances were comparatively favourable for Germany in the first phase after the introduction of the model, most importantly the huge requirements for reconstruction of housing and infrastructure and a booming world demand for products of Germany's export industries. In the long run, it displayed a high degree of adaptability and flexibility to a variety of internal and external challenges.

Also, in reality, the social market economy was capable of integrating elements that do not appear in the original theoretical concepts.

- The giant industrial enterprise was not only tolerated but became a cornerstone of export-led growth, which has been the basis of the exceptional performance of the German economy in the 1950s and 1960s and also for the continued export surplus, which has earned the country the title of “world export champion” (*Exportweltmeister*) – a development not envisaged by Eucken, even less by Röpke. For a considerable time, even cartels were permitted under certain conditions. There existed informal networks among big companies, e.g. under the umbrella of the Deutsche Bank (“Rhine-capitalism”).
- No less important was the strong corporatist element in the institutional structure of German economic policy. Works councils (*Betriebsrat*) at the company level, (*Mitbestimmung* – participation of workers' representatives in company decision-making) and a well-established system of collective bargaining at the level of the industrial branch were instrumental to limit the increase of production costs and keep domestic inflation low in international comparison.
- From early on, the German tax system gave support to private investment. Investment in heavy industry was subsidized at the expense of consumer goods industries, and there were subsidies for the construction of new houses.

- When the German economy experienced its first recession after World War II in 1966/1967, Keynesian-type anticyclical policies were introduced through the “Stability and Growth Act” of 1967. Since then, macroeconomic demand policies at various occasions have supplemented *Ordnungspolitik*, without, at least in public opinion, causing a break in the continuity of the general orientation of economic policy in Germany.

If the profile of the social market economy was less clear-cut in the version of Müller-Armack than in Eucken’s, this is even more true for the shape the model assumed in reality. It is therefore not surprising that committed advocates of ordoliberalism criticize the economic and political compromises that had diluted the fundamental principles of the theoretical model.

It has to be kept in mind that in the process of European integration, member states have transferred part of their sovereignty to the European Union. What the implications on national economic policies will be in the near and in a more distant future, e.g. with respect to matters of currency or fiscal policy, remains an open question. The “European Green Deal” adopted by the European Commission in December 2019 presents an even greater challenge to the concept of the social market economy and its traditional orientations.

The contributions to the present volume discuss the ideas of the theoretical founders of the social market economy, as well as the historical background, from which they could draw, most importantly the Historical School and the Catholic social doctrine. Also, they deal with several varieties of the social market economy, since there is no generally accepted uniform version of the concept. In addition, differences and parallels to alternative policy concepts, in particular Keynesianism, are analysed. The overall picture is completed by contributions that deal with German authors whose relationship towards ordoliberalism was characterized by both cooperation and critique. The contributions do not confine themselves with historical aspects but discuss how the social market economy is prepared to cope with present actual challenges.

In his essay, “Origins and Change in the Concept of Social Market Economy”, **Hans A. Frambach** views the social market economy as a compromise between opposing concepts liberalism and socialism. Basic principles and values that were highly relevant at the time of its development have changed in an increasingly globalized world so that today, the conditions for such compromise are different. The contribution identifies current challenges and raises the question what adjustments are needed to breathe new life into the social market economy as an economic order. **Helge Peukert’s** contribution, “Wilhelm Röpke: Co-founder of the Social Market Economy and (human)ecological mastermind”, gives an overview of Röpke’s life and work, an outline of his concept of man and society and of his theoretical contributions to economic theory, followed by specific topics like his reflections on business cycle theory and crisis diagnosis and his concepts for Germany and Europe after World War II. Finally, Röpke’s overall record and his contemporary significance for ecological economics are highlighted and defended against one-sided market-liberal misinterpretations of his specific ordoliberalism.

In proclaiming the “end of laissez-faire”, Keynes, in 1925, and Walter Eucken, some 10 years later, both called for a fundamental re-orientation of economic policy. They shared the preference for individualism, political liberalism and the market economy, rejecting central planning and socialism. But the conclusions, as **Günther Chaloupek** elaborates in his paper, “The end of laissez-faire – Keynes and Ordoliberalism”, which changes were needed, are quite different. Keynes called upon the state to establish a framework for control of macroeconomic aggregates such as savings and investment through instruments of monetary and fiscal policies. Eucken and the Freiburg School called for a radical policy to establish and ensure full (perfect) competition wherever possible. The paper also investigates differences in theoretical and historical background between Great Britain and Germany.

A compromise between free markets and rigorous state counteraction requires normative criteria, in order to weigh the degree to which an individual’s negative freedoms must recede in relation to a guarantee of social standards. In his contribution, “Social Market Economy and Human Rights – A Global Perspective”, **Henning Goeke** discusses the suitability of the idea of human rights and its manifestations as a normative concept to guide the model of a social market economy in its constant effort to meet the changing structural challenges and social issues of its time.

The relationship of ordoliberalism to the German Historical School was ambivalent. **Alexander Ebner**’s contribution, “From Schmoller’s *Socialpolitik* to Müller-Armack’s Social Market Economy”, explores the hypothesis that Müller-Armack’s approach resonated with preceding conservative discourses on the social question and the need for *Socialpolitik* as prominent features of the Schmollerian strand of the German Historical School. The conservative debates during the Weimar era on the social balancing of market dynamism in German political economy reflect the profound political and economic ruptures during this period. Müller-Armack’s basic orientation towards a balancing of competitive markets and inclusive society can be most markedly traced already in the preceding debates on the social question that were prominently explored by Gustav Schmoller and other representatives of the German Historical School.

In his essay, “From Schmoller through the Catholic Social Doctrine to Müller-Armack”, **Dieter Lindenlaub** examines the thesis originally put forward by Reginald Hansen that the social market economy, with its subsidiarity principle, is a consistent realization of the Gustav Schmoller’s approach to the social question, which the Catholic social doctrine went on to convey. Further, the contribution elaborates on similarities between Schmoller and Müller-Armack. Schmoller’s socialism of the chair influenced the Catholic social doctrine, which is also one of Müller-Armack’s reference points. **Daniel Eissrich**’s paper, “Goetz Briefs’ Socially Tempered Capitalism”, investigates another connecting line between the social market economy and the Catholic social doctrine. Briefs analysed and criticized the widespread “laissez-faire pluralism”; his ideas in this regard were incorporated into the conception of Ludwig Erhard’s “Formed Society”.

The economic policy of the early Federal Republic of Germany is considered to have been shaped by ordoliberalism. However, other liberal groups also held influential positions and exercised journalistic power. Among these groups, fraternal

quarrels occurred especially during the 1950s. The contribution by **Jan Greitens** on “The Muthesius Circle: Financial Journalism in the 1950s” traces the origins of this group back to the struggle of representatives of banking and financial journalists against plans of the National Socialist regime to nationalize the banks. After World War II, Volkmar Muthesius, a journalist and editor fighting for more classical liberal ideas, united with these like-minded friends. Their relationship towards ordoliberalism was characterized by both cooperation and conflict. The “fratricidal infigths of liberals” broke out over the anti-trust law, while less heated disputes arose over monetary issues.

Ursula Backhaus’ contribution, “Healthcare Policies of the German Federal Republic”, provides an analysis of selected healthcare policies from the early days of the social market economy to the modern times. A modified version of the concept of *Economic Style* by Arthur Spiethoff is used in order to highlight multiple facets and changes of policies.

Frits L. van Holthoorn’s chapter, “The End of Laissez-faire”, further elaborates how, under the influence of JM Keynes’ writings, economics was transformed into a tool that all governments in the Western world came to use to manage the economy, nationally and internationally, and how these policies led to a close cooperation between the USA and Europe but also to the isolation of Russia owing to the Cold War. Lastly, it deals with block-forming in the world as a necessary precondition to move forward to a stable and durable existence.

Eucken’s fundamental distinction among economic orders was between exchange economy and centrally planned economy. Among the latter, he distinguished between centrally planned economies with private property and with collective property (socialism) (Eucken 1959, 61ff). Eucken argued that socialism was eventually doomed to failure because of an essential incompatibility of central planning and collective property with market exchange, thus rejecting Oskar Lange’s (1936) solution of the economic calculation problem in a model of market socialism (Eucken 1959, 95f).

Plamen D. Tchipev’s contribution, “Political Economy of Socialism: Theoretical and Practical Controversies of ‘All-People Socialist’ Ownership”, focuses on the impossibility to provide a level of independence necessary for efficient functioning of production enterprises within the constraints of socialist, i.e. collective ownership, which was elevated to an unquestionable condition for the socialist economic system. Thus, a seemingly simple practical issue appeared eventually as a complex knot of both theoretical and practical problems, which initiated a lot of attempts for their resolution. The reforming efforts had been carried out in the various socialist countries up to the end of the 1980s, i.e. to the last days before the system breakdown. The paper focuses on the experience from the Soviet Union and Bulgaria.

The chapters in this volume are the revised contributions to the 36th Heilbronn Symposium in Economics and the Social Sciences in 2022, complemented by additional invited contributions. On behalf of the entire Heilbronn group, we would like to thank the city council and the Lord Mayor of the City of Heilbronn for their continued generous support.

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Origins and Change in the Concept of Social Market Economy



Hans A. Frambach

1 Introduction

In the social and economic tragedies and chaos in which people found themselves after the two World Wars lay the strong seed of hope and desire to overcome economic systems that had been insufficiently effective up to that point. There was an unconditional will to learn from experience and to avoid past mistakes while at the same time retaining what had been tried and tested. For the social market economy, the clear lesson was firstly to prevent at all costs the so-called really existing socialism with its negative consequences but at the same time to take into account that system's professed goal of distributive justice. Secondly, it was seen as important to enforce the economic efficiency of competition as a principle on the basis of untrammelled private property and a belief in the greatest possible freedom but in particular with the will to effectively regulate extensive power formations.

Before those basic ideas of a social market economy were implemented, there had been a variety of other concepts and "third way" approaches – tending sometimes in one direction, sometimes in the other – to escape the dilemma involved in either enforced socialism or enforced liberalism. This chapter will begin with a particularly thoughtful and valuable overview and assessment of such third courses by ordoliberalism's "first thinker", Walter Eucken. It will then introduce some core aspects of ordoliberalism itself, before going on to discuss some theories mooted in the search for a viable solution. This will be followed by a presentation of the concept of social market economy – the compromise that eventually prevailed.

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However, the social market economy is aging. Considerations that still played a role in its foundation have become outdated. Value concepts have changed – a development particularly evident in the *weltanschauung* adopted by Alfred Müller-Armack (1901–1978) in formulating the central principles of that doctrine. Instead of a strong focus on Christian values of the kind that appears, for example, in Müller-Armack’s concept of “social irenics”, the challenge today is to expand and generalize value concepts based on humanity as an overriding consensual principle from which the fundamental values of all liberal and democratic societies – freedom, equality and justice – are derived.

2 Third Ways

2.1 Ordoliberalism: The Context

The social market economy is generally understood as the economic and social order introduced in West Germany after World War II. As such, it dates back to Alfred Müller-Armack in particular and is associated with the economic policy of the Federal Republic, above all with its Minister of Economics, Ludwig Erhard (1897–1977), who held that office from 1949 to 1963 and went on from 1963 to 1966 to become the country’s second Chancellor – the two offices covering the entire period of Germany’s oft-cited “economic miracle”. However, the origins of the social market economy go back a good deal further. Its roots are commonly traced to ordoliberalism and its main representative, Walter Eucken (1891–1950), who, together with Franz Böhm (1895–1977) and Hans Grossmann-Doerth (1894–1944), founded the “Freiburg School of National Economics and Law”, but also to the representatives of a sociological liberalism, Leonhard Miksch (1901–1950), Wilhelm Röpke (1899–1967) and Alexander Rüstow (1885–1963). Both concepts, ordoliberalism and social market economy, were concerned with answering the problems raised by the “social question”: the consequences and grievances of industrialization, the undermining of traditional forms of provision for the public and a growing sense of responsibility in society for those who were not able to provide for themselves and whose hardship was rather the result of social development than of any fault of their own.

Many and varied solutions were offered by diverse economic theories of the nineteenth and the first decades of the twentieth century, all of which, however, failed more or less signally in their attempt to find a third way between the extremes of laissez-faire liberalism and revolutionary socialism. Eucken himself had provided a systematic classification of various existing approaches according to their “useful[ness] in terms of economic policy”, his headings ranging from the “policy of laissez-faire” to that of what he called “experiments”. He described laissez-faire as the policy in which a legal order is created and thus an overall decision made for the economic order but in which the supervision of this order is not seen as the task of the state. Rather, the shaping of the forms in which economic activity takes place is left to the private sector – an orientation based on the conviction that an adequate

economic order will unfold of its own accord from the innate forces of society (Eucken 1952, 26–27). Hence, this policy can be seen as an attempt to solve the problem of order in a market economy by placing direction and coordination of the economic process squarely in the hands of free economic subjects via the price mechanism (Eucken 1952, 25–26). Laissez-faire, in other words, is based on the expectation of an economically meaningful management of the economic process via competition, in which scarcity is effectively reduced and at the same time all agents are granted a sufficient sphere of freedom.

In fact, Eucken also realized the existence of non-(or anti-)competitive market forms, and he was convinced that both supply and demand sought at all times and at every possible opportunity to avoid competition and acquire monopolistic positions (Eucken 1952, 30–31). He was also well aware of the various implications of failing to meet ideal competitive conditions. In principle, however, he was firmly convinced that the price and competition system was the best and most reliable steering principle of the economic process (Eucken 1952, 55).

Under the heading of “experiments”, Eucken understood the economic policies initiated since World War I following the earlier laissez-faire period. These he divided into (1) the policy of “central control of the economic process” and (2) that of “middle ways”. He described the policy of central control as directly counter to that of laissez-faire, in that everyday economic processes, as well as the underlying order, are determined by the state. All socialist theories are located there, and the dominant order is the centralized economy (Eucken 1952, 58–59). Eucken recognized the just concern informing the concept of central control: the desire to eliminate the “anarchy of capitalism” and to solve the social question by guaranteeing social justice and security (Eucken 1952, 106). However, this goal, he argued, could not be achieved solely through centralized control. Although it is possible to eliminate persistent mass unemployment, experience shows that central control of the economic process not only reduces the supply of consumer goods to a minimum, but it also prevents a more equitable distribution of income for workers because of the concentration of economic power in central offices and the increased dependence of workers on the authorities. Economic control via central planning ultimately changes the entire social structure, directing it from above and narrowing the spheres of freedom and individual responsibility.

With their combination of freedom and central direction, Eucken’s “middle ways” can be understood as his specific perception of the countless attempts made at the time to find a third course between the extremes of liberalism and socialism. Eucken classifies these attempts as (1) “full employment policy” (stimulating investment – also through “deficit policy” – with the goal of creating full employment and in conscious allusion to Keynesian “demand policy”); (2) partially centralized control of the economic process (basic industries are centrally controlled, but further processing is carried out by independently planning companies); and (3) the policy of the estates or classes, where self-governing bodies or professions take over control of the economic process. These “middle ways”, he argued, all had their drawbacks: full employment, when faced with unilateral measures in one market, led to imbalances in others; partially centralized control established two opposed

planning and coordination procedures; and the policy of corporative order created monopoly positions and power conflicts. The common feature of all these approaches is that instead of creating an adequate control mechanism, they hinder or even destroy the control mechanism of prices, with the result that economic policy is diverted from its objective – the adequate supply of consumer goods – and that, in addition, a tendency towards central control of the economic process is induced (Eucken 1952, 140–149, 152).

2.2 *Ordoliberalism: The Proposal*

For ordoliberalism, the solution consisted in the elevation of “order” to the status of a central category underlying the entire economic activity of a society and doing so in such a way that the coordination of economic activity took place “spontaneously” (in the sense of voluntarily) rather than being “planned” in accordance with administrative instructions. The concept was close to Friedrich von Hayek’s notion of “order of action” (Hayek 1967, 163), which sought to answer the question of how regularities in the behaviour of individuals could be created “so that the reactions of each individual to the circumstances known to him lead to an order of the whole” (Hayek 1967, 172). In both cases, the “order of spontaneous coordination” entailed the interaction of self-motivating social elements, constituting a meaningful overall context in the sense of an endogenously created balance of individual interests. But even such an order required rules to coordinate individual actions, and in ordoliberal thinking, the concept of order denoted the totality of these rules. Accordingly, Eucken called for an economic policy marked by “thinking in orders” (Eucken 1952, 19), as opposed to both selective theorizing and historical determinism – and, of course, in particular to Marxism. Eucken saw a latent freedom in the shaping of such an order, the crucial task being to create “constellations of conditions”, which would achieve the desired goals while avoiding the “disastrous tendencies” – however unintentional – ostensibly endemic to economic policy (Eucken 1952, 217–218).

The regulatory problem – the shaping of the economic order – had two aspects: economic governance and the concentration of economic power. With the aim on the one hand of finding an adequate solution to the problem of economic control and on the other of ensuring individual freedom by limiting both private and state power, Eucken eventually developed general principles for establishing and safeguarding a competitive order. In his thinking, this was an order of freedom without subordination but with coordination of households and enterprises. As such, it matched his idea of a functional and humane modern economic process in which the freedom of the individual was naturally limited by the order itself. In other words, the rules of the game had to be observed: one was not free to shape these rules or the framework in which the economic process took place to suit one’s own convenience. The dominant market form in the competitive order was what Eucken called “perfect competition”: only this could coordinate individual plans and actions and unleash their

performance potential. For Eucken, the question of the realization of the competitive order was identical with the question of the application of the order's essential "constituent" and "regulating" principles, these being preceded – as an underlying ordering principle – by the establishment of a "functional price system of complete competition": Eucken speaks here of a "basic principle of economic constitutional law" (Eucken 1952, 254–255). Where competition did not work perfectly, special policy measures would be necessary (Eucken 1952, 245–246, 249).

Looked at in greater detail, the "constituent principles" of the competitive order were (1) primacy of monetary policy, (2) open markets, (3) private property, (4) free contracts, (5) liability and (6) constancy of economic policy. The "regulating principles" included (1) monopoly control, (2) correction of income distribution (income control), (3) correction in the economic accounting of planning authorities (correction of externalities) and (4) consideration of anomalous behaviour in labour markets (Eucken 1952, 254–308). Eucken described these constituent and regulating principles as a unity in which each principle only gained its meaning in the "general blueprint" of the competitive order (Eucken 1952, 304). Going beyond the principles, further economic policy measures might be necessary, although this was not considered likely (Eucken 1952, 306–308). "Social policy", however, was seen as indispensable both for "ordering the economy" and in terms of "special social policy". Nevertheless, Eucken firmly assumed functional control of the economy to be the most important condition for the solution of all social problems (Eucken 1952 313–315).

2.3 Further Third Ways in Economic Theory

Over and above the various approaches to the question of economic order conveyed by Eucken's classification, it is worth mentioning a few more examples that were discussed at the time when the foundations of the social market economy were being laid. Many approaches were discarded, others were considered inspiring but deficient, and still others found their way more or less directly into the concept of social market economy. A widely discussed, though barely adopted, proposal was Franz Oppenheimer's (1864–1943) concept of "liberal socialism", based on the idea that under certain political conditions, especially a functioning democracy, socialism could be achieved by creating free competition through liberalism (Grebing 2005, 403). As Oppenheimer already pointed out in 1919 in *Die soziale Frage und der Sozialismus* (The Social Question and Socialism), liberal socialism is based on a law of economics that was undisputed – even by Marx:

In the long run free competition equalizes all incomes according to qualification, so long as monopolies do not interfere. It cannot equalize the differences in income caused by monopolies for the clear reason that every monopoly is based precisely on the fact that competition cannot intervene.

Thus, if it is possible to remove from the economic order all monopolies, free competition must equalize all incomes according to qualification – that is, induce a state of rational socialism. This is the whole theory of liberal socialism. (Oppenheimer 1919, 103–104)¹

For Oppenheimer, the “root of evil” lay in the two class monopolies of public-law state administration and private-law property (Oppenheimer 1910, 601–602), which he saw as originating in conquest and subjugation and as being “imposed as a system of law on the vanquished by the victors” (Oppenheimer 1925, 341). In a “programme of action”, he proposed to overcome this situation by creating the conditions for competition: “Let the state buy the big estates and give them to the rural workers!” (Oppenheimer 1910, 603). If no one owned more than self-cultivated land, “full freedom of economic competition and economic self-interest” would regulate market relations, and “socialism [would be] achieved by way of liberalism” (Oppenheimer 1910, XI).

Although Oppenheimer made “the market economy the basis of his economic considerations”, as Adolf Weber (1925, 29) pointed out, his theory of value and price lacked generality and could scarcely explain all price phenomena (Amonn 1925, 295–297, 315). Adolph Löwe also observed critically that the business cycle theory of liberal socialism was entirely based on the doctrine of underconsumption and that, consequently, the permanent reserve army of the capitalist labour market prevented an increase in the purchasing power of the masses up to the level of the “natural labour wage”. At the same time, it created the technical preconditions for the expansion of production in order to increase total profit even in the case of falling profits, i.e. contrary to the price signals of the market. In contrast to Karl Marx and Rosa Luxemburg, however, Oppenheimer saw the source of the reserve army not in the technical structure of modern machine production but in the residues of the feudal economic order, which could still be found in the liberal property system. The dissolution of the feudal economic order had produced the reserve army of modern capitalism through the flight of the dependent rural population into the industrial urban economy (Löwe 1925, 346–347).

Other approaches of the time were Rudolf Hilferding’s (1877–1941) analysis of an organized, hierarchically structured state capitalism, according to which finance capital would be able to overcome the “anarchy” of capitalist production and mitigate critical cyclical fluctuations. Otto Bauer’s (1881–1938) fiction of an “integral socialism” had the goal of reuniting in the medium term Bolsheviks and reformist social democrats in an “International”. Ernst Fraenkel (1898–1975) drafted what he called a “collective democracy”. Hermann Heller (1891–1933) argued for a “social

¹“Die freie Konkurrenz gleicht auf die Dauer alle Einkommen entsprechend der Qualifikation aus, soweit nicht Monopole einspielen. Die durch Monopole verursachten Unterschiede des Einkommens kann sie aus dem klaren Grunde nicht ausgleichen, weil jedes Monopol gerade darauf beruht, daß die Konkurrenz nicht eingreifen kann.

Wenn es also gelingt, aus der Wirtschaftsordnung alle Monopole zu entfernen, so muß die freie Konkurrenz alle Einkommen entsprechend der Qualifikation ausgleichen – d. h. den Zustand des rationalen Sozialismus herbeiführen. Das ist die ganze Theorie des liberalen Sozialismus” (Oppenheimer 1919, 103–104).

democracy”. Max Adler (1873–1937) proposed a concept of socialism with the sober idea of the state as a “public-law form” of class rule and exploitation (Euchner 2005, 297–304). Still other proposals, such as those of Otto Leichter (1897–1973), Erik Nolting (1892–1953), Emil Lederer (1882–1939) or Eduard Heimann (1889–1967), might also be cited, so much, then, for the various “political” approaches set in the continuum between liberalism and socialism – theories and considerations that were above all critically perceived and discussed by the founders of the social market economy.

2.4 The Third Way of the Catholic Church

The situation was quite different, however, with regard to the various influences of Christian social doctrine, especially that of the third way between liberalism and centralized control proposed in the social encyclicals of the Catholic Church. Published in 1891, the first of these, *Rerum Novarum*, broke new ground in setting out the Church’s position on social and economic problems. After long years of observation and hesitation, the Catholic Church took sides with the workers and painted a picture of an increasingly disoriented society and economy, where competitive processes were spreading uncontrolled and greed and profit-seeking dominated economic life – processes accompanied by growing social injustice and, at the corporate level, increased concentration tendencies.

These typically capitalist grievances must be counteracted, as also, however, must socialism, which was accused of inciting the unpropertied and propertied against each other and of wanting to restrict private property, a factor whose unsalvageable necessity was based on natural law (RN 1891, 4, 13). Instead of radical upheaval and the highlighting of opposites, the church pleaded for balance and the weighing of mutual interests in peaceful dialogue, with the primary aim of preserving life. This included fair cooperation of employers and employees in determining a wage level that made a deserving life possible, as well as state protection of the socially weak and disadvantaged (RN 1891, 13, 19–20, 31–33). The church’s third way between capitalism and socialism sought to utilize the economic strengths of a capitalist-based economic system built on the idea of competition while correcting the negative sides through regulatory components such as those inherent in socialism. With its ideas, Catholic social teaching influenced political Catholicism and the Catholic workers’ movement, as well as various social reform efforts of the time (Frambach and Eissrich 2020, 234–235).

In 1931, a second social encyclical, *Quadragesimo anno*, was published, extending the view of the workers’ question to a general consideration of the economic order and, in a plea for private property, discussing not only the incentives for individual performance arising from property but also the responsibilities accompanying it. The survival of the entire social system, it was argued, could depend decisively on private property and the directly linked issue of its distribution, especially if inequalities in this respect became excessive or many people owned so little that

their survival was endangered. The encyclical therefore urged the removal of existing inequalities and blatant social contrasts, with the ultimate goal of a classless society (QA 1931, 44–51). As free competition was not considered capable of controlling the market successfully, regulatory intervention was needed. Overall, this third economic way was marked by a strict focus on social justice (QA 1931, 88).

Subsequent social encyclicals argued that labour should not be regarded as a mere commodity, that wage formation should not be simply left to the law of supply and demand, that economic growth should also be oriented towards social progress and that social justice and solidarity should be taken centrally into account (Frambach and Eissrich 2020, 237). Private property was consistently treated as given by nature, enshrining incentives for the development of performance but also binding people to act responsibly and consider the interests of others. The state was tasked with fostering the common good. To achieve this, it must support the economy while at the same time protecting and providing for the socially weak by granting them the same rights and liberties as the better off. Above all, it must ensure a basic level of material provision that enabled a dignified life. Socialism was rejected because it restricted the exercise of personal freedom and only allowed private property within strict limits. The church saw human greed as the fundamental problem, orienting people towards the pursuit of profit instead of true values. And this line of thought became central to the social market economy, for example, when Müller-Armack called literally for an “evaluative” approach (*wertende Betrachtung*) anchored in fixed values that could only originate from the Christian faith and tradition (Frambach and Eissrich 2020, 238).

3 Core Ideas of Social Market Economy

Before becoming policy head of the Federal Ministry of Economics in 1952 and State Secretary for European Affairs in 1958 – a position he held until 1963 – Alfred Müller-Armack had been a professor of economics at the University of Cologne. The term “social market economy” first appeared in his 1947 paper *Wirtschaftslenkung und Marktwirtschaft* (Economic control and the market economy, Müller-Armack 1947), where it signalled another attempt to find a middle way between a purely liberal market economy and state economic control. Confronted, like all his contemporaries, with the dramatic consequences of two world wars, Müller-Armack was looking for a viable, functioning economic order. At the forefront of his mind was the need to avoid the mistakes of the past and to break with outdated knowledge.

Like the ordoliberalists, Müller-Armack disapproved of socialist approaches, but at the same time, he was aware of the vulnerability of a purely market-based system. He rejected the attempts of both classical national economics and socialism to direct history towards a specific goal and was sceptical about the effectiveness of nationalization of the means of production (Müller-Armack 1968, IX). One should start, he argued, from existing facts, from historical reality, which for him was expressed in fundamental acceptance of the free-market order. Only the market (as an abstract

mechanism) could cope with the complex coordination tasks of consumption and production. Although it could to some (small) extent be influenced, the market must be accepted first and foremost as a given fact, a concrete reality. Experience showed that centralized economic control could never fully equal the achievements of a market economy based on competition: the supposed superiority of a centrally controlled over a market economy was an illusion. Centralized control overestimated the historical weight of the forces it sought to master and underestimated people's desire for freedom (Müller-Armack 1973, 170–171).

Müller-Armack called for the final abandonment of the “idols” of Marxism, socialism, National Socialism and even liberalism, in order to arrive at a new “spiritual form” that he described as a return to “transcendence” and an associated rooting in Christian faith and values:

The recognition of a genuine transcendence, whose existence, values and goals place earthly existence within that horizon from which alone it can be understood, the commitment of life to unconditional, superior values, is the prerequisite for a world culture in which men and women can live in a truly creative way without falling prey to the idols of this world. Only within such a breeding ground can the deceptions of the past century be fully overcome. (Müller-Armack 1948a, 459)²

Only in this light, Müller-Armack argued, could the immediate post-war world be judged in its earthly factuality and the necessary reorganization of economic life after World War II be tackled, for one should at no point forget that an economic programme alone could never fulfil all life's expectations (Müller-Armack 1968, 492–496, 506–507).

Advocates of the social market economy such as Wilhelm Röpke and Alexander Rüstow also emphasized the great importance of a Christian foundation and compatibility with Catholic social teaching for the overall concept of social market economy (Hissler 2014, 163; Zieba 2014, cap. 3). The question of restructuring the economy and society was directly linked by Müller-Armack to his central concept of “social irenics”, an idea that aimed to harmoniously unite different worldviews, “finding the element of preservation in dissolution and unity in opposition” (Müller-Armack 1950, 559). Against the post-war background, Müller-Armack perceived four such worldviews, which together could potentially shape the intellectual face of Europe (Müller-Armack 1950, 560):

1. Catholicism in the form of Catholic social doctrine with its idea of *ordo*
2. Protestantism with, in particular, Protestant social ethics and the ideals of professionalism and fraternal support
3. Socialism with its moral will

²“Die Anerkennung einer echten Transzendenz, deren Existenz, Werte und Ziele das irdische Dasein erst in jenen Horizont stellen, aus dem es einzig verstanden werden kann, die Verpflichtung des Lebens auf unbedingte, überlegene Werte, ist die Voraussetzung für die Weltkultur, in der der Mensch echt gestaltend leben kann und nicht den Idolen dieser Welt selbst verfällt. Erst auf einem solchen Nährboden dürften die Täuschungen des abgelaufenen Jahrhunderts voll überwunden werden” (Müller-Armack 1948a, 459).

4. Neoliberalism with its insight into new principles of organization, i.e. the efficiency of the market economy

Social irenics required that one search for the common features of the four directions while recognizing and accepting their contrasts (Müller-Armack 1950, 563).

From an economic point of view, Müller-Armack's elaboration of the concept of social market economy as his specific, value-centred third way is of particular interest with reference to the dichotomy between liberalism and socialism. In his thinking, the social market economy is a regulatory political (*ordnungspolitische*) synthesis in which conflicting ideological positions are brought together via the concept of social irenics (Müller-Armack 1950, 575–575). The regulatory concept of the social market economy is thus not only an economic policy scheme but also more of a sociopolitical *plus* economic concept: he calls it “a stylistic form [*Stilform*] of economic and social life” (Müller-Armack 1952, 237; 1966, 11). And – beyond policy solutions simply conserving the past, whether they tend towards social dirigisme suppressing free initiative or to uncontrolled market mechanics – the style of the social market economy was seen to lie in producing “a social solution in which all goals find the most realistic balance possible” (Müller-Armack 1962, 300).

With the social market economy, Müller-Armack developed a conception of order that realistically incorporated the goals and values of society. The market economy could be seen as a particularly appropriate organizational means for restoring personal freedom and human dignity alongside economic prosperity and social justice. Like Eucken, Müller-Armack emphasized constructive competition as the policy core of a socially controlled market economy, since only real competition could unleash the will to perform and legitimize the profits achieved by society. The securing and organization of competition became an explicit task of state economic policy and required legal safeguarding through legislation directed against any form of restrictions on competition (Müller Armack 1947, 116–120). Furthermore, an actively controlled monetary policy was called for in order to establish a permanently stable currency, as well as price policy measures to safeguard and correct the market-economy price mechanism (Müller Armack 1947, 120–125, 159–161).

Like ordoliberalism before him, Müller-Armack advocated state intervention in the price mechanism – e.g. in the form of child allowances and rent or housing subsidies – in the event of socially unacceptable income differentials generated by the market economy. Despite their interventionist character, these leave the variable price and value system untouched. Moreover, beyond income redistribution, state measures should always be dispensed within an integral social policy and implemented wherever possible with the help of market-based management instruments. In general, the main field of activity of a market-based social policy should be economic policy to secure employment. In contrast with ordoliberalism, Müller-Armack also allowed for credit policy and a limited fiscal investment program that did not threaten the budget balance (Müller-Armack 1947, 133, 162–167, 247; 1948b, 100–101).

Thus, in all concrete economic policy measures, Müller-Armack's social market economy was integrated into an overall order directed towards the higher goals and values of society; it was also this that ensured its social character. Müller-Armack emphasized that the market economy was neither an end in itself nor a provider of values, nor could it generate values itself. But, on the basis of values, it was an order capable of raising national economic performance to a level conducive to an acceptable standard of living by means of competition, with social progress occurring "as a by-product of the functions of the market economy". There was always a need, however, for the conscious inclusion of social aims through a social policy in line with the market mechanism that would at least ensure, for example, that wage rates did not fall below a performance-related level (Müller-Armack 1947, 129–131). Yet it could never be the task of the state to actively intervene in the market itself (Goldschmidt and Wolf 2021, 222).

4 New Social Market Economy

From a present-day perspective, the question immediately arises of the contemporary relevance of the different worldviews assumed by Müller-Armack in laying the conceptual foundation for the social market economy. Certainly, secular change has progressed considerably, and the religious world (in Germany) can no longer be simply divided into Catholic and Protestant, as was largely the case during the founding years of the Federal Republic. While at the beginning of the 1950s more than 96 percent of the population still belonged to one of the two major Christian denominations, the share is currently down to less than 50 percent (and still declining). Although Christianity is the world's largest religion, with an estimated 2.1 billion adherents worldwide, Buddhism, Hinduism, Islam and Judaism are similarly widespread, a development that has increased with the advance of globalization, and an increasing number of people profess no religion.

Despite all the differences between the religions, there are also great similarities, at least as far as their basic values are concerned. Thus, similar ethical principles play a role in all religions. Charity, concern for one's fellows, care and assistance to those in need are widely seen as a human duty, and sincerity, renunciation of violence and the practice of leniency and forgiveness describe a path towards a "righteous life" – a life in which peaceful coexistence and the development of real community are possible. If we take the world of atheists into account, similar views on the rules and behaviour required for coexistence in a "good life" can be found here as well. What is needed is ongoing justification and powerful as well as sustained emphasis of such human values, which alone can ensure peaceful mutual coexistence in a constantly growing and differentiating world.

At the more immediately historical level of opposing tendencies such as liberalism and socialism, Müller-Armack's concept of social irenics is certainly still relevant today as a means of highlighting and combining what is common and undisputed in the different approaches and mediating what is practical and

applicable. Thus, the competitive market principle indisputably stimulates individual motivation, performance and efficiency, but its negative effects must be controlled and limited, and socialism – still, in its various forms, humanity’s most powerful advocate of a more equitable distribution of income and wealth – needs careful compensation of its limited organizational capacity.

The attempt to expand and modernize the four worldviews adopted by Müller-Armack in his social irenics inevitably leads to the fundamental orientation of all values – individual as well as social – on humanity. Worldwide, the concept of humanity is considered the highest basic consensus ever achieved – an essential component of the value systems of our societies, at least of those that are pluralistic and open in character. At least since the eighteenth century, the concept of humanity has referred to the irreducible demand for recognition of the dignity of the human being; as such it has become a guiding principle of constitutional rights and of procedures for regulating social conflicts. The primary values of freedom, equality and justice are derived from this concept and manifest as such in many fundamental legal texts of states, ranging from the *Virginia Bill of Rights* (1776), the *Déclaration des droits de l’homme et du citoyen* (1789), the *French Constitution* (1791), the *Universal Land Law* of the Prussian States (1794) and the *Universal Declaration of Human Rights* of the United Nations (1948) to the Constitution (the *Grundgesetz* or Basic Law) of the Federal Republic of Germany (1949).

In the Federal Republic of Germany, the idea of humanity has entered legislation via the *Constitution*, whose very first article (Art. 1.(1)) declares the inviolability of human dignity. This is explicitly designated the “supreme value” governing the entire “system of values under basic law”; it is “to be respected and protected” at all times, and its maintenance is the “obligation of all state authority” (ruling of the Federal Constitutional Court of February 24, 1971). The fundamental values of freedom, equality and justice follow directly from this. Article 2 (1) states that everyone “has the right to the free development of their personality, in so far as this does not infringe the rights of others or offend against the constitutional order or moral law”. Rights of freedom are guaranteed by the assurance of freedom of belief and conscience (Art. 4), freedom of expression and of the press (Art. 5), freedom of assembly and association (Arts. 8 and 9), freedom of movement (Art. 11) and freedom to choose an occupation (Art. 12) (Föste 2006, 97).

The principle of equality formulated as a fundamental right in the *Constitution*, Art. 3 (1) and Art. 3 (3), according to which all persons are “equal before the law” and no one may be “discriminated against or given preferential treatment because of his or her sex, descent, race, language, homeland and origin, faith, religious or political views”, is interpreted as a “prohibition of arbitrariness” according to a decision of the Federal Constitutional Court of October 23, 1951 (Spaemann 1977, 159). As specified, the legislator may not arbitrarily treat the “substantially equal” unequally but may treat the “substantially unequal” – in accordance with existing inequalities – unequally.

The safeguarding of justice in legislation, administration and jurisprudence is regarded as the task of the constitutional state, but the term itself is rarely used in positive law. In the *Constitution* of the Federal Republic of Germany, the

fundamental value of justice as a legal concept is expressed in terms of the rule of law: thus Article 28 (1) states that the constitutional order must conform to the principles of the rule of law as defined in the *Constitution*.

Beyond the *de iure* – i.e. formal legislative – establishment of fundamental values, the development in the understanding of *de facto* (in German often called “material”) rights as a result of the confrontation with the social question since the nineteenth century has been of great importance, inasmuch as the values of freedom, equality and justice represent far-reaching rights of entitlement *vis-à-vis* the state and society. Herbert Giersch (1921–2010) soberly describes this “material freedom” as:

The capacity to realize goals set by oneself within the framework of formal freedom and the limits set by custom. For our purposes, we can alternatively use the concept of economic power. The powerless are unfree in spite of all the formal freedoms that may be given to them; only those who have power can take advantage of the opportunity that formal freedom affords. The forms of power are [...] personal power, power of possession, and power of organization. (Giersch 1991, 73–74)³

This calls, then, for empowerment to make factual use of the purely formal classical basic rights, just as was intended from the start in the concept of the social market economy. “Personal power”, in Giersch’s statement, refers to strength of body and mind, will and character and the ability to recognize opportunities and make active use of them. “Power of possession” is based on land, tangible assets and money, as well as on material and monetary claims and rights (i.e. “property in the narrower sense”). “Power of organization” is the result of the combination of the personal and ownership power of several persons under a common will (Giersch 1991, 74).

A life in freedom is hardly conceivable without a minimum of material resources, especially in complex modern societies where self-sufficiency is factually impossible. The complex tasks and challenges of a modern state directly follow from this. The state – especially in the pluralistic open societies of modernity – must be able to enforce both the formal and material aspects of its underlying values; this is an undisputed condition of its stability. One line of reasoning refers here to the social question as it has existed since nineteenth-century industrialization, when traditional forms of subsistence provision declined and society increasingly assumed responsibility for those who, due to their low income, were unable to provide for themselves and whose hardship was not the result of their own fault but the consequence of social development.

Coming to the present day, the idea of the social market economy has long since arrived in the European Union, at the latest with the Treaty of Lisbon (2007), whose Article 2(3) speaks, for example, of the establishment of an internal market that:

³Materiale Freiheit ist “das Vermögen, im Rahmen der formalen Freiheit und der durch die Sitte gezogenen Grenzen selbst gesteckte Ziele zu verwirklichen. Wir können für unsere Zwecke alternativ auch den Begriff der ökonomischen Macht verwenden. Der Ohnmächtige ist unfrei trotz aller formalen Freiheiten, die ihm gegeben sein mögen; nur wer Macht hat, kann die Chance nutzen, die die formale Freiheit gewährt. Die Formen der Macht sind [...] Persönlichkeitsmacht, Besitzmacht und Organisationsmacht” (Giersch 1991, 73–74).

Shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance. (European Union 2007, C 306/11)

This indicates both the starting point and future direction for shaping the European Union via renewal of the social market economy. Efforts must be directed to updating worldviews and creating a changed awareness of values – not replacing the original, predominantly Christian values entirely but adapting them to the present, to the establishment of a “new social irenics”. The main Christian ethical motive of loving one’s neighbour has been translated into secular institutions and has thus also found expression in a strongly developed welfare state. Organizations such as Greenpeace and Amnesty International are today almost as ecclesiastical in their activities as the church itself. The decisive factor here is the result of social communities shaped by humanitarian values. The institutional framework of the social market economy must be adapted and restructured along the same lines. In all this, it should be borne in mind that knowledge of economic systems has not yet come to a standstill, nor have the acute problems of human rights, mutual respect and recognition, the pursuit of freedom or the threat to life posed by the destruction of the environment reached a satisfactory solution.

Finally, the social market economy has a contribution to make in dealing with autocratic systems. The opposition between autocratic states and their values and the democratic societies whose value systems form the heart of the social market economy are more than obvious, especially in view of the current martial attempt by Russia to annexe Ukraine. Again, this is about the struggle for freedom, the escape from dictatorship, considerations such as those found in the origins of ordoliberalism and the social market economy; hence, it is significant for the entire development of the social welfare state. The underlying conflict of values calls, however distantly, for a path of social irenics based on the unconditional will to find common ground in the face of existing major differences.

At the same time, the concept of human values must be extended beyond the political and legal to include other important interpersonal and communal values mentioned above such as sincerity, renunciation of violence, leniency, etc. Here, Müller-Armack’s guiding idea of reconciliation through social irenics comes to full fruition (Müller-Armack 1950, 559). Persuasion by dialogue and argument rather than force, and the opening of a common, consensual way, can create lasting confidence. Today more than ever, Müller-Armack’s basic vision has lost neither meaning nor relevance: “Thus, our hope for unity can only be that of irenics, a reconciliation that takes the fact of division as given, but does not abandon to it the effort to find common ground” (Müller-Armack 1950, 563).⁴

⁴“So kann unsere Hoffnung auf eine mögliche Einheit nur die der Irenik sein, einer Versöhnung, die das Faktum der Gespaltenheit als gegeben nimmt, aber ihm gegenüber die Bemühung um eine gemeinsame Einheit nicht preisgibt” (Müller-Armack 1950, 563).

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Wilhelm Röpke: Co-founder of the Social Market Economy and (Human)Ecological Mastermind



Helge Peukert

1 Overview of Life and Work

Wilhelm Röpke belongs to the founding generation of German ordoliberalism. He is one of the founders of the social market economy. Along with Alexander Rüstow, he represented its vital-political variant. This article is about his thinking and his writings.

Röpke was born on October 10, 1899, in Schwarmstedt near Hanover, which was a rural community at the time (for his life and personality, see Röpke 1976). He died on February 12, 1966, in Cologne, Geneva, Switzerland. Especially with his trilogy *Die Gesellschaftskrisis der Gegenwart* (1942), *Civitas Humana* (1944), and *Internationale Ordnung* (1945) and later *Jenseits von Angebot und Nachfrage* (1958),¹ he strongly influenced the (inter)national economic and sociopolitical discussion for several decades and German postwar politicians such as Ludwig Erhard.²

Along with Eucken, Röpke is one of the most interesting representatives of ordoliberalism and pioneers of the social market economy.³ His radical liberalism

¹Reprinted in Röpke, Wilhelm (1979): *Ausgewählte Werke*, 6 Vols., ed. F.A: von Hayek et al., Bern: Haupt. For English translations of many of Röpke's books and articles, see <https://mises.org/books-library>

²See Erhard's memorial speech in Hoppmann (1968, 9–21).

³A critical discussion of his life and scientific work can be found in Peukert (1992); to the attempts to interpret him as a rather harmless conservative or authoritarian market liberal, see Gregg (2010) or Common and Kolev (2018).

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attempted to combine conservative cultural criticism and economic freedom. The questions of economic order, the social question, the distribution of political power, and the moral-anthropological question were always considered together by him. Particularly noteworthy are his reflections on political economy (Krüsselberg 1999), especially the approach of a rational economic policy, the theory and policy of the business cycle, the writings on European integration, the reflections on German development from 1945 to 1966, and the significance of his concept of a “third way” (Skwiercz 1988).

Röpke studied political science, law, and economics in Göttingen, Tübingen, and from 1919 in Marburg, where, after receiving his doctorate in 1921, he habilitated as a Privatdozent of political economy with *Die Konjunktur* (1922). After working as an expert on reparation issues in the Foreign Office, he was appointed in Jena in 1924 at the age of 24 as the youngest German professor at that time. His further professorships were in Graz (1928–1929) and Marburg (1929–1933). At the age of 31, he was a member of the federal commission to combat the crisis where he proposed credit expansion and state investments. In 1932, he supported the call of the Marburg university professors for the election of Hindenburg as president of the Weimar republic, and politically he became involved as a member of the centrist-republican party *Deutsche Demokratische Partei* (DDP). On April 16, 1933, he declared to the rector of Marburg University his resignation from all offices in the university administration, which may have hastened his involuntary dismissal under § 6 of the law for professional civil servants (*Berufsbeamtengesetz*).⁴

In any case, Röpke was considered a definite opponent by Hitler’s NSDAP at an early stage. He was denounced, for example, by the Marburger county manager (Kreisleiter), H. Krawielitzki, to the federal commissioner for the Prussian ministry of art, science, and popular education (Reichskommissar für das Preußische Ministerium für Kunst, Wissenschaft und Volksbildung), B. Rust. Particular emphasis was placed on his contempt for the national government; he was assessed as an enterprising man, but not a trustworthy German university professor, which is why political intervention against him was necessary.

As a strict and theoretically as well as practically consistent opponent of National Socialism, he was, along with Alexander Rüstow, one of the few non-Jewish emigrants of political conviction.⁵ Initially, Röpke and Rüstow taught in Istanbul.⁶ In 1937, Röpke received a professorship in Geneva, where he worked until his death. He was married to Eva Röpke, née Finke. They had three children. His nephew Hans Willgerodt was professor of economics at the University of Cologne until his retirement.

Röpke’s early contributions, e.g., on *Die Theorie der Kapitalbildung* (The Theory of Capital Formation, 1929a), *Geld und Außenhandel* (Money and Foreign Trade, 1925), and *Finanzwissenschaft* (Finance, 1929b), cover almost all the major

⁴ See the documentary evidence in Nagel (2000, 93–95 and 121–124).

⁵ On the attitude of the Ordo circle, see Goldschmidt (2005).

⁶ For a description of their living conditions, see Neumark (1980).

economic research foci of the time. His writings were always related to pressing current questions of economic policy, universal history, sociology, a theory of democracy, and ethics. He impressed with a principled personality and a distinctive economic hermeneutics, i.e., the ability to grasp complex macroeconomic constellations and to explain them in summarizing terms that often, such as his concept of *Initialzündung* (initial ignition), entered the vocabulary of his contemporaries.

Röpke's essential impulse, expressed in a total of about 3000 book and article contributions and lectures,⁷ was the search for a third way alongside the alternatives of laissez-faire capitalism and "totalitarian" centralized economies. He represented a confessing Protestantism, which made him ask from its personalistic humanism what a realistic future order of economy and society could look like (Ockenfels 1999). His work *Die Gesellschaftskrisis der Gegenwart* (The Social Crisis of the Present), first published in 1942, is to be regarded as Röpke's first book contribution, in which this search and his committed and interdisciplinary basic attitude are expressed in a characteristic way, to which he always remained true in terms of form and essential content. Already in this writing, Röpke did not forget to emphatically point out ecological problems, for example, "the campaign of destruction against the forests of the continents and the whales of the oceans" (1948, 233–234, footnote 5; all quotes from German sources are our translations).

Methodologically, Röpke was caught between historicism, sciences of the state (Staatswissenschaften), and burgeoning formal theorizing. He strove for a combination of theoretical investigations and the consideration of the historically individual diversity of economic phenomena. In addition to formal knowledge, he also considered a broad socio-scientific horizon of interests and knowledge, intuition, and personality to be indispensable components of a good economic intellectual.

As early as 1925, in his work *Geld und Außenhandel* (Money and Foreign Trade), Röpke had written a theoretically oriented book against what he called interest-based national economics and in reaction to the re-emergence of protectionism and the German hyperinflation, which also contained fundamental statements of today's monetary and foreign trade theory. He justified his position in favor of the free movement of goods and stable money, which throughout his life seemed to him to be secured only by a gold standard with a pure gold circulation currency as an international monetary system. He was aware of the necessity of abstraction and theory, but "synthesis must not be forgotten above analysis ... if we do not place alongside the discursive-rationalistic approach the intuition which enables the national economist to introduce himself into the vital gears of the millions ... and to the extent that national economics itself is often more an 'art' than a 'science'" (1925, pp. 17–18).

Röpke received the Grand Cross of Merit (1964 with star) of the Federal Republic of Germany in 1953, the silver Hugo Grotius Medal (Munich) in 1960, and the Willibald Pirkheimer Medal (Nuremberg) in 1962. He was an honorary doctor of the Universities of Columbia (New York) and Geneva and of the Technical University

⁷For the bibliography, see Hoppmann (1968, 22ff.) and the supplement by Peukert (1992, Vol. 2, 1375–1393).

of Munich and a corresponding member of the Institut de France. Röpke was a co-founder of the Mont Pèlerin Society in 1947 and its president from 1960 to 1962, as well as a long-time member of the advisory board of the *Aktionsgemeinschaft Soziale Marktwirtschaft* (Action Group Social Market Economy).

Already this cursory, biographical foray suggests that Röpke stands at eye level with regard to the breadth of issues and the understanding of the “interdependency of orders” according to Eucken (integration of social, political, economic, and cultural dimensions and analyses)⁸ including the ubiquity of the ecological limiting crisis. Especially his constructively ambivalent stance between liberalism and conservatism with downright anti-capitalist sprinkles, which led to the demand for a very idiosyncratic third way, will prove to be constructive upon closer examination, and the solution to the ecological crises also spans between the poles of preserving the greatest possible freedom of action for citizens and economic actors on the one hand and the necessary, conservative limitation and guidance of their consumption patterns to preserve planet Earth and the ecosphere on the other.

2 Röpke’s Universal-Historical Secular Analysis

Fundamental for the understanding of Röpke is his diagnosis of a profound spiritual-moral and political-social, fundamental crisis. The negative indicators are overpopulation, urbanization, rural exodus, bureaucracies, advertising and theft of nature, speed mania, and noise. He addresses topics and facts that also play a prominent role in the critical ecological discourse nowadays, but which are often only addressed in partial aspects.

The criticism of GDP as an indicator of prosperity, which should be contrasted with a multidimensional catalog of indicators (Diefenbacher et al. 2004), may serve as an example. The special feature of Röpke’s synopsis lies, among other things, in the fact that he brings together the discourses and dimensions that are today largely demarcated from one another in economics (but see Daly and Farley 2010), sociology, and political science, and he interprets them as an expression of a secular overall complex of the mega-machine, so described by Mumford (1977).

Thus, in *Die Gesellschaftskrisis*, he vehemently criticizes “that colossal and over-bolted apparatus of mass supply ..., the orgy of technology and organization, large-scale industry, the division of labor developed to the utmost, the bloated cities and industrial districts, the pace and instability of economic life, the traditionless materialistic-rationalistic way of life ... the subjugation of the whole globe to a mechanistic-positivistic civilization” (1948, 28–29).⁹ One could counter such a

⁸As an attempt to build such a bridge, see, for example, the contributions of sociological economics, Swedberg (1993) and Blümle et al. (2004).

⁹Most emphatically, this criticism is formulated in Röpke (1958, 17–144). See Ritzer (2005) for the trenchant phenomenological culmination about global “non-places,” which coincides in many aspects with Röpke’s critique of modernity; see also Baudrillard (2000) and Klein (2000).

quotation that it was formulated more than half a century ago. However, the materialistic way of life described by Röpke not only in the book cited might well constitute the hard core of the globalized world society, which one encounters, for example, at international airports as the lowest common denominator of the waiting and departing passengers. The unhealthy, increasing acceleration and overwork is meanwhile an eloquent topic in the social sciences (Rinderspacher 1991; Schor 1991).

Röpke's universal-historical view is based on a philosophical anthropology of the "vital situation," which contrasts sharply with the implicit anthropology of the upwardly open indifference curves of neoclassicism and its homo consumens. The vital situation is characterized by him through a fourfold "rootedness" in smaller social circles: the bond to others ("community"), the bond to nature, the relation to things ("property"), and relations to history (*Überlieferung*). All four rootings are undermined by the world society based on the division of labor. When critical levels of the vital barrier are broken through, social consequential costs and tendencies to totalitarian ideologies arise according to Röpke, e.g., in the form of fascism, Stalinism, and also in forms of totalitarian modernization replacing older totalitarianism today (Radermacher 2002, chapter 25). Here, Röpke comes very close to ideas that are also shared in the camp of fundamentalist ecologists regarding the dimension of decentralization (Schumacher 1977).

Today's happiness research agrees with Röpke in the conviction that for a society as a whole, which is above a certain, not-very-high-income level, increasing income and consumption do not generate any recognizable welfare gain, but a secure job, being together with friends, etc. do. Röpke's elaborations (not only) in his trilogy, which are often perceived as not very structured, reveal a good understanding of the status, entitlement, multi-option, and alledged time-saving mills that are emphasized in today's discussion (Binswanger 2006).

Alongside his anthropological view, his advocacy of a specifically humanistic, personalistic, decentralized, universal, and rationalistic liberalism in the ancient Christian tradition,¹⁰ largely determined by mutually controlling, limiting, and stimulating levels and forces and the comprehensive idea of the separation of powers including the judiciary, the churches, the press, and science (Röpke 1947), is equally valid.

With regard to the ultimate foundation of this worldview and of value judgments in science, Röpke advocated a nativist approach to natural values, which would be more or less self-evident to anyone who thinks and feels well (Röpke 1942). Such a view is immediately subject to the reproach of the naturalistic fallacy. However, Röpke has recently received some support from biology and brain research (Hauser 2006).

Röpke advocated a theory of a natural elite whose representatives work in institutions that divide powers. They require a certain intellectual milieu. He therefore criticizes "certain one-sidednesses of the education and upbringing system ... which

¹⁰On today's stronger headwind against this cultural localization, see, e.g., Dawkins (2007).

endanger the sufficient formation of the intellectual leaders of our society. Above all, in this respect, the *one-sided intellectualist orientation* of the educational system must be emphasized ... This one-sidedness means that the emphasis is placed on the technical training for solving problems and that the goal of an education that encompasses the whole person and also takes into account the values of tradition and character is neglected” (Röpke 1964, 10).

His criticism can be applied in particular to economics, despite the still-swelling discourse on, e.g., ethics. The increasingly dominant formal training of students (Dürmeier et al. 2006; Klein 2006) and the turning away from the Humboldtian ideal of education, the pecuniary re-motivation of research and teaching (target and performance agreements), which probably undermine the ethos of science, would certainly be subject to Röpke’s harsh criticism. He would have been particularly displeased by the forced collectivization of research and interdisciplinary research associations, which is rampant in Germany today (Münch 2007).

Röpke sees man as a rational and ethical being. Röpke’s practical realism is evident in his advocacy of the market economy as an efficient system of ethical middle ground. He is not surprised by black markets in systems of administrative price controls. Röpke advocates a competitive economy to be shaped as a spur to performance. Free markets, foreign trade liberalization, the limitation of the state budget, and the end of state price regulations and foreign exchange controls therefore met with his unqualified approval (Röpke 1931b). In accordance with his realistic nature, he would probably have placed little hope in voluntary agreements (such as that of the European automobile industry with the EU Commission) and in a primary strengthening of environmental ethics as an ecological moral suasion in the area of instruments of environmental policy. At this point, it may remain open to what extent his comprehensive demand for open markets can be reconciled with what he sees as anthropologically necessary roots.

For Röpke, the third way meant decentralism, mass ownership, a capitalism of small business with a smallholder touch, home ownership with a garden, and a sufficient refuge of market-free areas, since the market is a “morality eater” (*Marktzehrer*). The necessary (market) morality must therefore regenerate itself outside the market. Röpke’s thesis of the morality eater runs counter to many liberal ideas on building social capital, since they imply that a transparent market economy with clear and enforced rules is a bubbling source for building social capital and fairness orientations. This is often the latent background assumption of most contributions in the field of good governance and various transparency and corruption indices. Here, Röpke is on the side of the skeptics or those who assume an optimal degree of commodification of life contexts beyond which an expansion of exchange processes damages society. Putnam (2000) and Bellah et al. (1996), for example, diagnosed an overshooting of this degree nowadays. Röpke had already suspected such an overshoot in the mid-1950s and in the 1960s increasingly pointed to the “price of prosperity.”

From the perspective of ecological economics, too, one can only advocate such a limitation of spheres of market exchange since the expansion of production and consumption beyond a certain level overtakes the regenerative forces of nature and

drags them into the inherent malstrom of increasing resource consumption in a limited ecosystem (the so-called scaling problem). It can be pointed out that Röpke (and Rüstow) argue here quite similarly to the communitarian critique of capitalism, and parallels can be seen with Sombart's "cultural pessimism," which the younger Historical School (Schmoller) did not share. In contrast to Schmoller's integration from above, Röpke and Rüstow relied on integration from below through smaller communities such as associations, families, church congregations, etc.

Röpke's ideal was a Swiss village with about 3000 people. He called for a simplification of lifestyle and a return to the simple and natural. Critically, one can ask whether he is not sketching out an idyllic garden gnome capitalism and presenting it as a normative model that has little in common with the real developments of today's division of labor in the world economy. Its conservative, sometimes romantic decentralized model and its unbending liberalism were bound to lead to tensions that suggest objective conflicts of goals in a social market economy.¹¹ They have the advantage of not harmonistically truncating the magic polygon of a social market economy and not denying the actual tensions.

3 Theoretical Aspects of Economics

In *Die Lehre von der Wirtschaft* (1978, first edition 1937), an introductory book with over ten editions in Germany alone, Röpke is concerned with describing and explaining a market economy based on the division of labor. His starting point is the scarcity principle against the background of the marginal utility school. He treats the approach of choice actions, money and credit, markets and prices, income distribution, etc., by constantly oscillating between the abstract-isolating level and the level describing the real economic world vividly. This fundamental strength, which also highlights the connection between humane liberalism and a designed market economy, is also countered by weaknesses; for example, his theory of interest rates is rather unclear, and in the supply-demand scheme, he does not discuss questions of stable, unstable, or indifferent equilibria. In contrast to Eucken, for example, he follows the realistic approach of J.M. Clark's workable competition, who saw competition for performance (*Leistungswettbewerb*) not only in the case of perfect competition. He does not distinguish himself from Clark's antidote thesis, which can lead to tensions with his decentralist ideal.

In addition to his illustrative examples, his discussion of the downsides, such as a deeply staggered division of labor and population increase, whose optimum he sees as having been exceeded since 1900, stands out as a strength. With this view, he touches on one of the central questions that today determine the ecological

¹¹Zöller (1999) is critical of Röpke's equation of individualization and massification, since de-structuring can also be understood as a reduction of coercion and only the disappearance of old structures is taken into account, but not the emergence of new, non-governed, even non-state forms of cooperation.

future. Röpke advocated the thesis of exceeding an optimal population already at a time when people in the bellicose nation states were still of a completely different opinion. He puts special emphasis on the problem of order. He discusses it on the basis of the queue system, the rationing system, the mixed (e.g., maximum price economy), the planned economy, and the price system as alternative coordination principles. He had already analyzed the disadvantages of the mixed, selective interventionist system in his 1922 dissertation (Röpke 1922a) on German potash mining. It remains to be discussed how the instruments of environmental policy applied today, especially with regard to greenhouse gases, are to be judged against the background of Röpke's system of order. It should be mentioned only in passing that in *Die Lehre*, he also discusses the possible advantages and the possibility of a state (market) economy.

His habilitation of the same year on business cycle theory (Röpke 1922b) indicates his transition from primarily historicist to theoretical thinking. His rejection of Keynes' writings since the *Treatise on Money* (1930) also falls into this framework, although Röpke was one of the first to discuss them. He interpreted Keynes' work as a structural theory of tendential underinvestment, which, according to Keynes, should be countered by stabilizing the boom with fiscal and monetary policy. In many writings, Röpke criticized Keynesianism for its unhistorical and absolutizing program. He saw the consequences of Keynesianism in constant inflationary pressure, artificially low interest rates, necessary overtaxation, rising government spending, chronic deficits in trade balances, and the creation of a macroeconomic engineering mentality that could be hydraulically manipulated at will.

Röpke's rejection of Keynesianism as a basic economic policy option can be viewed not only from his position as a vital-political market economist but also from the perspective of ecological economics since Keynesianism amounts to an attempt to drive the economy beyond the level to which it would have aspired on its own. In this respect, there is a fundamental tension between a Keynesian policy and a policy that takes the limiting crisis into account. It is noteworthy that for the specific situation of the Great Depression in 1933, Röpke considered the Keynesian therapy to be correct on an exceptional and situational basis.

This shows that Röpke did not stick rigidly to a body of thought once recognized as correct but also considered the special nature of the situation at the time, thanks to his background in the environment of the Historical School. Already toward the end of World War II, however, he turned against the application of Keynesianism to the postwar period, since he was "unable to convince himself that the teachings of Keynes ... contained more than a very relative truth, which in an extreme situation like that of 1930 to 1933 seemed to me very important, but as a 'general theory' highly dangerous" (in Lautenbach 1952, X–XI).

What distinguishes Röpke is that, in the Great Depression, contrary to his basic convictions, he favored a special policy opposed to it, the implementation of which might have spared mankind a world war. This is an impressive demonstration of the practical strength of his methodology of the overall view, with which Röpke tried to solve what Eucken called the great antinomy, in which intuition, a sober mind, and a sense of certain quasi-logical relationships in the economy, including people's

psychology, value judgments, and the will to pursue economic policy were combined.

Röpke thought practically, with a good knowledge of the facts and still from the high standpoint of the philosophy of the final values, whereby, in his opinion, the qualitative difference was not methodological precision, but the character of the individual researcher, who should feel that he belonged to a common good elite (and not to any research association). This elite, which could not be corrupted by opportunism or groupthink, should also have the property of seismographic early recognition. With his reflections on the secondary depression (see below) and on the nature and dangers of National Socialism, Röpke proved to be an outstanding early expert, who was able to speak as a rationally justified Cassandra even what was actually considered impossible like an economic meltdown or a world war and to think, feel, and analyze the impossible. Only a few contributions today offer a glimpse of the ecologically supposedly impossible (Maxton et al. 2020).

In this context, Röpke often referred to Julian Benda’s book (1933) on the betrayal of intellectuals who opportunistically followed the fashions of the day. Röpke was one of the few scientists and the very few economists who took the risk of packing their bags in 1933 and rejected any collaboration with the national socialists from the very beginning. For him, a pragmatic compromise on elementary issues was out of the question.

His overall program beyond radical liberalism and (national) socialism, formulated in *Civitas Humana*, contains the following points in summary:

- I. Establishment of a genuine competitive order (anti-monopoly policy).
- II. A positive economic policy (anti-laissez-faire), with:
 - 1. A framework policy.
 - 2. A market policy (liberal interventionism), containing:
 - (a) Adaptation interventions versus preservation interventions.
 - (b) Conformist interventions versus non-conformist interventions.
- III. Economic-social structural policy (equalization, decentralization, “economic humanism”).
- IV. Social policy (1978, 100, fn. 18, first ed. 1944).

Throughout his life, he maintained his call for a radical fight against monopolies (to which he also counted the trade unions) and related phenomena; for example, he also criticized the highly watered-down antitrust law of western Germany in the 1950s. Framework policy means the juridical-moral framework to be artfully shaped, since Röpke saw the market economy as a civilizing artifact. The counter-vailing social policy he called for refers to the uncommercialized sphere of society that complements the market economy. In addition to the market: competition, private initiative, free price formation and choice of consumption as constitutive elements of a market economy, Röpke argued that a formative social framework with the goal function of disempowerment, ruralization, artisanalization, and decentralization is needed to safeguard people’s vital situation.

The conflicts of goals between liberalism and vital policy and the many possible interpretations (are concrete cases adaptation or preservation interventions?) emerge clearly in Röpke's overall scheme, especially between a free-market economic constitution and a spatial planning and zoning policy that he demands, which may lean in the opposite direction, e.g., the question of greenfield settlements and, in general, the containment of rapidly advancing sealing of the soil; between the mobility of the factors of production and the vital-political rootedness and sedentariness; between the deepening of the (global) exchange of goods and the existence of small communities; and between the principle of free trade and its violation in the agricultural sector, which Röpke basically advocates.

Many critical questions can be addressed to Röpke here, not least the question of whether a market economy can be organized without the need for growth, and if not, whether massification would not be the inevitable consequence and one cannot have both or whether a fragile or, in the words of Müller-Armack, irenic compromise must be found. In any case, there are only limited compatibilities between Röpke's different policy domains. He does not have a concretely elaborated program beyond the enumeration of policies, except for the reference to the Swiss village. If the social policy were to be a contradictory one, then the question of the primacy and who (enforces) it would arise. His considerations suggest a draft from a single mould, which could probably only be devised by a mastermind. It would also be possible to launch special interests that preserve structures under the guise of vital policy. In ecological terms, a decision would have to be made: material infrastructure (highway) or ecotope and intact landscape, the healthy Swiss village without connection or with connection to a (Brenner) highway?

4 Business Cycle Theory, Crisis Diagnosis, and Ecological Reform

In addition to his work on general economic theory, Röpke intervened in the decisive debates of the turbulent Weimar Republic as an intellectual defending free trade and democracy, with a civic attitude and clear, theoretically enlightened opinions. The issues he addressed related primarily to the socialization question, social policy, reparations payments, the occupation of the Ruhr, the so-called Rentenmark, the restored gold standard, the international transfer debate, and foreign loans but also to the socio-philosophical questions of the time.

Only his views and activities on business cycle theory and policy can be briefly mentioned here, which coincided with the beginnings of business cycle theory and new approaches to monetary theory in the German-speaking world (Hayek, Mises, Spiethoff, Schumpeter, Hahn). His abovementioned habilitation thesis is more of a problem perception, but it nevertheless made Röpke a co-founder of scientific business cycle theory. His theory of the business cycle can only be found in his *Krise und Konjunktur* (Crisis and Business Cycle, Röpke 1932). Röpke did not establish

a new approach, but he integrated various elements that do not characterize him exactly as a monetary overinvestment theorist who attributes business cycles primarily to price level changes caused by changes in the money supply, since in his case, the accelerator, the disproportionalities of the production structure, and the disparity between the composition of production and the planned use of income also play an essential, if not always completely clarified, role.

The strengths of his writings on the business cycle lie in his phenomenological recording and illustrative description of business cycles, in his emphasis on the mass-psychological component (Jöhr), and in his consideration of the historical component as an educational heritage of the Historical School. This heritage is probably also responsible for his recognition of the special character of the world economic crisis, which had been clear to him since April 1931 and led to the call for an “initial ignition,” although he did not yet possess a consistent theory of the business cycle. He no longer believed in the self-healing powers of the market, in contrast to Brüning’s “hold-out” theory. With his diagnosis, he counted himself among a group of scholars (Neisser, Lautenbach, Haberler) who stood between those who wanted to remedy the crisis with the old cyclical recipes and those who believed that the total collapse of capitalism had come (Röpke 1933a).

From 1932 on, he described the situation as a secondary depression:

In fact, the process of economic contraction is first and foremost a process of contraction of production quantities and only insofar as the adjustment via production quantities takes place only imperfectly, also a process of price contraction ... This contraction of demand is definitely in the foreground; it is the actual *causa movens* of secondary deflation. Interrelated with it is the income contraction, which, insofar as it is not only caused by a decline in the employment of the factors of production, is at the same time a cost contraction. The decline in the employment of the factors of production finally makes the secondary deflation appear as a general contraction of production. (1933b, 560–561)

Thus, the market theory had to be replaced by a “circular theory.” The rare secondary depression, which is completely independent of the cleaning crisis, which recalibrates prices and production, is characterized by a contraction of demand beyond the equilibrium corridor, which leads to intensifying income, cost, and production contractions. In this case, adjusting price reductions do not bring about a new equilibrium, but they are only secondary consequences. Quantity adjustments prevail.¹²

Particularly in the “Commission for the Study of the Unemployment Question” (Brauns Commission, see Röpke 1931a) set up by the Reich government in 1930, Röpke called for a credit-financed stimulation of investment through large-scale government orders, which, however, were to be financed by long-term foreign loans – an unusual position for a liberal who had advocated tariff cuts, the gold standard, and a policy of balanced budgets in phases of normal economic activity. In addition to Röpke’s criticism in the *Frankfurter Zeitung* of the Tatkreis’s proposals for autarkist socialism, it was flanked by a leaflet distributed in his hometown on

¹²Most thoroughly discussed in Röpke (1936). There are unmistakable parallels to Leijonhufvud’s (1973) interpretation of Keynes. On the question of the extent to which Röpke’s overall analysis differs from Keynes’s or is consistent with it, see Klausinger (1999).

the occasion of the 1930 federal *Reichstag* elections with the telling title “National Socialists as Enemies of the Peasants.” In principle, Röpke advocated a conservative economic policy, believing that the steeper the boom, the deeper the purifying recession. The vital-political component consists in Röpke’s advocacy of the house (no rent payments) and garden (limited self-sufficiency), which can act as shock absorbers against temporary unemployment. He thus set this pole of rest and retreat against possible, also ecologically problematic, state-financed expansion programs (construction of highways, etc.).

In normal circumstances, he advocated a – in practice hardly achievable – neutral monetary policy, using discount and open-market policies, aimed at stabilizing investment activity and not stimulating production and consumption fireworks and the corresponding consumption of resources through low interest rates. Furthermore, he accepted a moderate compensatory budget policy, in which surpluses are accumulated during the boom and can be used to revive the economy during the recession. However, he became increasingly skeptical of it after 1945, given the limits of the gold standard he advocated and the dangers posed by expansionist politicians.

In 1935, when most of the headquarters of the Western powers were still clinging to the illusions of appeasement policy, Röpke, an émigré from faraway Turkey, analyzed with rare clarity the nature and future intentions of the authoritarian German state and at the same time described its Achilles’ heel of “repressed inflation” (*zurückgestaute Inflation*) with over-full employment, price controls, and their side effects (see Röpke 1935), which in practice became apparent later. His gift was not to be blinded by big words, but he recognized from the beginning the instability of the fascist economy and identified its structural weakness. Would he have dissected today’s world expansion system in a similarly critical way with regard to its Achilles’ heel, the compulsion to grow within an environmental system that does not grow with it?

Röpke never discussed the question of the possibility of a stationary economy or a market economy without growth coercion in connection with the theoretical elements (accelerator, etc.) contained in his business cycle theory. Even without, e.g., a wrong monetary policy, the course of the economy probably takes place in processes of expansion and contraction on a constantly widening scale. Can a steady-state economy be implemented at all within the framework of a market economy in view of the usual cyclical and growth processes, which are ideally represented, for example, in Samuelson’s accelerator-multiplier model?¹³

The task of an intellectual early expert today would be to pose the opposite question to the one posed in 1933: How can income, production, and consumption not be driven but stabilized and, with regard to material balances, significantly reduced? The prerequisite for asking the question honestly is first of all the fact, which certainly cannot be proven flawlessly in formal economic terms, that a worldwide growth regime is not sustainable in the long run.

¹³Daly (1996), from a business science perspective; the question is discussed in Paech (2005).

4.1 German Postwar Development (1945–1966) and the (Human)Ecological Price of Prosperity

After moving to Geneva, Röpke began to think about the new beginning after the end of the war in the early 1940s, which he recorded in his internationally acclaimed book *Die deutsche Frage* (The German Question, Röpke 1945). He deals with the themes of guilt and National Socialism, the pathology of German history from the Ottone's to the Prussian (according to Röpke:) authoritarian state, and the peculiar German national character, and he offers thoughts on reconstruction. Röpke proposes a federalist system and a consistent Western solution, accepting two German states, as well as the early and comprehensive reintroduction of a market economy, including free prices, and integration into a free-trading world economic system (see the summary in Schwarz 1999).

The currency reform implemented in June 1948 and the economic reform of the end of price freezes for most goods enforced by the west German chancellor Erhard in July enforced what was then a minority position. The effect also expected by Röpke, that free prices would lead to an increase in the price level but also to a significantly higher supply of goods, occurred. He supported Erhard's courageous act, even if it did not correspond to the majority opinion of the population at the time. In Röpke's view, politicians should be committed to the common good of the elite and not opportunistically give in to majority opinion.

In 1950, faced with 2 million unemployed, Röpke was commissioned by the German government to write a memorandum on the question "Is German Economic Policy Right?" (Röpke 1950a). In 91 theses, which combined principle theoretical and directly time-related questions, he recommended continuing the export- and production-oriented growth path with world market integration and a priority liberalization policy. He called for the abandonment of the "compulsory housing economy," criticized co-determination, spoke out against a full employment program, called for the welfare state to be pushed back to a minimum in favor of self-provision, and admonished excesses of "fiscal socialism" because he considered a state quota of a maximum of 25% to be appropriate. He called for further tariff liberalization and advocated complete currency convertibility, which was not achieved until 1958. Much less obvious are his old demands for deconcentration, for the radical establishment of competition, and for anti-monopoly policies, which can be seen as a pragmatic tribute to the challenges posed by the influx of refugees, the onset of the Cold War (Röpke was an avowed anti-communist) and the new ideas of the Western allies how Germany should be integrated into the Western block.

From the point of view of a critical ecological economics, the report is disappointing, since Röpke was quite unreservedly in favor of an export-oriented growth path. In economic matters, he was a true liberal, but his culturalist writings stand beside this. According to the general propositions of the trilogy, both strands rarely converge, and thus his cultural critique remains essentially inconsequential. This one-sidedness also puts his negative attitude vis-à-vis the trade unions in a

questionable light because he does not request deconcentration of industrial conglomerates and house and garden for all, which would make countervailing power obsolete.

Since the Korean War in 1950, the problem of the boom came to the fore, leading to full employment in 1956. Röpke increasingly criticized the welfare state in terms of cultural philosophy in gloomy images as the “nationalization of man.” The boom, he argued, was an expression of an unfortunate combination of misguided economic, financial, and social policies, reflected in the short term in permanent balance-of-payments crises and shocks to the Bretton Woods monetary system. This system actually collapsed in 1971, also due to “democratic-social chronic inflation.” Full employment, wage increases, and monetary stability were no longer compatible. He called for the strict primacy of monetary stability.

In fact, however, he saw fiscal inflation (budget deficits, social policy), wage inflation also caused by the trade unions, investment inflation also caused by artificially low interest rates, and imported inflation (monetization in the event of balance-of-payments surpluses) inexorably on the advance.

It was believed that after the war one would have to compensate for an otherwise threatening deflation by a corresponding expansionist economic policy ... I speak of the age of inflation ... in the sense that this chronic inflationary tendency in its causes and effects has become an essential characteristic of our time ... in which the great problems and the great errors of economic policy are united today. And in this ... we may speak of an age of inflation for the entire Western world. (Röpke 1951a, 5 and 1)

He therefore demanded, among other things, a revaluation of the *Deutsche Mark* (DM) to curb imported inflation, which took place after long debates in March 1961. His call for the containment of the other three types of inflation was given less consideration.

Finally, Röpke also gave skeptical thought to the price of prosperity in vital policy terms. He criticized the focus on material gain and enjoyment, the cult of the standard of living, the lack of political interest, the emptying of all ideals, reckless growth materialism, unbridled automobilism, etc. His conclusion was that we were on the way from the rain of the totalitarian state into the frying pan of total egoism (Röpke 1950b). The question he did not ask, as already indicated, is whether these are excesses or inevitable concomitants of a forward-rushing growth economy designed for expansion. With rising productivity and a stationary labor population, demand for employment falls without growth, and it is difficult to imagine how a money and interest economy can function without real increases (from what is the interest paid?) inasmuch as no fundamental system transformation takes place.

5 European Challenges: Then and Now

Both world wars started from the small promontory of Asia; after 1945, Europe ceded the leading role to the USA and the Soviet Union. The preamble to the German constitution (*Grundgesetz*) calls for a united Europe. In 1957, the EEC

Treaty was adopted with the long-term goal of a common market. Along with Haberler, Röpke took an absolute minority position toward the EEC, arguing for a liberal, purely functional, and global solution. He wrote some 150 essays in support of his ideal of multilateral free trade. He called for universal tariff reductions, the abolition of trade barriers, currency convertibility, and the unconditional most-favored-nation clause (Röpke 1951b). As the second-best way, this could be achieved through multilateral negotiations.

The third best way seemed to him to be regional solutions in the form of free trade zones: the abolition of all tariffs and trade restrictions among each other but the nationally autonomous determination of the respective external tariffs. He rejected the EEC's path to a customs union, i.e., an additional common customs regime vis-a-vis third countries, as well as the realization of a common market (including mobility of production factors) and an economic union (additional harmonization of economic policies).

Röpke's rejection was based firstly on the reference to Europe's cultural-historical peculiarities, its unity in diversity. A pan-European consciousness did not exist; a free trade area offered the best mixture of proximity and distance. Second, he pointed to the possible trade-distorting effects of a customs union, as analyzed by Viner, which could act as a fortress to the outside world and exhibit the Janus face of the customs union between free trade and protectionism. Third, Röpke missed the regulatory clarity and the formulation of clear rules of the game. He saw the common policies (coal, steel, agriculture, nuclear power) as experiments in planned economy, which he predicted would fail completely, as did the planned economy in general.

Fourth, Röpke foresaw the sprawl into another large-scale organization with a trend toward super-bureaucracy and super-state, nonsensical regulations, and the emergence of a new class of "economocrats." "Such an economocracy amounts, by and large, to the rule of the 'Organizational Man,' ... that type of man of our time who hurries from one conference to another and from one plane to another with his weighty briefcase" (Röpke 1957, 160). More important than hectic founding principles were national monetary discipline, an anti-inflationary economic policy, stable exchange rates through a classical gold standard, the primacy of rules versus authorities, and a balanced balance of payments (constant gold and foreign currency holdings).

For higher levels of integration, especially an economic union, the primacy of intellectual-political integration applied; it would work only with prior political unity. Röpke foresaw the failure of Bretton Woods, the instability of flexible exchange rates, and the longer-term failure of a policy of cheap money with accompanying devaluations.

Finally, he was an outspoken opponent of a European central bank. Such a monetary system would mean a common monetary and credit policy, which must entail a unification of economic policy. However, such a policy can only be implemented within the framework of a pan-European state, which is neither desirable nor likely.

Before discussing the EU's climate policy from Röpke's point of view, his distinction between conforming and non-conforming interventions should be

mentioned (Tuchtfeldt 1960). The former can be fitted into the market mechanism as a datum: for example, protective tariffs that lead to changed prices for goods, which are used as price signals in the economic calculations of the actors. In the case of non-conforming interventions, the market mechanism is suspended, e.g., capital controls that involve a quantitative restriction or quota. In general, nonconforming interventions should be prohibited in principle, while conforming interventions are exceptional, taking into account the combined effect of all interventions and the other dimensions of the overall program outlined above.

Röpke developed ideas on rational environmental policy very early on (for today's discussion of the instruments in the global context, see, e.g., Pearson 2000, especially 148–161). In his essay on state interventionism, he stated:

Another starting point for rational intervention is provided by the important fact that the system of economic freedom in many cases sacrifices the interests of the present for the interests of a more distant future. According to strictly capitalistic calculation, a profit that can be expected only after a human age can no more induce people to undertake the measures necessary to achieve this profit, which lies in such a nebulous distance, than a loss that lies just as far away can prevent them from refraining from measures in the present that could one day lead to such a loss [footnote reference to Pigou's *Economics of Welfare*]. Thus, the system of economic freedom threatens, among other things, to lead to an overexploitation of the limited natural forces available. (Röpke 1929c, 867)

Even today, the central problem of greenhouse gases cannot be formulated more accurately. Carbon dioxide, methane, nitrous oxide, partially halogenated fluorocarbons, and other gases have, in addition to their global distribution, the characteristics of having a delayed effect and of being long-lived. Their effectual “nebulous distance” justified an unconcerned emission for many decades. Of course, Röpke was also familiar with the essential instruments of environmental policy: environmental ethics (moral suasion), direct negotiations (Coase solution), requirements and subsidies (command-and-control strategies), and Pigou taxes (in the above quotation, he refers to Pigou's corresponding work). He must also have been familiar with the assessment criteria: ecological efficiency (accuracy), economic efficiency in static (balancing of marginal abatement cost curves), and dynamic terms (incentives for innovation), as well as aspects of competitive neutrality, market power, distributive justice, and public finance.

No evidence can be found for his knowledge of environmental certificates, which have in fact only been discussed in recent decades and increasingly entered the instrument debate in the 1970s. At first glance, one might assume that the market-liberal Röpke would have preferred the certificate solution to the tax solution, since here a certain market allocation plays a role in contrast to all other instruments and, in this respect, it has the highest degree of market conformity. Textbook knowledge states that a tax solution is efficient, since a correctly measured tax leads to efficient responses of companies with different abatement cost curves, since companies with high abatement costs pay more taxes and those with lower abatement costs choose the abatement strategy up to the level of the tax rate, but one needs to know the curves for the exact dosage of total emissions. In contrast to this, with an allowance solution, the absolute level of emissions is set first, which is then distributed to the

companies by means of procedures. It is irrelevant what the initial allocation is and whether it is auctioned or allocated free of charge (grandfathering). The certificate solution appears to be economically efficient (longer-term distribution via secondary markets) and ecologically superior, since it is accurate.

Röpke would have quickly seen through the beautiful appearance of emissions trading. Contrary to the simple textbook presentation, according to which allowances are distributed and then traded on free markets, it turns out that very high transaction costs arise both for the state and for the companies concerned (up to several million euros for larger production units; see the overview of the manifold transaction costs in Betz 2003). Emissions trading was accompanied by a flood of laws and regulations and a new bureaucracy. Of the approximately 1800 plants in Germany, 800 companies contribute to 1% of total German emissions. An upstream approach (producer approach) covers all downstream consumers and processors but does not have a market with sufficient actors; a downstream approach (end consumer approach) has enough actors for a secondary market, but does not cover all emitters (car traffic, small businesses, households).

Röpke would certainly have criticized the fact that at the start, only certain sectors were included in emissions trading and that the allocation of certificates was initially left to the nation states, which tended to be overprovided for reasons of industrial policy and whose differences would in any case cause distortions in competition. The National Allocation Plans brought about the opposite of competitive neutrality, which was not served by the selective subsequent allocation of free certificates. The constant tinkering and rearranging of certificate quantities, e.g., through the Market Stability Reserve, is also the opposite of a clear rulemaking without permanent punctualistic interventions, which he favored in an ordoliberal way.

In this way, Röpke would have seen his suspicion of the emergence of new super-bureaucracies in the shadow of the EU confirmed; many regulations, laws, and directives, not only on emissions trading, such as the Fit for 55 program of July 2021, have been proposed (see Peukert 2021, 2022 for the current developments). On the international level, the (let's call them) econocrats rush from conference to conference at now 27 COPs. The trade-displacement effects described by Jacob Viner find their counterpart in the leakage effect: in regional isolated solutions such as those of the EU, non-participants are rewarded by lower fossil fuel prices, which has been called a green paradox (Sinn 2012). A Janus-faced effect with strong planned economy elements can also be observed, since in emissions trading, in addition to rule inflation, as in planned economies, first the production quantity (here: of allowances) is determined, then political-normative decisions are made about distribution, and only then do allocation and production begin. The regulations, monitoring, and much more represent a whole new dimension of command-and-control elements under the guise of certificate trading. Röpke could also have pointed out that this is a quota or quotization (setting the maximum quantity), which, according to his dichotomy of conforming and non-conforming measures, is not market conforming, unlike a (Pigou) tax, since the cap-and-trade instrument is a quota system.

Röpke would certainly have asked himself what sense it makes to start with the latter to limit emissions that are linearly dependent on consumption (a certain amount of CO₂ is released when oil is used). Oil that has already been extracted from the ground cannot be restricted in its use by means of certificates unless all countries in the world were to participate in certificate trading. Since defectives are rewarded as explained, this is very unlikely. Is there therefore an alternative, liberal-functional global solution to the problem along the lines of Röpke's call for multi-lateral free trade?

In the early essay on state interventionism already cited, he states:

Remedial action can only be expected from non-capitalist ("feudal") economic management or from precautionary intervention by the state, whereby state intervention predominates among the two possibilities. This results in a special group of interventions, which could be called conservation policy or secular economic policy. The necessity of such a policy is not eliminated by the fact that a large part of the earth's natural resources, threatened by overexploitation, is in the hands of monopolies whose price policy already provides for a certain restriction of extraction. (Röpke 1929c, 867)

A comparison and mutual enrichment between Röpke's outline of and more recent proposals for a postgrowth economy (Kern 2019) cannot be provided here.

6 Röpke's Record and Its Contemporary Significance for Ecological Economics

It is surprising how far an economic hermeneutics, also practiced by Röpke, that does not resort to complicated formal models can carry.¹⁴ Today's one-sided, formal education at economic faculties, which is not interdisciplinary and historical and does not pay attention to personality development, would certainly be subject to his criticism. This one-sidedness is probably responsible for the fact that few comprehensive proposals for ecological reform are put forward from the economic camp. An approach to change comparable to the "Keynesian revolution," for example, which redefines the paradigmatic foundations, is not discernible.

Röpke would certainly have welcomed the trade liberalization that took place within the framework of the WTO as a further development of the GATT and would have considered it significant. The economic policies pursued (at least officially) in Europe until the great financial crisis have, after many attempts, taken a basic course also suggested by Röpke, with the realization of the ineffectiveness and harmfulness of a monetary policy of full employment, the striving for balanced budgets and strict monetary stability, the abandonment of policies of cheap money, and the dismantling, albeit hesitantly in Germany, of subsidies and of customs and other barriers (Hamm 1999 arrived at a more skeptical assessment). However, the ecological limitation crisis now shows the limits of this policy.

¹⁴On Röpke's predictions and his significance in the present, see Willgerodt (1997).

Röpke's fears of higher tariff barriers to the outside world have not been borne out, although considerable tariff hurdles still exist, especially vis-a-vis developing countries. Intra-European trade barriers are negligible today. Röpke would certainly have welcomed the Maastricht Treaty as a late insight regarding the primacy of a stable currency, but he would have criticized the ambiguous and automatic rules for national violations of budget discipline and the almost uninterrupted failure to comply with the debt rules. The unrestricted conversion of currencies has prevailed, and intra-community restrictions on capital movements have largely been ruled out. Röpke's thesis that a monetary union is always political in origin was proven by the history of the euro's creation. The "unconventional" measures practiced by the ECB in recent years would have met with his unconditional criticism, since in his view, they served to prevent necessary market-based consolidations of sovereign debt and overvalued assets, and the catcalls, for example, in the form of inflation, would then have to come later.

Röpke predicted the moral and economic downfall of centralized economies. The prophecy has come true, as have the disastrous results of European community policies, which did not even stop the decline of small-scale farming. In the developing countries, of which quite a number have risen to become small and larger tigers and new industrializing countries, a rethinking has long since begun in favor of a growth strategy which, although often mercantilistically overformed, is nevertheless essentially market economy export-oriented and which is now becoming one of the main ecological problems of world society.

The balance is rather open with regard to Röpke's economic humanism as an integral part of his "sociological neoliberalism" (Becker 1965) and his thoughts on an ecological economics. The world population continued to rise to over 8 billion people and is expected to increase to over 10 billion people. The protection and construction of market-free, decentralized, vital, interpersonal, "communitarian" spaces, decentralization, the strengthening of small-scale agriculture, an active policy for smaller economic units, the anti-monopoly and anti-fusion policy emphasized by Röpke, the limitation of commerce, and possessive materialism are not quite recognizable.¹⁵ Röpke would certainly have vehemently opposed these appearances with his ideal of the vital Swiss village.

In the words of one of his important liberal students:

Were Röpke alive today, I believe he would have been appalled by some aspects of what a capitalist culture in the closing years of the twentieth century [and after] seems to produce: an obsessive cult of the self, coupled with a lust to have it all now; the rise of the 'raiders' and leveraged buyout artists and merchants of junk bonds assiduously dismembering established companies in pursuit of a fast buck, all the while taking on the status of folk-heroes; a chronic blight of homelessness; and the emergence of a seemingly permanent underclass of the poor and uneducated ... Considering these phenomena and their extension to most parts of the industrialized world, I suspect Röpke would have been moved to ask: Has the market economy lost its soul? (Boarman 1999, 82)

¹⁵As an example of critical voices, see the still pertinent contribution by Luttwak (1999) and Brand and Wissen (2021).

The conditions and attitudes described here by Boarman also show how far away we are from an ecological rethinking on the level of worldviews in the sense of Max Weber, despite some post-growth discourses in civil society. The phenomena of scientism, positivism, rationalism, materialism, and, for example, the cult of the colossal as prominent expressions of the social crisis of the present day, which he has regarded as dominant since the French Revolution, mark the coordinate system within which some ecological micro-reforms are taking place today and on the basis of which the overexploitation of nature, clearly foreseen by Röpke, is taking place.

Dematerialization as a new worldview, with which Röpke could certainly have lived well, has not prevailed, certainly not as a new economic system in the sense of Sombart, i.e., with matching expressions of the spirit (post-materialistic values), technology, and the organization of economic life. The only realistic goal, in the opinion of the author of this article, a world society without growth (steady state economy), which presupposes a drastic reduction of the throughput in the developed countries (factor 10), to still be able to grant some leeway to the developing countries, has not arrived in the decisive minds.

Beyond all technophilia, Röpke considered a capitalism tamed by the gold standard, the primacy of monetary stability and his social policy to be possible. We do not know how he would assess this today. In any case, he pointed out the overexploitation of nature; presented important considerations for a rational economic policy; represented and applied an interdisciplinary, hermeneutic methodology; listed the human ecological costs; and represented a human image of rootedness against consumption materialism, according to which we could live contentedly even without increasing consumption possibilities. A comprehensive ecological economics therefore owes much to him.

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“The End of Laissez-Faire”: Keynes and Ordoliberalism



Günther Chaloupek

Keynes proclaimed the “end of laissez-faire” in lectures held in Oxford (1924) and in Berlin (1926), published as pamphlet almost simultaneously in English and in German in that same year.¹ Some 10 years later, German economists who became known as Freiburg School of ordoliberalism after World War II began to write about the “failure of laissez-faire” (*Scheitern des laissez-faire*). Both, Keynes in the UK and Walter Eucken et al., for post-war Germany, called for a fundamental re-orientation of economic policy. They shared the preference for individualism, political liberalism, and the market economy, rejecting central planning and socialism as an alternative to crisis-ridden capitalism. But the conclusions about what kind of changes were needed are quite different. In the following, the chapter will first introduce the arguments of Keynes and Eucken. A further investigation of the reasons that underlie these differences will show differences between Great Britain and Germany with respect to historical contexts as well as to the fundamental theoretical approaches of Keynes and Walter Eucken, the main representative of the Freiburg School.

¹ Sections 4 and 5 were republished in the first edition of the *Essays in Persuasion* which appeared in 1931. The complete text was published again in Keynes (1972).

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1 Keynes and the “End of Laissez-Faire”

In his lectures, Keynes took great care in elaborating origins and meaning of the principle of laissez-faire in social philosophy and economics. In regard of the former, the principle rests on two pillars: the individual’s innate right to pursue his or her own happiness, which was the contribution of philosophers of enlightenment, and, that through “the natural effort of every individual to better his own condition”, a harmony between private advantage and public good could be achieved – this was the contribution of the economists, of Adam Smith in particular. Since the equal right to pursue one’s own happiness contains a strong egalitarian element, the merging of the two pillars is a “miraculous union” of different currents of thought. “It harmonised the conservative individualism of Locke, Hume, Johnson and Burke with the socialism and democratic egalitarianism of Rousseau, Paley, Bentham, and Godwin” (Keynes 1926/1972, 274f). Later, the principle of laissez-faire came to be understood in the context of Darwin’s theory of evolution. If “free competition had built man”, the idea of “survival of the fittest could be regarded as a vast generalisation of Ricardian economics” (ibidem, p. 276).

Keynes also elaborates extensively on how practical-historical experience contributed to the triumph of the laissez-faire principle (p. 278ff). The phrase was first used by a businessman who objected to the regulations of the comprehensive mercantilist system, which had been established in seventeenth-century France by Colbert. Later, the decline of French manufactures was attributed to the protection granted by statutory monopolies. If Adam Smith, who did not use the phrase, had identified monopolies established by the “commercial system” as the principal obstacle to economic growth, “his attitude towards the Navigation Acts and the usury laws shows that he was not dogmatic” (p. 279). The “poor quality of the opponent proposals” protectionism and Marxist socialism also contributed to the plausibility of the laissez-faire doctrine.

Paradoxically, “no such doctrine is really to be found in the writings of the greatest authorities” among the economists. Rather, it was “the language of economists [that] lent itself to the laissez-faire interpretation” and thereby prepared the ground for “utterances of secondary economic authorities” and tracts of non-economists which “fixed laissez-faire in the popular kind as the practical conclusion of orthodox political economy” (p. 277f).² This popular orthodoxy has two essential elements: “that individuals who move in the right direction will destroy by competition those who move in the wrong direction” (p. 282) and “the love of money, acting through the pursuit of profit, as an adjutant of natural selection, to bring about the production on the greatest possible scale of what is most strongly desired as measured exchange value” (p. 284).

²In this context, Keynes points to a “pessimistic version” of laissez-faire derived from Malthus’ theory of population, in contrast to the optimistic version that dominated economic policy in the nineteenth century. It should be remarked that Keynes nowhere in his essay mentions J. B. Say whose “law” was and still is one of the central arguments in favour of a laissez-faire approach.

Keynes traces critical thoughts, that free competition without government interference would not necessarily produce a social optimum, from J. St. Mill³ to Alfred Marshall, before he states his six points in which he summarizes his objections to the laissez-faire doctrine from a technical-economic point of view:

[E]conomists generally reserve for a later stage of their argument the complications which arise – (1) when the efficient units of production are large relatively to the units of consumption, (2) when overhead costs or joint costs are present, (3) when international economies tend to the aggregation of production, (4) when the time required for adjustment is long, (5) when ignorance prevails over knowledge, and (6) when monopolies and combinations interfere with equality of bargaining. (p. 284f)

The major part of Keynes’ essay is an exercise in the history of social philosophy. It does not directly answer the question of what concrete changes have made laissez-faire obsolete. One can even get the impression that, as a general principle, it was wrong from the beginning.

Keynes also gives only few indications what the remedies would be.⁴ His most general conclusion is that the institutions of society must accept responsibility for such processes of coordination, where such coordination cannot be expected from independent individual actions. The state or other collective entities must fulfil “the functions which fall outside of the sphere of the individual, ... which are made by no one if the State does not make them” (p. 291). More specifically, he draws several conclusions with respect to economic policy. In order to avoid the shortcomings of centralized decision-making at the highest level of government, he suggests “that progress lies in the growth and recognition of semi-autonomous bodies within the State – bodies whose criterion of action ... is solely the public good ..., and from whose deliberations motives of private advantage are excluded”. These bodies are “mainly autonomous within their prescribed limitations, but are subject in the last resort to the sovereignty of the democracy expressed through Parliament” (p. 288f). As models of such bodies, Keynes mentions the Bank of England and the Port of London Authority. In this context, he points to the “trend of joint stock institutions, when they have reached a certain age and size, to approximate the status of public corporations rather than that of individualistic private enterprise”. Thus, big enterprise has a tendency to “socialise itself”. More specifically, Keynes recommends “the deliberate control of the currency and of credit by a central institution”; “the collection and dissemination on great scale of data relation to the business situation”; more coordination of saving and investment and of the distribution of investment between the domestic and the foreign sphere; and influence on the development of the population (p. 292).

³“To escape error, we ought, in applying the conclusions of political economy to actual affairs of life, to consider not only what will happen supposing the maximum of competition, but how far the result will be affected if competition falls short of the maximum” (Mill 1871/1909, 248).

⁴In his critique of Keynes’ essay, Halm (1929, 114), who defends the principle of laissez-faire, remarked that the consequences Keynes drew from his massive critique of laissez-faire were “very mild”.

In the last section of the essay, which he had not included in its original publication, Keynes emphasizes that his reflections aim at “possible improvement in the technique of modern capitalism by the agency of collective action” while at the same time “money making and money-loving instincts of individuals “are still “the main motive force of the economic machine” (p. 292f).

In his writings that followed after the publication of the *Essays in Persuasion*, Keynes became more and more specific about the implications of the insufficiency of *laissez-faire*. In particular, in his *General Theory*, Keynes supplied the theoretical underpinnings for his position when the Great Depression had made the failure of *laissez-faire* even more evident.

2 *Das Scheitern des Laissez-Faire (Failure of Laissez-Faire)*

The case for state intervention made by the Freiburg School of ordoliberalism, as a consequence of the failure of *laissez-faire*, was significantly different from Keynes'. The name of the Freiburg School derives from the discussion group formed under the leadership of Walter Eucken at the University of Freiburg in the 1930s (Rieter and Schmolz 1993/2014, 247f). Wilhelm Röpke and Alexander Rüstow, who had been forced to leave Germany by the Nazi government because of their political convictions, shared essential concepts of Eucken and made important contributions to the dissemination of the school's ideas, especially after 1945. In a still wider sense, the concept of the Social Market Economy as developed by Alfred Müller-Armack after World War II, which was the theoretical concept on which Ludwig Erhard based his economic policies for Western Germany from 1948 to the 1960s, is an intellectual offspring of the Freiburg School, although these policies did significantly deviate from the doctrines of ordoliberalism.

At the heart of the problem, Eucken (1959, 119, at this point referring to a dictum by E. Heckscher) sees a basic internal conflict in liberalism between “free competition *à tout prix* and freedom of contract *à tout prix*”. In the era of *laissez-faire*, preference had been given to freedom of contract, based on the belief that “a workable economic order would emerge spontaneously from the forces of society based on [individual] freedom and the rule of law” (ibidem, p. 34). This implied the assumption that freedom of contract would generally result in perfect competition,⁵ which guarantees optimal satisfaction of consumers' wants. “However, it turned out that frequently other market structures [*Marktformen*] were realized, because this policy granted the freedom of forming combinations which eliminated competition” (p. 37). Eucken closely associates instability and social evils of capitalism,

⁵By perfect competition, Eucken and his followers do not mean competition in the sense of mathematical general equilibrium system but rather in the Austrian School's understanding of competition as a dynamic process among market competitors who make their plans by taking current prices from the market which coordinates all their further actions (Eucken 1959, 156).

which produced the Great Depression of the 1930s with the tendency of competition to produce monopolies and cartels under laissez-faire conditions.

In his effort to develop a general theory of economic order, Eucken distinguished between the “exchange economy” (*Verkehrswirtschaft*) with decentralized plans of economic units and decisions linked by the market process and the “centrally administered economy” (*Zentralverwaltungswirtschaft*). Private property, although fundamental for preserving freedom of the individual, is not the decisive criterion, because in itself it does not guarantee optimal economic performance. The propensity of the unregulated market to restrict or eliminate competition is the cause of an increasing overall instability of the system, since imperfect competition does not display a tendency towards equilibrium. State interventions into the functioning of the system, as practised in Germany during the “age of experiments” after 1900, have not been able to provide satisfactory cures of the system’s flaws. On the contrary, as ad hoc-designed “interim provisions” (*Zwischenlösungen*), they have pushed the economy more and more towards the centrally administered type (especially under national-socialist government), which has further aggravated its malfunctioning.

As a consequence of the failure of laissez-faire in its traditional meaning, Eucken concludes that an economic order which is stable and efficient must be established by a conscious act of the state. Moreover, sustainability of this order requires continuous efforts by the state to ensure that conditions of perfect competition are preserved and tendencies to create monopolies suppressed in all markets or at least to the greatest possible extent.

Competition policy is therefore the central core of the ordo-liberal concept of economic policy. Eucken criticizes that technical reasons have much too easily been accepted as inevitable drivers of monopolization and industrial concentration. Instead, Eucken argues that to an overwhelming extent, these tendencies originate from institutional arrangements that implicitly or explicitly promote the restriction of competition. A comprehensive competition policy must not content itself with forbidding all forms of abuse of market power against competitors. In its preventive arm, it must include a general prohibition of cartels and a strict control of mergers. Company law, laws of taxation, laws regulating credit and banking, insolvency law, patent law, proprietary rights, etc. have to give utmost priority to the goal of promoting full competition. To ensure open access to markets, the reduction of tariffs with the aim to establish free trade for all goods is of paramount importance. In the few cases where technical or natural monopolies persist, they must be subject to strict regulation.

Eucken accepts that the market economy needs a social dimension in the form of adequate systems of social insurance and also through redistribution of income by a tax system, which avoids poverty and reduces excessive wealth. He does not, however, use the term *Soziale Marktwirtschaft*, which, under the influence of Müller-Armack and Ludwig Erhard, became the central political concept of the economic policy of the Christian-democratic government of Western Germany in the 1950s and 1960s.

In Eucken's view, the competitive market system not only ensures efficient allocation of resources and a maximum of consumer satisfaction but also a high degree of overall economic stability, provided that the economic order ensures further general conditions among which Eucken mentions: "neutral money" through stable currency, which does not become a source of inflation, private property, freedom of contract within the framework of competition policy, and constancy and consistency of economic policy (p. 160ff). The maintaining of an appropriate economic order cannot be achieved by a single constitutional act but requires constant political efforts in legislation, administration, and jurisdiction. It remains an essential characteristic of Eucken's ordoliberalism that economic policy should not interfere with the economic process itself⁶ (*Eingriffe in den Ablauf*). Hence, he was generally sceptical of anti-cyclical fiscal and monetary policies. In particular, he objected to full employment as a goal.

Franz Böhm, who had started his career as attorney at law and joined Eucken at the University of Freiburg in 1931, approached the problem of competition versus monopoly from the aspect of the legal sciences. As early as 1928, he argued that the doctrine of freedom of contract rested on an economic order based on the concept of "free competition". Therefore, the state has the responsibility to protect economic agents from the exercise of economic power by superior competitors (Böhm 1928/2007, 29f). By introducing *Gewerbefreiheit* (industrial freedom) in the nineteenth century, the state deprived the traditional corporations of their privileges to regulate competition, thus giving priority to freedom of competition over freedom of contract. The formation of cartels and other forms of combinations on the basis of private law was therefore inconsistent with the higher-ranking principle of economic freedom (pp. 45 ff.). If, in reality, Germany followed the opposite route, liberal economic thinking was overwhelmed by prevailing attitudes for which a powerful state remained central. Böhm called upon legislators to give a clear definition of the principle of freedom of competition, which "ultimately excluded the exercise of private power" (p. 57).

Alexander Rüstow, who held an economic chair at the University of Heidelberg in 1949 after his return from exile in Istanbul, had formulated a fundamental critique of the "deficits of liberalism" along lines similar to Eucken. In order to ensure a satisfactory functioning of the market mechanism, Manchester-type *laissez-faire* would have to be replaced by a "liberal interventionism", consisting of interventions whose effects would be "in the direction of the laws of the market process" ("market-conformity") (Rüstow 1949/2009, 51). Rüstow went beyond Eucken when he advocated sharp restrictions for advertising, recommending nationalization in cases where monopolies have technical or natural causes. The transfer of wealth through inheritance should not be allowed to exceed the value of an average farm holding. He propagated an ideal of a society based on small proprietorship not only in agriculture but also in industry where he thought that most workers could be equipped

⁶Eucken admitted such interventions only in cases of emergency, e.g. he thinks that an implementation of the Lautenbach-Plan in 1931 could have prevented the Nazi's coming to power (Eucken 1950/2012, 40).

with a machine in their home, with the additional benefit of less mobility (ibidem, p. 73). Rüstow emphasized that his program would “not be less utopian than the program of communism 100 years ago” (p. 95). His visions of an ideal society became more realistic in his later publications. Rüstow supported Müller-Armack’s concept of social market economy, but sharply disagreed with the soft stance of the legal regulation of restrictive business practices (*Gesetz gegen Wettbewerbsbeschränkungen*), which was finally enacted in 1957.

Rüstow was aware that, pursued in isolation, the ideal of “small is beautiful” would be detrimental for the country’s economy as long as other states continued to create favourable conditions for their national champions. Rüstow and Wilhelm Röpke therefore proposed a framework for international coordination “within which each state would direct its energies towards maintaining the internal conditions favourable to this international scenario: States would develop ‘fresh non proletarian types of industry ... forms adapted to peasants and craftsmen’. The state would break up the big cities and industrial districts’, and move toward properly directed country planning” (Rahtz 2015, 11, quoting Röpke 1944). Eucken, whose recommendations to establish perfect competition wherever possible and by all available means were almost as radical as Rüstow’s and Röpke’s, did not address the problems a country would encounter if it implemented such a policy in isolation.

3 The Economic Realities in Great Britain and in Germany in the Interwar Period

Keynes published his pamphlet on the end of laissez-faire in 1926, and his *General Theory* (to which I will refer in the following sections) appeared in 1936. The publications of Eucken and his circle began to appear in the mid-1930s and had their greatest impact during the years after World War II in which the foundations for Western Germany’s economic policy were laid (1945–1950). There exist enormous differences in the economic development of the two countries, which are reflected in what the authors mean when they proclaim the end of laissez-faire.

Whereas the German economy fell into chaos during the years of hyperinflation from which it emerged only in 1924, there is comparative continuity from war to peace in Great Britain’s economy so that the latter country’s effort to return to the pre-war “normal conditions” could become the principal orientation of its economic policy. However, this required a deflationary monetary and fiscal policy, which put the country on a path of near stagnation during most of the 1920s. The dominant orthodoxy argued that return to the gold standard at pre-war parities would be the essential measure to set things right. In several articles and pamphlets published in the 1920s, Keynes sharply criticized this policy,⁷ which would not deliver the

⁷In a series of three journal articles, also published as pamphlet *The economic consequences of Mr. Churchill* (1925), reprinted in Keynes (1972, 207ff)

promised results. As an alternative, he proposed a policy of managed currency, which avoided deflation,⁸ and a program of public investment deliberately aimed at the reduction of the unemployment rate,⁹ which remained above 10 percent until 1929.

The main problem of German economic policy was the financing of reparation payments to which the country was obliged by the Versailles peace treaty. After the catastrophic events of 1923, Germany returned to fixed parity of the *Reichsmark*, which initiated a period of rapid economic expansion until 1929.

During the Great Depression, the decline of GDP was much more severe than in Great Britain. Whereas for Keynes the main cause of the Great Depression was the system's fundamental macroeconomic instability, in particular lack of an automatic mechanism to establish equilibrium between savings and investment, as had been maintained by advocates of *laissez-faire*, for Eucken, it was the monopolistic structure that had come to displace perfect competition in an ever-increasing number of markets.

Among European nations, Germany was the country with the most vigorous movement towards the formation of cartels. It had supported the process of cartelization by special legal provisions. The economists of the German Historical School had put forward a theory that idealized the "organized economy" as a higher stage of economic development.¹⁰ In the spirit of the German *Sonderweg*, organized capitalism was considered ethically and politically superior to Western-style capitalism. After the Nazi takeover, the existing cartel organizations were merged into an apparatus of national planning, whose main aim was to prepare for war. When full employment was achieved by the end of the 1930s and various shortages appeared due to lack of foreign currency, inflation was suppressed by controls of prices and wages. After World War II, cartels were dissolved by the occupation powers, but wartime rationing was maintained for several years to ensure the provision of basic goods for all.

In Eucken's view, lack of competition was not only the cause of the Depression of the early 1930s but also of the tendency towards ever more state control and central planning of the economy in the era of National Socialism and even beyond. In post-war Western Germany, political demands to maintain certain degree of planning under a democratic system appealed to major parts of the population, until they gradually abated after the successful currency reform of 1948.

In contrast to Germany, the cartelization movement did not reach Great Britain before the 1930s.¹¹ Until then, the country had abstained from following the protectionist tendency on which many countries had embarked in their trade policy. Under the impact of the Great Depression, Britain abandoned its free trade orientation by creating a protective tariff structure in order to promote industrial production for

⁸In his *Tract on Monetary Reform* (1923), excerpts in: Keynes (1972, 164ff)

⁹*Can Lloyd George Do It?* (jointly with Hubert Henderson 1929), in: Keynes (1972, 86ff)

¹⁰On this point, see Chaloupek 2015.

¹¹On the cartelization movement in Great Britain, see Pribram (1935, 267ff).

domestic consumption. Thereby, it initiated a process of import substitution, which was widely held responsible for the improvement in economic performance during the 1930s. In addition, Britain went off the gold standard, thereby starting a devaluation race in September 1931 to make its products more competitive on world markets. This development is hardly reflected in Keynes’ *General Theory*.

3.1 Excursus: *Brief Digression on Ordo-Liberalism in the USA*

In the USA, Henry C. Simons’s “Positive Program for Laissez Faire: Some Proposals for a Liberal Economic Policy”,¹² which is largely forgotten today, was widely discussed in the years following its publication in 1934. Simons presented his concept as confirmation and reconstitution of the laissez-faire doctrine, whereas Eucken’s *ordo*-liberalism was conceived as an alternative to laissez-faire. But the contradiction is only rhetorical, in essence, and in most details, the two concepts are identical.

Against the supporters of President Roosevelt’s New Deal policy, Simons argued that “the real enemies of liberty are the naive advocates of managed economy or national planning; but with them we must agree on one vital point, namely, that there is now an imperative need for a sound, positive program of economic legislation” (Simons 1948/1934, 41). If “the representation of laissez faire as a merely do-nothing policy is unfortunate and misleading”, it is “an obvious responsibility of the state ... to maintain the kind of legal and institutional framework within which competition can function effectively as an agency of control” (p. 42). Simons was aware that his proposals are “of necessity, rather drastic”. Foremost, the program provides for an “elimination of private monopoly in all its forms through drastic measures for establishing and maintaining effectively competitive conditions in all industries where competition can function as a regulative agency”. These measures include, *inter alia*, “limitation of the total amount of property which any single corporation may own” and also “that no corporations which engages in the manufacture or merchandising of commodities or services shall own any securities of any other such corporation”. Investment corporations should be subjected to a separate form of control, with limitations on their total assets, and on the percentage of securities of operating companies, while these shares have no voting rights (p. 56ff).

The program calls for a thorough reform of the tax system, which eliminates all forms of privileged treatment of capital income; introduces a “levy upon estates under the income tax with respect to all unrealized appreciation of investment assets”; and treats “all inheritances and gifts *inter vivos* as personal income” (p. 66f), in addition, a “drastic alteration in the rate structure of the personal income tax, with more rapid progression”, with an initial rate of at least 20 percent.

¹²Published by the University of Chicago Press as Public Policy Pamphlet No. 15, reprinted in Simons 1948, p. 40–77

Other core elements of Simons's program are a "gradual withdrawal of the enormous differential subsidies implicit in our present tariff system; a reform of the monetary system which includes the 'abolition of private deposit banking on the basis of fractional reserves'"; and the "limitation upon the squandering of our resources in advertising and selling activities" (p. 57).

There are many parallels to phrases later used by Eucken,¹³ e.g. where Simons warns against a policy that continues "to drift, to temporize, to experiment" or he advocates strict rules against "tinkering with the currency" (p. 64). Simons emphasizes the need for a "radical redirection of policy and the pointing of legislation toward definite long-term objectives" (p. 79). Simons's concerns about "great national or regional systems", which constitute "collectivist dangers" for economic policy at the international level, resemble Röpke's distrust of great states.

Abba Lerner's "Economic liberalism in the post-war world" (1943) is a blend of Henry Simons's concept and Oskar Lange's model of market socialism. As appropriate remedy against monopoly, Lerner suggests "counter speculation" by the government "to destroy the power of firms to influence prices". Government agencies guarantee an estimated price that would result from perfect competition. Private businesses that can "produce more efficiently than the government ... will be able to survive government competition, and where private enterprise is less efficient than government enterprises, it will have to give way to the latter. This pragmatic decision between private and government enterprise in each case according to its social merits cuts right across the false alternative between capitalism and collectivism" (Lerner 1943, 129f).

4 Investment and Vanishing Scarcity of Capital

Keynes introduced the concept of marginal efficiency of capital to emphasize that "capital is not a self-subsistent entity" but is affected by the propensity to consume (Keynes 1936, 106). In a typical course of the trade cycle, a collapse of the marginal efficiency marks the beginning of the downswing (p. 315). It appears that this was the situation that Keynes had in mind when he called for more coordination of saving and investment and of the distribution of investment between the domestic and the foreign sphere in his essay of 1926. His concrete suggestions did not go beyond intensifying control over currency and credit and improving transparency of information by making more and better economic statistics to the business community and to the general public.

More important in the present context is Keynes's thesis of a long-run tendency of declining marginal efficiency of capital. It is the decreasing scarcity of capital

¹³ Eucken (1959, 160) mentions Simons' book of 1948 as highly relevant for a strategy of reorientation of economic policy but otherwise makes no reference to him. It is uncertain whether Eucken was influenced in the development of his ideas by Simons' publications.

that renders laissez-faire capitalism obsolete in the twentieth century – an explanation which is missing in the essay of 1926.

The post-war experiences of Great Britain and the United States are, indeed, actual examples of how an accumulation of wealth, so large that its marginal efficiency has fallen more rapidly than the rate of interest can fall in the face of the prevailing institutional and psychological factors, can interfere, in conditions mainly of *laissez-faire*, with a reasonable level of employment and with the standard of life which the technical conditions are capable of furnishing. (p. 219)

It is beyond the reach of monetary policy to bring the rate of interest down to the rate of marginal efficiency of capital prevailing at this point. The rate of interest does not function as adjustment mechanism, which establishes equality between desired savings and investment. Instead, income and employment decline until savings are sufficiently reduced – if “the propensity to consume and the rate of investment are not deliberately controlled in the social interest but are mainly left to the influences of *laissez-faire*” (ibidem).

Eucken denied, in the first place, that possibilities for profitable investment were declining in the long run.

We are not in a world that is economically satiated. There are possibilities for investment as long as the scarcity of goods is felt as a constraint. Investments can be made until all needs of men are satisfied by production. To this point, the distance is still immeasurable. (Eucken 1959, 175)

In Eucken’s view, what is at issue is something different: “Why was the propensity to invest so low during the last decades, although the real opportunities for investment were great?” (ibidem) Here Eucken refers to a situation that resembles the fall of the marginal efficiency of capital as described by Keynes in the chapter on the trade cycle. Eucken explains the reluctance of entrepreneurs to invest both to lack of flexibility and lack of constancy. On the one hand, a reduction of wages and prices of production goods would be necessary to restore profitability of investments. On the other hand, a higher degree of “constancy of data (*Konstanz der Daten*) was required to induce entrepreneurs to embark on greater investment projects”.

5 Overall Stability and Flexibility of Prices and Wages

In the 1920s, Keynes’s main criticism of laissez-faire was directed against the deflationist orientation of economic policy, because continued downward pressure on wages and prices would have a depressing effect on overall economic activity. The lesson he drew in the *General Theory* from the experience of the Great Depression was that the problem of overall stability of the economy was more fundamental than he had thought 10 years before.

Perhaps the most novel argument introduced in the *General Theory* was the denial that a system of flexible prices and wages would function as a brake to the downward movement of the economy. To the contrary, a reduction of money wages

due to a fall of employment would not reduce real wages; it might even “have the effect of increasing them through its adverse influence on the volume of output”. The chief result would be a great instability of prices, which would make rational business calculations impossible. “To suppose that a flexible wage policy is a right and proper adjunct of a system which is on the whole one of *laissez-faire*, is the opposite of the truth” (Keynes 1936, 269). Therefore, a stable wage level functions as a brake in a downward movement, “provided that the equilibrium with the rest of the world can be secured by means of fluctuating exchanges” (p. 270).

If the decline of production after 1929 was less severe in Great Britain than in Germany, in Keynes’s view, this could not be attributed to more intensive competition in Great Britain but rather to the rigidity of its wage system.

In contrast, Eucken stuck to the conventional view that the protracted downward movement of production during the Great Depression was due to lack of competition, resulting in price (and wage) rigidities, which prevented the necessary downward adjustments. As a consequence, prices of raw materials and other production goods and wages were too high for profitable investments (Eucken 1959, 175). Relying on Stackelberg’s (1934) analysis, which had demonstrated that monopolistic or oligopolistic markets were devoid of the automatic adjustment mechanism of perfect competition and, therefore, lacked an inherent tendency towards equilibrium, Eucken attributed the failure of the system to stop its contraction to the erosion of the competitive structure of the German economy, which had started already in the last decades of the nineteenth century.

The downward movement was accelerated by the contraction of credit, which was due to the instability of a monetary system based on the creation of money by banks. With a properly functioning price mechanism, the recession of 1929 would not have developed into a deep depression (Eucken 1959, 49).¹⁴

6 Demand Management and Allocation of Resources

Keynes cast his argument in macroeconomic terms. He put great emphasis on the separation of state control of demand as a whole and allocation of resources for production of individual goods.

[I]f our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as practicable, the classical theory comes into its own again from this point onwards. ...private self interest will determine what in particular is produced ... Thus, apart from the necessity of central controls to bring about an adjustment of the propensity to consume and the inducement to invest, there is no more reason to socialise economic life than there was before. (Keynes 1936, 379)

¹⁴If, in the exceptional situation of Germany in 1931, Eucken, similar to Röpke, gave his support to a stimulus program, he nonetheless insisted at the same time on the liberalization of prices and wages to re-establish flexibility for necessary adjustments in production (Feld et al. 2021, p. 553f).

Eucken refused to accept the Keynesian dichotomy between macro- and microeconomic thinking and thereby rejected the macroeconomic approach to economic policy. Keynesian demand management is based on a view of the economic process in terms of broad aggregates and their dynamic interactions. In contrast, Eucken was convinced that “this kind of global thinking which prevails in the economic policy in most countries does not do justice to economic realities. We know that it is decisive that the correct proportions of economic quantities are found”. Full employment must be achieved through correct allocation of resources by the process of perfect competition, which brings forward the sufficient volume of investment. A full employment policy through expansion of credit “destroys the allocation mechanism of prices, which are either kept fixed or allowed to rise. As a consequence, the allocation of production goods is distorted, and the supply of consumption goods suffers” (Eucken 1959, p. 101f).

7 Stability of the Monetary System

In Keynes’s polemic against laissez-faire, the return to the gold standard at pre-war parities was the main target in his publications of the 1920s. Instead of a declining price level, which was brought about by a deflationary policy, which devoted all its efforts first to establish and thereafter to defend the pre-war parity, Keynes argued that the price level should be kept stable, which would permit a less restrictive discount policy of the Bank of England and also result in greater stability of interest rates. After Britain had gone off the gold standard in 1931, Keynes supported a policy to bring the prices back to the level of 1929. In the Depression, he advocated to keep interest rates low but cautioned against expectations that monetary policy alone could bring about recovery (Peden 2006, 102f).

Whereas deflation was the main problem of monetary policy from a British perspective in the interwar period, from a German perspective, stability was threatened from inflation. For Eucken, the principal flaw of the monetary system was the power of banks to create money through expansion of credit – another consequence of a laissez-faire policy (Eucken 1959, 161f). Similar to monopolized markets, such a monetary system has no mechanism to establish equilibrium and therefore eventually “leads to cumulative depression and mass unemployment” (Eucken 1950/2012, 48). Eucken shared Keynes’s preference for price stability but generally distrusted manipulative money regimes to achieve this goal, as recommended by Keynes. Eucken held automatism essential to secure exchange rate stability in a post-World War II international currency system, without, however, advocating a return to the gold standard (1959, 118).

8 Big Business and Corporatism

Although five of the six “complications”, which, according to Keynes’s essay of 1926, “economists reserve for a later stage of their argument”, are related to problems arising from economic concentration, Keynes paid little attention to structures of competition among firms and their changes over time in his later writings.¹⁵ Keynes took the “degree of competition” as given in the short run. As regards the long run, he was aware of the growth of “efficient units of production” and the growing importance of “monopolies and combinations”. There is a spurious remark in the *General Theory* that he has “no objections to be raised against classical theory as to the degree of consilience between private and public advantage in conditions of perfect and imperfect competition” (Keynes 1936, 397).

Also, from the perspective of the British experience of the interwar years, it does not come as a surprise that Keynes weighed the dynamic gains from the tendency towards big business higher than the static welfare losses of monopoly. His attitude foreshadows Schumpeter’s defence of monopoly in the latter’s *Capitalism, Socialism and Democracy* (1942, 81ff). Keynes “was a corporatist”, because corporatist structures provided a better institutional basis for the policy he recommended for the post-laissez-faire age. Keynes “was a strong advocate of public corporations and large private concerns that were ready to do deals with the government and look beyond shareholder value. From the 1920s to the 1940s, he frequently referred approvingly to the two-thirds or three-quarters of fixed investment which he regarded as already effectively under public control and influence” (Brittan 2006, 185).

In contrast, it was the perspective of the German experience of the interwar period that induced Eucken and his followers to attribute the fundamental deficiencies of the economy to Germany’s corporatist structures of cartels and monopolies. Eucken directly criticized Keynes’s preference for “semi-autonomous bodies within the State” (see Sect. 1) of which “we have long known from science that they prevent the economy from achieving a stable equilibrium” (Eucken 1959, 154). Moreover, Eucken did not believe in the effectiveness of state control over such bodies, nor did he share Keynes’s firm belief in parliamentary democracy. Rather, he “stressed the importance of a strong state, which could stand above social conflicts, for the creation and preservation of the competitive order” (Rieter and Schmolz 2014/1993, 261).¹⁶

In an essay published in 1942, Eucken (1942) wrote that the abolition of the controls of the war economy would not be sufficient to establish a durable economic order after the end of the war. All concentrations of private economic power should

¹⁵Remarkably, Keynes made no use of Joan Robinson’s concept of “imperfect competition” in the *General Theory* (Robinson 1933). “As a Marshallian he was not trapped in perfect competition and felt no compulsion to escape into imperfect competition” (Leijonhufvud 2006, 62f).

¹⁶Remember in this context that Gustav Schmoller also called for a strong state for the solution of the Social Question.

be dissolved to create a fully competitive economy. After 1945, Eucken wrote several memoranda addressed to the sectoral occupation governments in which he tried to convince them to implement the uncompromising competition policy as remedies for the failures of laissez-faire (Eucken 1999). The members of the Freiburg School observed the compromising attitude of the west German government with respect to competition policy with growing disappointment. Eucken’s follower, Hans Otto Lenel, wrote a long article against the inevitability of big corporate enterprise as late as 1962 (Lenel 1962).

9 Post-Laissez-Faire Economic Order

Keynes and Eucken approached the problems resulting from laissez-faire under general aspects, which are very different. Keynes criticized the malfunctions of the economy by analyzing its dynamic processes, which did not produce a satisfactory equilibrium and therefore failed to make full use of available resources. Eucken’s ambition was to develop a general theory of economic order with legal and institutional structures as basic elements.¹⁷ He defined a variety of different possible orders by different combinations of these elements and thereby tried to explain the differences in performance of economies under criteria similar to Keynes’. With regard to dynamics, Eucken has only little to offer beyond referring to basics of price theory and classical allocation theory. Keynes used the terms “capitalism” and “socialism,” but he was not interested in a general theory of economic order or economic system, which, except for few exceptions,¹⁸ became a subject of economic research only in the second half of the twentieth century.

Central to Eucken’s theory of economic order was the dichotomy between perfect competition and centrally administered economy (*Zentralverwaltungswirtschaft*). With laissez-faire, perfect competition is bound to transform into cartelization and monopolization. Eventually, a framework of central administration is superimposed upon the monopolistic economy. Interim forms (*Zwischenlösungen*) of economic order between perfect competition and central administration (in modern terms, a “mixed economy”) are unstable by their very nature and therefore not durable (Eucken 1959, 132).

¹⁷According to Kleinewefers (1988), Eucken deserves credit for his pioneering effort to develop a general approach for comparative analysis of economic orders built up from basic forms of planning and decision-making competence under the restriction of exogenously given data. However, the economic policy concept, which he proposes in his book *Grundsätze der Wirtschaftspolitik*, cannot be deduced from his conceptual framework without further assumptions for which he gives only insufficient reasons or which he makes implicitly without argumentative evidence. I think that Kleinewefers’ conclusion that in economics there have been no significant advances towards a general theory of economic order is still valid today.

¹⁸Most notably Sombart (1925)

Keynes had argued just the opposite way. He proposed an interim form as a means to save the “bourgeois” capitalist system from the failures of the laissez-faire economy: state control of big macroeconomic aggregates through fiscal and monetary policy. But “apart from the necessity to bring about an adjustment between the propensity to consume and the inducement to invest, there is no more reason to socialise economic life than there was before” (1936, 379). Keynes did not see such controls as a step towards state socialism. His self-understanding was that of a “progressive Liberal” who “can work out his policies without having to pay lip-service to trade-unionist tyrannies, to the beauties of class war, or to doctrinaire State Socialism” (1972, p. 309f).¹⁹ In the same vein, Keynes rejected the dichotomy that is central to Eucken’s concept of economic order: “I think that it would be for the health of the [Liberal] party if all those who believe ... that the coming political struggle is best described as capitalism versus socialism and, thinking in these terms, mean to die in the last ditch for capitalism, were to leave us” (p. 310).

In Eucken’s analysis, contradictions between occasional (*punktuell*) interventions, by which the state reacts to the abuses of laissez-faire capitalism, result in growing inconsistency of economic policy, which inevitably leads to a centrally administered economy. Yet Keynes provides a solution to this problem by his new macroeconomic paradigm. The circular flow approach of the national accounts system provides a basis to ensure consistency of the measures to influence broad macroeconomic aggregates.

10 The End of Laissez-Faire in the Golden Age of Post-war Capitalism

Whereas for Eucken and the economists of the Freiburg School the development towards “organized capitalism” through progressive elimination of competition causes the end of laissez-faire, Keynes’s 1926 essay remains rather vague in this respect. In his other writings, three long-term developments or events appear to render the nineteenth-century capitalist order obsolete:

- (i) For several reasons, the gold standard, “with its dependence on pure chance, its faith in ‘automatic adjustments’, and its general regardlessness of social detail ... an essential emblem and idol of those who sit at the top tier of the machine” (Keynes 1972, 224), had become untenable. The main reasons were “an immense burden of bonded debt, both national and international”, which had been contracted since 1914 (p. 128); “the interposition of [a] veil of money between the real asset and the wealth owner” (p. 151); and “most important of

¹⁹All the more Keynes rejected the idea of a soviet type centrally planned economy: “on the economic side I cannot perceive that Russian Communism has made any contribution to our economic problems of intellectual interest or scientific value” (Keynes 1972, 267).

all, in the modern world of paper currency and bank credit there is no escape from the managed currency, either we wish or not” (p. 178).

- (ii) The laissez-faire view, “the theory of the economic juggernaut ... that wages should be settled by economic pressure”, did not do justice to the changing theory of economic society “that wages should be fixed by reference to what is ‘fair’ and ‘reasonable’ as between classes” (p. 223). Social costs of deflation had increased tremendously since “the trade unions have become strong enough to interfere with the free play of forces of supply and demand” (p. 305).²⁰
- (iii) The main argument put forward in the *General Theory* is the vanishing scarcity of capital, which has pushed down the marginal efficiency of capital below what is an acceptable rate of interest for rentiers (see Sect. 5).

In light of these arguments, I conclude that laissez-faire has largely lost its relevance for economic policy in the post-World War II era. In the Bretton Woods system of international currency, gold was replaced by the US\$ as a reserve currency. In case of imbalances, the system provided for discretionary adjustments instead of the previous automatic correction mechanism. As regards national monetary and fiscal policies of Western countries, it is a matter of controversial discussion to what extent these policies have succeeded “in establishing an aggregate volume of output corresponding to full employment as nearly as practicable” through central controls. But Keynesianism was more than that: an equally important aspect of fundamental change in economic thinking is the breakthrough of macroeconomic analysis brought about by the *General Theory*, i.e. the comprehensive look at the total economy in terms of big-aggregates GDP, private and public consumption, investment, total income consisting of wages and profits, and current statistical observation of these magnitudes. The OECD served as a platform to introduce this conceptual framework in all Western countries. Macroeconomic thinking in terms of the circular flow became the standard of economic policies, which were shaped according to the different circumstances in member states. There is a general consensus that economic policy should avoid deflation and that collective bargaining is the proper method of wage formation.

With respect to (iii), Keynes’s assessment was not confirmed by the post-war development. During the Golden Age of post-war capitalism (1950–1975) and even for several decades thereafter, there is no evidence for the vanishing of opportunities for profitable investment. Whether that has changed after the turn of the century is still an open question.

Laissez-faire has also come to an end with respect to competition policy, but in a way rather different from that envisaged by Eucken and the Freiburg School. On the one hand, the freedom of business enterprises to combine and to form alliances became subjected to increasingly severe restrictions. On the other hand, the tendency towards monopolization or oligopolization of markets has progressed, as individual countries have promoted and not impeded the growth of corporate

²⁰ However, in the *General Theory*, Keynes’ argument is somewhat different – see Sect. 4.

enterprise (“national champions”). Whether the opening of national markets to international competition and the prohibition of abusive practices are sufficient to counter the concentration of economic power is increasingly put into question.

For most Western European countries, the years between 1950 and 1975 deserve to be seen as a Golden Age, to whatever extent this period of exceptional prosperity may be attributed to favourable circumstances or to Keynesian macro-policies. There were few countries, most notably Great Britain, where recurrent deficits of external accounts made it increasingly difficult to implement such policies (Robinson 1965). But the Golden Age came to an end when more countries lost control over inflation and public deficits in the second half of the 1970s.

Since then, crisis management and ad hoc reactions rather than planned control of broad economic aggregates have characterized national economic policies. The recourse to floating exchange rates after the breakdown of the Bretton Woods system marks another fundamental change in the post-World War II economy – a partial return of *laissez-faire*.

From the 1990s onwards, *laissez-faire* has returned in the garb of the so-called efficient market hypothesis, which served as theoretical basis for the deregulation of financial markets. The inherent instability of financial markets, which increasingly dominated the development of the real economy, became evident once more in the worldwide crash of 2008/2009. The consequences for future development are still uncertain.

When Germany adopted the concept of *Soziale Marktwirtschaft* after the monetary reform of 1948, British left-wing Keynesians predicted that it would be doomed to failure (Hutchison 1981, 155ff). It soon turned out that their assessment had been severely distorted by ideological prejudices. But if, during the 1950s, Western Germany had budget surpluses, this does not mean that its policy was anti-Keynesian, as the ideologues of the Social Market Economy suggested. With an average rate of GDP growth of almost 7 percent, a balanced budget or a surplus was appropriate in fiscal policy. Nonetheless, there was heavy intervention in order to promote investment in certain industries and transport through the *Investitionshilfegesetz* (Investment Support Act), massive subsidization of housing construction, and a variety of other schemes (Zinn 1992, 59ff). When recession hit in 1966/1967, Germany adopted an explicitly Keynesian approach. In the concept of Karl Schiller (Minister of economy), which supplemented macroeconomic policies with *Ordnungspolitik*, “Keynesian economic policies took on a specifically German tinge”. However, “with mounting inflationary pressures and a strong increase of unemployment in 1974–1975 following the first oil price shock, Keynesian ideas lost ground against the rising new monetarism launched by Milton Friedman” (Hagemann 2013, 48).

Together with Minister of Economy Ludwig Erhard, Alfred Müller-Armack was the chief theoretician of German economic policy. Unlike Eucken, he saw market competition as an instrument, not as a goal. If the cartels had been dissolved by decree of the allied powers, no attempts were made to establish perfect competition by subordinating all legal instruments to that goal, as suggested by Eucken. The Competition Act of 1957 permitted cartels under certain conditions. Competition

policy in Germany followed the model of US anti-trust law (Herdzina 1991). Although Germany had developed a distinct model of a mixed economy, which contradicted the thesis of “instability of the interim form”, Eucken’s dichotomy between perfect competition and centrally administered economy continuously occupied a prominent place in Germany’s economic policy discourse – for ideological reasons (Kleinewefers 1988, 67). Taking into consideration this gap between ideology and reality, it is not correct to invoke Eucken as “father of the Social Market Economy”. Nonetheless, he deserves credit and memory for having provided an intellectual basis for the creation of a new economic order after Germany’s catastrophic defeat in World War II (Janssen 2009, 202; Rieter and Schmolz 1993/2014).

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Social Market Economy and Human Rights: A Global Perspective



Henning Goeke

1 Introduction: The Inherent Challenge of a Social Market Economy

Irrespective of the various connotations attributed to the concept of the social market economy since its emergence, it has consistently remained a target for ideas seeking a *third way*, one between extensive market freedom and rigorous state regulation. Effort has always been given to finding a compromise, to reconcile the constant contradiction caused by this dichotomy (Geppert and Hennecke 2021; Koslowski 2000). Conceptually, the challenge has always remained the same. It was and still is necessary to orient the concept in such a way that it represents an effective answer to the social challenges of its time, without negating itself by identifying completely with one pole or the other. In doing so, the theory, on the one hand, always runs the risk of being dismissed as an empty formula to socio-political meaninglessness due to concern for its compromise position or, on the other hand, of losing its compromise position by threatening to undermine its market economy premises with overloaded notions of justice. This conflict was already evident in the writings by the pioneers of the social market economy and ordoliberalism and has lost none of its relevance. Today, the question of the alignment of the regulatory model between more far-reaching liberalisation and state regulation arises again, and as every attempt is made to provide new answers to the constant conflict of

Not freedom but order is the highest principle, since only in order freedom becomes real. (Heinrich Pesch 1918, 132)

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finding a balance between the poles, challenges arise that are different from those of just a few decades ago.

2 A Historical Sketch¹ to the Challenges of the Present Day

If we look at the political shaping of the economic and social order of the early Federal Republic of Germany in the decades after the war, the influence of the normative ideas of the social market economy model at the time and its ethical foundation, above all the Catholic Social Doctrine (*Katholische Soziallehre*), is very clear. Essentially, the realisation that the economic upswing of the 1950s did not easily lead to a reduction in income and wealth inequality within the early Federal Republic of Germany gave the political reality an increasingly strident social policy form. Liberalisation measures did lead to a considerable increase in the level of prosperity. However, they were also accompanied by the risk that significant sections of society would not participate sufficiently in these prosperity gains. This risk was to be avoided, especially in view of the precarious conditions that became a breeding ground for National Socialism. Therefore, at the beginning of the Federal Republic, there was a clear consensus between the political reality and the normative postulates of the model of social market economy to the effect that the market economy should be increasingly regulated in order to overcome the proletarian living conditions of the pre-war period and to create social stability through a broader participation in economic growth. The *third path* thus took the de facto form of a fundamental liberalisation flanked by a whole series of social policy reforms. In addition to the pension reform of 1957, which led to, for example, a noticeable reduction in old-age poverty and the expansion of social security systems in cases of unemployment, the change in employment systems was of vital importance (Abelshauser 2011, 498 et seq.). Thus, internal co-determination through the growth of the importance of trade unions; the structuring of employment relationships through collective agreements, as well as statutory protection against dismissal became essential features of the regulatory order; and the increasing dissolution of a proletariat still typical of the Weimar Republic became an enormous success of the social market economy. In addition to the state, companies also took on socio-political and thus morally relevant roles. During the economic upswing, workforces experienced a new level of social security in the form of appropriate wage levels, a narrowing of the income gap within companies and permanent employment contracts. For the first time, intra-company structures showed a level that was increasingly in line with the long-standing demands of the labour movement. In this way, a multitude of ethical impulses from the concept of a social market economy at the time flowed decisively

¹Mainly from Christian Hecker, *Soziale Marktwirtschaft und Soziale Gerechtigkeit: Mythos, Anspruch und Wirklichkeit*

into the political design process and established a noticeably value-based regulation of the market economy.

However, at the end of the twentieth century and the beginning of the twenty-first century, the German economic and social model increasingly encountered problems. The (economic) preconditions of the economic and socio-political standards that had been achieved changed in a post-industrial society increasingly dominated by globalisation processes. Markets became interwoven with a highly integrated and closely interconnected network of private sector actors, far beyond the borders of the nation state (Kolev and Obst 2020, 3). What was new, of course, was not transnational trade as such, but the extent, scope and speed of globalisation processes, which also changed the role of the state and market actors. As a result of new competitors entering the market, once dominant companies lost their leading market positions and consequently neglected their role as morally relevant actors. The level of social protection that had been provided until then gradually collapsed. Particularly devastating were job losses and the increase of temporary and short-term employment contracts. Long-term investment in the human capital of the workforce had become less attractive. Instead, orientation was increasingly directed towards the Anglo-Saxon model of shareholder value approach and thus towards the expectations of shareholders. In contrast, the socio-political reforms in the 1950s and 1960s were replaced by growing privatisation and deregulation, which gained momentum since the mid-1990s. This also reduced the de facto influence of the state (CESCR 2011). With globalisation, the nation state found itself in a volatile condition that clearly exceeded its capacity to independently influence decisions and developments (Benhabib 2005, 8). The downsides of the dense network of global value chains were no longer adequately covered by the once so successful socio-political regulatory framework and its normative foundation. Not the actual offer but the effect of welfare state standards and guarantees diminished in relation to the new areas of responsibility gained through globalisation (Hönke 2016, 473). Voices became more vocal, calling for a regulatory model's normative alignment of social market economy that would do justice to the structural conditions and challenges caused by the impact of the accelerated globalisation processes, and these voices continue to be heard today (Lorch 2014; Hüther 2021; Bandt 2021).

In the early days of the social market economy following the Second World War, the social question was still primarily related to the relative poverty of national wage labourers. The aim of a social economic policy was to fight for a foundation of wealth redistribution principles, such as wage replacement benefits, limits on working hours, paid holidays and social and unemployment insurance, and most importantly to be an attractive alternative to the socialist ideas of society that were popular at the time (Azmanova 2014, 597). As a result of the change in prosperity levels, the quite ambitious goals achieved and the changed structures of global markets and societies, social injustice and the precarious conditions experienced today are measured differently and above all go beyond the borders of the nation state. Economic problems must therefore be understood in their global interdependence. Müller-Armack's dictum that the market economy must be civilised by society and social order (Müller-Armack 1952, 462) must be broadened to the extent that it is

now necessary to civilise a market economy that has been unleashed from the confines of the nation state and its particularistic normative approaches of market regulation and social standards. Therefore, the normative alignment and the foundation of values of the concept and regulatory model of social market economy must be at least partly renewed.

To this end, it must be explained why such an ethical-normative foundation is still needed at all, what ideas originally underpinned the regulatory model of the social market economy and why they have become outdated in the course of time and now need to be updated (under 3). The idea of human rights and their codifications as an alternative to Christian social teachings elaborate ethical catalogues or purely constitutional economic models, which will then be proposed as a contemporary and valuable normative foundation (under 4). This will be followed by a more detailed examination of the advantages of aligning the social market economy model with such a human rights foundation (under 4.2). The focus will be on which problems a corresponding normative foundation can solve in contrast to alternative approaches.

3 Normative-Ethical Embedding of the Market Economy

3.1 *The Necessity of a Social Corrective*

Despite differing views on the desirable degree of state intervention, all important pioneers of ordoliberalism and social market economy agree that markets depend on an ethical foundation for the fulfilment of social tasks, which cannot be produced by themselves. Alfred Müller-Armack in particular emphasises that the market economy must be corrected by means of a system of ethical standards independent of the market in order to enforce an appropriate degree of justice vis-à-vis neutral market principles (Müller-Armack 1956, 243). Similar to the state as a means of order, the market economy is also not a “last resort”, neither an ultimate goal nor an entity justified in itself, but also a means of shaping and guaranteeing complex social life (Zacher 1981, 716). Thus, as a means of order, the market economy, then as today, necessarily relates back to cultural life, in other words, to the foundation of values, the determination, containment and realisation, which is inherent in every society (Zacher 1991, 580). In this respect, Wilhelm Röpke speaks of the market as an ethically neutral world that is dependent on the “moral reserves” of the individual members of society (Röpke 1958, 19, 139) and is thus strongly reminiscent of passages from Hegel’s *Grundlinien der Philosophie des Rechts*, in which the market is described as an expedient system in which, regardless of all its usefulness, morality and especially equality are lost, thereby forcing a “primacy of politics” that must take advantage of a rising level of prosperity for the benefit of the lost values (Hegel 1833, § 185, 201, 244, 289). To this day, these findings have not lost their relevance and denote the fundamental dispositional nature of the market economy model from

society. In the current debate, the social market economy model should therefore still be understood not only as an economic but also as a social order and not only as a model of economic policy but also as a model of socio-political policy, in line with Müller-Armack's characterisation.

3.2 *The Challenge of a Social Corrective*

At the same time, this highlights the challenge inherent in the concept of the regulatory model of a social market economy. In its socio-political dimension, the theory of social denotes an idea impregnated with justice. One could also say that it expresses normative propositions about *the* social and, thus, *the* just. The model of order, apart from its implicit role of protecting the very principles of the market, is supposed to substitute what the purely technical structure of the competitive order within the free market lacks (Müller-Armack 1960, 252). This is, inter alia, its central task. However, we do not have the just, we do not have the good and thus we do not have a fixed meaning for the social market economy attribute of the social (Kelsen 1975; Baumann 2003, 158 et seq.).

Originally, the regulatory model of the social market economy was based on a foundation of Christian/occidental values, as can be seen in Müller-Armack's conception of the *Weltanschauung*. According to Müller-Armack, the point of orientation of a normative framework can only be "eternal values", to which everything, including the economic order, must be subordinated (Müller-Armack 1948, 506). The design of the economic order, according to his cultural sociological study *Das Jahrhundert ohne Gott*, demands a clearer commitment to the purposeful values of Christianity (Müller Armack 1948, 507). Alongside Müller-Armack's recourse to the Christian/occidental tradition, there are other approaches among the pioneers of the social market economy and ordoliberalism, of which some are strongly elaborated and largely rooted in religious principles. Röpke advocated a foundation of inviolable values resulting from the natural moral (*sittlichen*) order (Röpke 1955, 270 et seq.), and Walter Eucken measured regulatory policy, inter alia, by how it can be brought into harmony with a God-ordained natural order (Eucken 1952, 176). In some cases, values were explained in a catalogue-like manner, from chivalry to moderation to concrete guidelines for fairness, concepts some of which have been preserved in economic ethics to the present day.

The departure from the transcendental anchoring of the regulatory model of social market economy seems to have become inevitable. Christian values are no longer as prevalent in society as they were during the post-war period. In the modern secular-constitutional state and an increasingly pluralistic society, they do not find enough acceptance to support a modern model of order. In the space of moral plurality and different competing spheres of values, a Christian-based orientation of the social market economy model already lacks the premises of coming closer to necessary universal acceptance, and also alternative normative approaches often suffer from a particularism that only thinks of the actual scope of the regulatory

model of social market economy in a truncated national way. The threat of such approaches, which do not attempt to do justice to an increasingly rapid process of globalisation, lies in the fact that in the competition between models of economic orders for the favour of global market players, they risk a mutual undercutting of normative, especially social standards. The danger of harsh competition of particularistic value systems is fundamentally described by Isaiah Berlin: “If [...] the ends of men are many, and not all of them are in principle compatible with each other, then the possibility of conflict – and of tragedy – can never wholly be eliminated from human life, either personal or social. The necessity of choosing between absolute claims is then an inescapable characteristic of the human condition” (Berlin 1969, 169). And its consequence is described more brutally by Max Weber: “After all, between values, everywhere and always, it is not just a matter of alternatives, but of an irreconcilably deadly battle, just as between God and the devil” (Weber 1968, 507). Neither Berlin’s anthropological consequence nor Weber’s dystopian-sacral rigorism needs to be endorsed to at least recognise the problem of a persistent difference and competition of values and ethics within the realm of economic orders in a globalised world. An effective solution under those structural conditions of modernity is therefore ultimately only conceivable transculturally and multilaterally. As a result, today, the normative orientation of a practical regulatory model of a social market economy is therefore relegated to the necessity of an approach that is as reconciliatory as possible, at best consensual, which can reconcile different spheres of values and approaches to justification. Basically, Müller-Armack’s social irenic (*Soziale Irenik*) already points to this necessity by expressing that in a normative-ethical foundation of a social market economy, different ideological positions would have to be mediated. Exclusionary positions of “intellectual isolation”, as Armack puts it, must be surmounted (Müller-Armack 1948, 578). This is a claim that Müller-Armack’s concept of the social market economy, at least over time, could not meet; nevertheless, it is a principle that a modern approach must consider all the more urgently. This, eventually, raises the question of what type of normative foundation can be derived from if there is no single reality of values.

4 Human Rights as a Universal Foundation of a National Regulatory Model

The following will examine to what extent the idea of human rights, as laid down in the Universal Declaration and its descendants,² is suitable as a normative source for the concept of a social market economy, and it will explain to what extent its

²In particular, the International Covenant on Civil and Political Rights (1966) and the International Covenant on Economic, Social, and Cultural Rights (1966) but also the International Covenant on the Elimination of All Forms of Racial Discrimination (1965); Convention on the Elimination of All Forms of Discrimination Against Woman (1979); *Convention Against Torture and Other Cruel, Inhumane or Degrading Treatment and Punishment* (1984); *Convention on the Rights of the Child*

contents correspond in particular to the principle of a *third way* inherent in the concept of social market economy. While value terms such as justice, solidarity and fairness and spelled-out catalogues of ethics are frequent subjects of debate on the degree of “containment” of a market economy, no comparable attention has been paid to (socially oriented) human rights, as occasionally deplored by Peter Ulrich (Ulrich 2018, 508) or Franz Xaver-Kaufmann (Kaufmann 2015, 177 et seq). Yet human rights offer both theoretical and practical advantages in several respects that positively distinguish it from other normative orders and alignment approaches.

4.1 Starting Point: The Market-Relevant Content of Human Rights

The cultural philosopher and theologian Ernst Troeltsch, influenced by the historical catastrophe of World War I, argued that all natural and transcendental norms had proved to be impotent, a naturally powerless illusion, incapable of even slightly halting the war (Troeltsch 1924, 2–5, 47). Troeltsch found, as Arnd Pollmann puts it, the European value system being buried on the blood-soaked and poison-gas-fogged battlefields and millions of people of several nations being sacrificed to the interests of warmongering governments (Pollmann 2010, 109), searching for a remnant of common values that could withstand the general despair and contribute to overcome the monstrous (Troeltsch 1924, 1). Thereupon, as is well-known, Troeltsch and others have claimed that man should not reflect on what is inherent in the German as a German, the Russian as a Russian and the American as an American but what makes man human: his free and creative self-creation and, along with it, the claim of respect of everyone against everyone to respect this creative potential of human dignity. For this, a new order was needed based on the idea of an enduring and governing system of values, a supranational morality (*Völkermoral*), as Troeltsch puts it (Troeltsch 1924, 14–16). However, it took a second historical catastrophe and years of barbarism for the international community to agree on the foundations of such an order and, again, decades until this order developed beyond the reason of its creation – the scourge of war, which brought unspeakable suffering to humanity, as it says in the preamble – and radiated into several areas of global social life, in particular beginning to address the socio-economic problems of the globalised world and its markets.

Since then, starting with the Universal Declaration of Human Rights in 1948, an inconceivable global deliberation and normativisation process has been set in motion, in which individuals have been shifted out of their hitherto completely state-mediated status, recognised as legal entities in their own right at national and international levels, and provided with a multitude of fundamental rights, whose

(1989); *International Convention on the Protection of the Rights of Migrant Workers and Members of Their Families* (1990); *International Convention on the Rights of Persons with Disabilities* (2006)

violation depends on far less than torture or dehumanisation. Human beings, now, do not have to be, paraphrasing Jean Améry, plundered, emptied, disoriented and deprived of their everyday language of freedom (Améry 1966, 38) in order to invoke an imperative of the human rights order. Instead, human rights must be recognised for what they are and have become: moral but also truly legal restrictions on individual and thus economic actions, limitations necessary to make human integrity and freedom actually real (Böckenförde 1997, 272 et seq.). Human rights are therefore, in the words of Ralf Dahrendorf, “those unconditional rights [...] that simultaneously transcend the forces of the market and put them in their place” (Dahrendorf 1992, 567). This may seem surprising at first, given their fundamental character as mainly defensive rights against state action. However, the original core of individual liberty rights in the sense of a negative concept of freedom has evolved over time to include a number of economic, social and cultural rights, which in particular contain provisions that affect the position of the individual within a market economy system. In the realisation that self-determination, self-creation and the dignity of human beings are not only threatened by state action but increasingly by private economic actions and economically precarious conditions, the concept of human rights has increased to the extent that in order to meet these new guarantees and to create a broader level of protection, it tames its inherent liberalist tradition. Essentially, following the work of Thomas H. Marshall, only the impetus inscribed in the human rights idea of a fuller measure of equality and self-determination is realised, which simply cannot be satisfied by the liberalist side of human rights alone (Marshall 1950, 43–47, 75–82).

4.2 *On the Benefits of a Human Rights Approach*

4.2.1 **Problems of Market and Morality**

To recognise the actual advantages of this human rights approach within the regulatory model of a social market economy, it is first necessary to break down the actual difficulties of a normative-ethical framework of a market economy in general and then the approach of a social market economy model.

There is no question that the market economy is still imperative today. The constituting value of a market economy for moral action applies in principle and, thus, in the area of human rights in specific. Christie Weeramantry, for example, accurately points out that there is an economic substratum to all human rights, without which rights cannot possibly exist in practical terms, regardless of the theory that they are based on (Weeramantry 1999, 27). The free market can, therefore, be considered necessary for certain moral outcomes, but often is not sufficient. An unbridled market leaves too much room for the exploitation of moral behaviour (Hohmann 2014, 4). Due to the lack of reciprocity of moral principles potentially encountered in the market by different players, moral action usually works to the detriment of the morally acting party. In more concrete terms, this dilemma can be described by the

fact that a company which, under competitive conditions, bears disproportionately higher costs for moral grounds than its competitor who does not feel committed to the same moral standards is threatened with competitive disadvantages and, in the longer term, even with becoming noncompetitive (Homann and Blomse-Drees 1992, 36). A market player, who is basically only bound to the principles of competition, will only act in accordance with moral standards – not necessarily, but regularly – if he/she can rely on the fact that other market players will also observe these standards and that any competitive disadvantages will be relativised or cancelled out by the additional costs incurred on all sides. This dynamic is further enhanced by the process of globalisation, since in a more homogeneous national market, it is more likely that there will be a convergence of moral principles and values than in the global markets, where a wide variety of cultural, ethical and political-economic backgrounds come together. This facilitates a rigorous alignment with the purely competitive imperative of the market to become even more likely.

This behaviour does not have to be attributed to malicious intentions or immoral attitudes on the part of market players, as is so often assumed, and thus to an apparent anthropological pessimism. Marx quite fittingly expressed that even a highly moral, highly conscientious person cannot, as a rule, behave in competition in any other way than to seek his own economic advantage. However, because economic action as such is not necessarily moral, it cannot be concluded that the market economy should be abandoned for moral reasons. Rather, the concept of a legal regulatory framework or order comes into play instead. Unlike moral norms, the compelling force of legal norms relieves the individual of the fundamentally necessary willingness to commit himself. Such a regulatory framework, therefore, does not require – as Georg Lohmann puts it – *Moralisch-sein-müssen* on the part of market players (Lohmann 2012, 11 et seq.). As a result, the imperative of competition remains largely untouched. By requiring each market participant, within the scope of the law, to behave in a certain (moral) way and enforcing this by means of sanctions, it solves the dilemma of norm-compliant behaviour outlined above and ensures the stabilisation of expectations and a balanced competitive relationship among market participants. The productive but also imperfect force of the invisible hand of the market is combined with the visible hand of the law (Mestmäcker 1978). In this synthesis, the market economy, especially in the form of the social market economy, arguably rises to its theoretically most moral form.

However, as already pointed out, this is not the solution but the actual challenge. A concept of regulatory order like the social market economy that refers, as has been shown, to values and is, therefore, dependent on the needs and structures of the respective societal state requires continual calibration. Currently, three major problems can be identified in this normative realignment of the social market economy model, for which human rights provide relatively convincing answers compared to other normative approaches:

- (a) First, a regulatory model of market economy as a target point of normative directives needs a foundation that does not think solely in terms of boundaries of national markets but does justice to the interconnectedness of markets,

corporate structures, responsibilities and value and supply chains. A particularistic approach is no longer sufficient for that. Rather, a universalised set of values and normative rules are needed that take globalised structures into account and can claim transnational validity and respect for itself, so that in the long term, market players can be held accountable for where their responsibility is substantiated.

- (b) If we accept the view that the moral dilemma of the free market as described above can only be countered by the instrument of law for now, the problem arises that law cannot be meaningfully grounded in ethics or values. A purely value-based foundation encounters many objections. In the context of the alignment of the regulatory model of the social market economy, the economic critique of concepts of ethical and value notions, as prominently advocated by Hayek, for example, and which has some appeal in the present, becomes particularly relevant here. A seemingly paradoxical solution must consist of, on the one hand, utilising the compelling force of law without implementing unfiltered values or ethical approaches and, on the other hand, substantiate not only the legal norms in a purely rational way, since, again, the concept of a social market economy is an order that is inherently dependent on values.
- (c) Ultimately, normative approaches within the regulatory model of the social market economy often lose their practical usefulness either by exhausting themselves in ideals and abstract value concepts, thus giving free rein to political capriciousness, or by spelling out such demanding normative standards that the indispensable substrate of the market economy, free competition, threatens to wither away. Here, as well, is a need for a *third way*, which suggests a synthesis between the two extremes. In the face of modern global challenges and new social questions, it seems necessary to maintain the existential standards and safeguards of a dignified existence of former normative approaches to the social market economy, but not to burden the instrument of social compensation or perpetuate a dependence on the benefits, which ultimately endanger the civic self-respect of the individual and, thus, political stability (Ulrich 2015, 7). This requires measures elsewhere to enable individuals to enter the market economy system on an equal footing and with a largely equal starting point.

4.2.2 Potential and Feature of the Normative Foundations of Human Rights

Human Rights as a Global Minimum Consensus on Moral Economic Practice

States can no longer effectively escape the constraints of globalisation (Sommermann 1998, 421), despite all the isolated protectionist measures. This also makes a market economy, and ultimately the regulatory model of a social market economy, no longer conceivable on an exclusively national basis approach. A regulatory framework whose ideal ends at state's borders, while market actors benefit and establish responsibility beyond its borders, remains deficient. Furthermore, the original foundation

of a social market economy has become lifeless over time. As has been shown, the earlier model, which was mainly oriented towards Catholic social teachings, still benefited greatly at that time from a relatively homogeneous society and a certain dependence of the political reality on new socio-political impulses.

Human rights, however, have become part of global consciousness, both as legal concepts and as reflections of moral and even religious thought (Buergethal and Thüerer 2010, 411). Their concrete application and enforcement have become a daily matter around the world. They have experienced an unprecedented degree of juridification, and this, in a pluralised, multipolar world, continues to be infused with religious fervour. Unmistakably, they are based on a unique unanimity that can be described with John Rawls's concept of an "overlapping consensus" – a consensus that is fed by transculturally experienced reflections about historically grown injustice (Rawls 1999, 340; 1993, 134–147; Gutmann 2012, 295–230). This means that, irrespective of the question of their justification, most societies, due to the intersection of common ethical and legal principles on which the human rights order is rooted, are largely in agreement with its content. Despite all the conceded setbacks in their implementation (Lohmann 2020, 138 et seq.) and cultural divergences in their regional adaptation (Goeke 2021, 25 et seq.), they have nevertheless grown into a common mould and become an effective global normative yardstick. Indicators thereof are not only the widespread ratification behaviour of the state community and the constant incorporation of human rights standards into national legal systems. Their general presence and the constant invocation of their normative validity and universality throughout all societies are a symptom of their cross-cultural and cross-societal resonance. Given the enormous pressure for legitimacy, even autocratic systems tend to no longer legitimise violations of human rights standards by denying them (Gosepath 2009, 21; Höffe 1999, 17).

Consequently, the idea of human rights as a normative approach to the social market economy fits in with the principle of Müller-Armack's social irenics better than any other approach. One of the most central and challenging premises, which Müller-Armack himself was ultimately unable to consistently uphold in his Christian-influenced foundation of the social market economy, was that despite a secularised age characterised by a value-pluralism, as already characterised by Max Weber early on, the shaping of the social order should be understood in a mediating way (Müller-Armack 1950, 575–579, 585). This principle of mediating opposing positions in the *third way* finds its expression par excellence in the idea of human rights. Amartya Sen has shown that human rights represent a unique balance between classical liberalist rights of freedom and socially shaped participation rights, which are mutually dependent (Sen 1999, 11). Thus, rights of freedom remain empty and abstract if they are not explicated into social and economic participation rights and made equally realisable and attainable for all. But they remain paternalistic if they cannot be determined, set and secured through the exercise of (political) participation rights. And at the same time, participation and social rights in turn demand the safeguarding of a wide range of freedom rights – to ensure free competition and thus the foundation for general prosperity. The attempt to reconcile and complement the conflicting principles of freedom and social balance is

therefore just as inherent in human rights as it is in the regulatory model of the social market economy itself.

The Janus Face of Human Rights: Dualism of Law and Morality

In principle, the mere implementation of values and all the more ethical catalogues into law, to restrain and balance the market economy, albeit equally binding on all market participants equally, is highly problematic. The starting point of values and value thinking is not the justification of law but the justification of individual-ethical action (Böckenförde 1991, 81). Values lack a rational basis of discursive conciliation and deliberation, which is indispensable for a justification of law if the law is to be a democratic peace order and an order that preserves the necessary principles of the market economy. As much as values naturally influence the process of creating law, merely reinterpreting values as law would reduce it to methodically unverifiable subjective views and thus run the risk of degenerating into subjectivity and arbitrariness. It is particularly problematic that values are generally not subject to a rational standard by which they can be comprehensibly communicated and weighed against each other. It could arguably be claimed that freedom and human dignity are higher values than mere life and that culture is a higher value than material prosperity. Yet, a dignified life led in freedom is inconceivable without securing life itself, and culture can only develop based on an economy that enables those who create culture to nourish themselves from this very culture. A balancing of values thus remains vague and ultimately leads to areas of “value feeling” that do not satisfy the rational dimension of creating law. Merely putting fairness, moderation, equality and similar criteria into law does not do justice to this demand.

Given that legal perspective, it is also possible to relate to and explain the criticism voiced by many economists of the attribution of values such as social, justice or humanity to a market economy model of order and thus ultimately the reflection of these values in state mechanisms of regulation. Müller-Armack, for example, argued that the social market economy must be characterised by active administrative intervention where the “socially necessary state” would not be achieved by the market economy alone (Müller-Armack 1946, 133). But what the notion of the social or socially necessary normatively prescribes again requires interpretation, which is almost infinitely open to such concepts. The problems that go along with this have been famously highlighted by Hayek, who criticised those notions, preceding the market economy, and emptied it of its actual substance (Hayek 1976, 67, 78–84). Morally charged concepts and values, Hayek argued, would semantically link to indeterminable categories of the just, the fair, the appropriate and the good, which, again, would only raise new questions about their definition and determinability, thereby eroding the actual constitutive and prosperity-preserving principles of a market economy if they, once cast in law and thus in a coercive order, intervened in the market. Other approaches, however, have also shown problems. Normative approaches that rely solely on moral appeal lack effectiveness, as delineated above. To uphold the constitutive principles of the market, market players

must be equally bound by the law. If an appellative approach is to be adhered to, the problem of efficacy is shifted to the level of the acquisition of virtue, a universal moral education, and thus to an even further distance, to the vicinity of a Kantian world society. Still others show particularistic approaches, which basically cling antiquatedly to the original normative foundations of social market economy and thus contribute little to the solution of current problems, which are fundamentally different from the circumstances of that time.

Human rights are now both law and morality. They are Janus-faced, looking on the one hand to the law and on the other to a consensually coagulated morality (Habermas 1998, 177). Taken in isolation, each face meets with justified objections, as has been shown. One lacks effectiveness, while the other either lacks a rational basis or falls short of the requirements of rapid globalisation processes. Human rights are, on the one hand, not only moral abstractions or catalogues of values, but, as the result of a demanding process of deliberation, they are inscribed with the demand to be law, i.e. a claim to institutionalisation (Gosepath 2009, 24). At the same time, their creation is based on similar impulses and normative reflections that precede a value or a moral norm. However, unlike the creation of a value or a purely moral norm, which only becomes subject of a discussion about its juridification after its creation, the legal dimension is inherent in the conception of human rights from the very beginning, or in other words, a legal dimension is always imperatively included in the conception of human rights. Generally, human rights are conceivable in several dimensions – politically, morally and historically – but never without their legal dimension, without which they would be reduced to a mere moral norm and negate themselves through the abandonment of their genuine claim to be realised as a legally enforceable human claim. This forms a dialectic – in a Hegelian sense – of human rights between values that cannot simply be translated into law and a legal justification that, due to its purpose, cannot be exempted from its value basis.

In their moral dimension, human rights, unlike differentiated ethical catalogues such as those found in Röpke's works, for example, do not prescribe explicit individual ethical courses of action. Following Michael Sandel's requirements for an effective (moral) framing of a market economy model (Sandel 1993, 19), human rights fulfil the sometimes rather peculiar condition that no spelled-out conception of the good or the just is prescribed by them. Instead, they allow each subject to define goals and modes of action for themselves. No virtue or motivation is demanded of the individual, if the basic claims to respect of everyone against everyone, which allow the self-definition of the individual subject in the first place, are ensured (Habermas 1992, 116). This leaves the market participants room for manoeuvre and the competitive imperative largely intact. At the same time, human rights are not limited to abstract concepts and value notions. Their legal dimension already forces them into a certain degree of definiteness in their normative content that defends them against a critique, such as Hayek's. Rather, human rights have been spelled out through a demanding process of transnational deliberation in an extensive phalanx that is not exhausted in an orientation function. Hence, the foundations of a market economy are protected by granting individuals and, through the

translation of human rights into domestic fundamental rights, in part also legal entities, private property (Art. 17 UDHR) and self-determination, for example, in the form of the right to participate freely in the social exchange of goods and services and without discrimination in the labour market (Art. 23 UDHR) or protection against forced and compulsory labour and modern slavery (Art. 8 ICCPR). They then seek the greatest possible equality of opportunity by granting a right to education (Art. 26 UDHR) to reduce educational privileges. They demand equal pay for equal performance, in particular equal pay for men and women for the same job and promotions based on merit, ability and length of service (Art. 7 ICESCR). Special protective measures are prescribed for the benefit of regularly disadvantaged or exploited groups such as children, young people or pregnant women (Art. 10 ICESCR). They contain social and labour law provisions, which have a particularly significant, restrictive effect on the market. For example, human rights establish a relative minimum wage, which must allow the worker, relative to his or her circumstances, to secure a material existence commensurate with human dignity (Art. 23 UDHR). In addition, safe working conditions, such as occupational hygiene or a limit on working hours, are guaranteed (Art. 12 ICESCR). Moreover, rights to form trade unions (Art. 8 ICESCR) or social insurance (Art. 9 ICESCR) are also included.

While many of these standards have been successfully implemented within Germany in the course of the history of the social market economy model and others are at least the subject of legislative debate, they have been partially relativised during globalisation, through the outsourcing of corporate action outside the influence of a national regulatory framework. Of course, this also applies to alternative nationally limited regulatory models of other states. For this reason, there is an increasing, albeit often ineffective, number of measures that show a general tendency to counteract the negative social side effects of global production through the national implementation of legal obligations towards companies (Salminen and Rajavuori 2019). So far, such regulations have remained largely particularistic and extremely specific in their scope of application. A first step towards a holistic approach is the planned European Supply Chain Act, which is basically an enforcement instrument for the implementation of human rights standards. According to the first draft papers,³ the goal is a market system that complies with the normative requirements of the human rights order. In view of the complexity of global supply chains and the danger of distortion of competition in trade with non-EU parties, even a European approach cannot replace a global one and is more likely to cause difficulties, at least in the beginning. Given that it seems more important to anchor a universal foundation in the regulatory model of the social market economy that also works towards global standards obligations for national companies and corresponding regulations in third countries. Although the absence of such standards also fuels national prosperity, it is partly at the expense of human integrity.

³ Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee – Decent work for a global just transition and sustainable recovery (COM(2022) 66 final)

Factual Liberation of the Individual

In addition to existential and social standards, which are also demanded by other normative concepts, at least in their nation-state dimension, the idea of human rights, apart from the extension of the sphere of responsibility of corporate action to its actual sphere of influence and profit, has another dimension that alternative approaches are often lacking. First, human rights certainly have inherent limitations. Their liberalistic dimension of freedom rights already imposes limits on a normative design with respect to the formation of a social regulatory framework. Therefore, the human rights idea appears more frugal overall than many justice-theoretical conceptions (Tomuschat 2014, 74). In its formulation of economic, social and cultural participation rights, the idea of human rights, thus, cannot be interpreted as aiming at a perfectly equal distribution of income and wealth (Pollmann 2012, 436). Human rights neither demand an egalitarian distribution of goods, nor do they force the state to owe concrete integration results in the market or to impose such an obligation on companies. This would render the human rights idea to be normatively overloaded, jeopardising its transcultural consensus and interpreting beyond its actual conception, which seeks above all to set the individual free, to empower beings and to make them capable, but not to serve paternalistically according to concrete schemes for the distribution of goods. The idea of human rights, in its form of economic, social and cultural rights (ESCR) in particular, is nevertheless inherently corrective insofar as a far-reaching equality of starting points (*Startgerechtigkeit*) – for all potential players – is not realised. If this claim is satisfied, they can tolerate highly unequal outcomes and, in this respect, despite all the differences between human rights and justice theory concepts, are reminiscent of Rawls's early work:

The essential idea here is that the problem of distributive justice should be viewed as a problem of distributing or assigning rights in the design of the general system of rules defining and regulating economic activities. It is not a problem of distributing given amounts of income or batches of goods to given individuals with certain patterns of tastes and wants. (Rawls 1993, 117)

It was evident to Rawls, as it was to many others, that redistribution or equal distribution without incentives, as opposed to the possibility of accumulating income and wealth, would reduce overall welfare. At the same time, he saw that the accumulated results of many individuals, apparently fair agreements and accumulations of wealth, combined with social tendencies, historical contingencies and political missteps, can change the actual possibilities of citizens over time so that the conditions of free and equal agreements no longer exist as (imaginarily) agreed upon at the starting point of the game (Rawls 1992, 54; 1999, 122). This, ultimately, results in different societal starting points over time, which are contrary to an actual liberalist idea, as even Hayek explicitly admitted (Hayek 1976, 84–85; Rawls 1999, 6–7, 82). Essentially, this is just the recognition that the freedom of action and self-determination that an individual possesses are inevitably conditioned by the social, political and economic conditions that they have at their disposal or to which they

have succumbed (Sen 2020, 9). This results in inequalities that a social market economy has so far only addressed to a limited extent. The idea that a regulatory order based on general rules of the game, such as that of the social market economy, is allowed to raise the question of justness of those rules and the behaviour of its players, but thereby rendering meaningless the downstream question of the integrity of the results that come about under these rules, must thus be called into question. This is because it only works insofar as all players start the game under the same conditions, on the same playing board, with the same number of dice. Otherwise, the supposedly fair rules, since they apply equally to all, work in different ways, effectively becoming unequal rules that work differently, despite the same scope of application, and rely on fiction as their claim to justice. And even Hayek, at this point in his opus magnum, takes refuge in the dystopia that such a *Startgerechtigkeit* would force the state to control the entire physical and human environment of all people, culminating in a nightmare (Hayek 1976, 85).

The idea of human rights is thus concerned with a more radical and realistic equality in origin, which subsequently relies on the premise of the idea of performance and competition. This is also the background against which new generations of human rights can be explained, which do not merely cushion the downsides of the free market but want to set the individual free in precisely that claim to a freedom of achievement through successive educational measures, increasing remuneration of education and compensation instruments such as scholarship systems (Art. 13 ICESCR), access to information and participation in culture and science (Art. 15 ICESCR), the elimination of structural forms of (racist) discrimination (ICERD, CEDAW, CRPD), the equal development of children (Art. 5 CRC), political participation and thus participation in the shaping of a market-economy regulatory order itself (Art. 25 ICCPR). And albeit only vaguely, the outlines of such an approach can even be found in the work of some of the pioneers of the social market economy. Alexander Rüstow, for example, points out that the competition for performance that constitutes a market economy requires a starting point of equity (Rüstow 1950, 97). The fact that Rüstow's understanding is certainly not identical with today's interpretations of the term does not change the fact that such an approach was in principle already considered in the early conceptions of a social market economy.

5 Conclusion

The question of the normative alignment of the regulatory model of the social market economy has now been posed at regular intervals for a good 70 years. The fundamental question of the framing and injection of moral principles around or into market economies in general has been posed since its inception, as in Hegel's *Grundlinien der Philosophie des Rechts* and Emil Durkheim's early work on the social division of labour. Naturally, the answers have always varied, and yet, then as

now, they always seem to be answers of gradual character. It is always a question of defining the extent to which an individual's negative freedoms must take a back seat to guarantee normative standards, especially social standards. In the current debate, Peter Ulrich has pointed out how difficult it is to fathom and endure this tension (Ulrich 2018, 512). On the one hand, it is necessary to endure the relative independence of the market economy in all areas of life, its logic and standards and the (negative) freedoms required for this as fundamental guarantor of goods and prosperity. On the other hand, the market economy system, which does not serve itself and not exclusively the individual, but society, must be oriented beyond its basic functions towards the realisation of values with the help of law. Now and in the years to come, the normative void that has opened at the centre of the regulatory model of the social market economy will have to be filled if the model is to effectively survive and not give in to the prophets of doom about its normative arbitrariness. In view of the challenges described here, the idea of human rights and its shaping in various codifications seem to be suitable as a normative foundation for this. Three main arguments were given in favour of this.

Human rights, on the one hand, safeguard proven achievements of the social market economy but also extend these to the effective sphere of responsibility of economic actors beyond the actual boundaries of a national regulatory framework and previous normative approaches. The interdependence of markets and production and market actors, basically following the system imperative of global competition, has been able to partly escape the normative requirements of a national regulatory order. How those gaps can be closed, at least prospectively, in real policy terms can be seen, certainly still in its infancy, in the idea of global supply and value chain laws. For this, human rights have a unique validity in the world even if one considers their inadequate enforcement in many areas of the world. In a sense, they function as a formalised and globalised ethic in the creation of which cross-culturally shared moral concepts were cast into legal form in a highly demanding process of deliberation involving a large part of the international community. Ultimately, they aim to free the individual and enable him or her to maintain their own integrity, thereby reducing the need for welfare services. Those who perceive themselves less and less as self-determined subjects and more and more as anonymous recipients of foreign decision-making powers that take care of them tend to lose their civic self-respect sooner or later. The feeling of humiliation is usually particularly profound where people cannot secure their existence through an adequate income according to societal standards. A mere compensatory redistribution would let the regulatory model of the social market economy stagnate in the nimbus of benevolence. Thus, in line with the tension inherent in the social market economy, human rights provide an ambivalent approach alignment and foundations of the concept of social market economy. However, they seem to swing a little bit more in the direction of the social not as care but as enabling. In paraphrasing one of Lorenz von Stein's dictums, they are aiming for a freedom that is a real one only in those who possess the conditions of it, the material and mental goods as the preconditions of self-determination.

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From Schmoller's *Socialpolitik* to Müller-Armack's Social Market Economy: A Reconstruction of the German Conservative Discourse on the Social Regulation of Capitalist Market Systems



Alexander Ebner

1 Introduction

The original concept of the social market economy, formulated by German economist Alfred Müller-Armack in the 1940s, aims at the establishment of a socially inclusive type of market economy based on the integration of the diverse political and religious camps within German society. Overcoming the ideological cleavages between Protestantism and Catholicism as well as liberalism and socialism was the overarching goal of these efforts that should allow for combining entrepreneurial dynamism in competitive markets with welfare state arrangements and socially integrative policies. In this way, Müller-Armack reiterates a much older discourse on the possibilities of following a “third way” beyond the confines of liberal market systems and socialist planning mechanisms. Echoing the concerns of the Freiburg School of ordoliberalism but adding a Schumpeterian understanding of capitalist dynamics and a historically informed vision of governmental activities, Müller-Armack stands out as a representative of conservative ideas on the reform of economy and society. In view of this assessment, the following chapter explores the hypothesis that Müller-Armack’s approach resonated with preceding conservative discourses on the social question and the need for *Socialpolitik* as prominent features of the Schmollerian strand of the German Historical School that would critically inform subsequent socio-economic controversies on the balancing of economic and social concerns during the Weimar era. Of course, these conservative debates on the social balancing of market dynamism in German political economy reflect the profound economic, social, cultural, and political ruptures of the period, primarily the decline of liberal hegemony in economic affairs, the rise of socialist movements,

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international warfare, and the demise of democratic systems in the face of communism, fascism, and national socialism. Indeed, one might argue that these ruptures inspired the concept of the social market economy with its ideational emphasis on the reconciliation of political-economic worldviews. Yet its basic orientation towards a balancing of competitive markets and inclusive society can be most markedly traced already in the preceding debates on the social question that were prominently explored by Gustav Schmoller and other representatives of the German Historical School. The following chapter discusses this line of reasoning in intellectual history that ranges from the German Historical School since the nineteenth century via the debates in the fledgling field of socio-economics during the Weimar era to the conceptualization of the Social Market Economy after World War II. The latter has become a beacon of distinctly “German” approaches to the understanding of economic policy and the social regulation of markets ever since. In outlining a rational reconstruction of the line of reasoning that ranges from the historicist project of *Socialpolitik* to the ordoliberal notion of the social market economy, the presentation proceeds in three sections. The first section outlines the intellectual legacy of the German Historical School for the concept of the social market economy. A particular emphasis of the exposition is on the related contributions of Gustav von Schmoller on economic development, the social question, and the matter of *Socialpolitik*. This is followed by a section on subsequent post-Schmollerian debates in German political economy during the Weimar era, highlighting the challenges of socialism in its various non-Marxist guises with a focus on the formative ideas of Werner Sombart and Franz Oppenheimer, who stand for authoritarian and nationalist as well as distinctly liberal and democratic perceptions of socialism each. Finally, the chapter addresses the concept of the social market economy as put forward by Alfred Müller-Armack, placing it in the intellectual context of German ordoliberalism. The conclusion then accentuates the ideational nexus that runs from the Schmollerian agenda to the concept of the social market economy.

2 Schmoller, the German Historical School, and the Idea of *Socialpolitik*

Gustav Schmoller, Adolph Wagner, and other leading representatives of their generation of the German Historical School rose to academic power and intellectual prominence in the context of the imperial unification of Germany under Prussian hegemony since 1871. Labelling them as conservatives may appear somewhat paradoxical, given their contemporary reputation as reformist radicals, who abused their professorial positions for political indoctrination, marking them as “socialists of the chair”, as both their liberal and reactionary adversaries would have it – in doing so actually echoing the explicit state socialist sentiments of Wagner and his followers. At the same time, in his earlier statements from the 1870s, Schmoller himself would label an ideological national-liberal adversary such as Heinrich von Treitschke

pejoratively as “conservative”. However, there is nothing paradoxical about labeling the Schmoller-Wagner generation of the Historical School with its ethical-normative pressure for social reform and governmental guidance of social change as substantially conservative strand of thought, which used the *Verein für Socialpolitik* to pursue its reformist policy goals all the way since 1873. Indeed, coming to terms with the conservatism of the Historical School means revisiting a distinct line of reasoning on the social problems resulting from the structural changes of industrialization, urbanization, and modernization. This line of reasoning highlights the need for balancing the economic dynamism of the market system with the integrative cohesion of social norms and political regulations that constrain the market and redistribute its productive results. Both welfare transfers and educational progress would be able to bring the newly formed industrial proletariat back into the fold of the national community – in line with ethical concerns and to the ultimate benefit of the Hohenzollern state. Recent debates on conservatism as ideology cover issues such as the conservative orientation at historically evolved customs and institutions, the defence of the existing social order against radical opponents, gradualism in the design and implementation of reforms, and a normative concern with ethical values in this regard (Müller 2006). All of these issues are addressed by the Schmollerian and post-Schmollerian generations of the Historical School and its offshoots, somewhat paradoxically including the intellectual foundations of the ordoliberal concept of the social market economy.

The analytical starting point of the German Historical School of political economy is the question of the institutional and structural specifics of economic development patterns in historical comparison – also regarding the political shaping of development processes. The “Older” Historical School around Roscher and Knies combines theoretical references to classical political economy with historical analyses of the socio-economic development of nations and civilizations. The “Younger” Historical School around Schmoller and Wagner continues with these studies of economic development, augmenting them with new statistical techniques while keeping a more pronounced distance to classical political economy and highlighting a normative orientation towards social-reformist ideals – despite major methodological differences between the Schmollerian primacy of historical case studies and the Wagnerian insistence on theory-building efforts. This generation of scholars emphasized the need for social reform activities, which were bundled in the *Verein für Socialpolitik* founded in 1873, to become a major intellectual force for evidence-based social reforms striving against both socialist and liberal leanings (Ebner 2023; Grimmer-Solem 2003).

Gustav Schmoller is commonly regarded as the school-forming leading figure of his generation of the Historical School. Schumpeter's contemporary summary of the paradigmatic *Schmollerprogramm* of the Historical School emphasizes the following elements: first, the historical relativity of theoretical insights; second, the unity and Gestalt character of social contexts in which the constitutive elements are interdependent and cannot be considered in isolation; third, the diversity of economic motives in terms of rational as well as non-rational aspects; fourth, the evolutionary developmental perspective; fifth, the interest in detailed investigations of

individual objects of research; and sixth, the anti-mechanistic, organic perspective (Schumpeter 1914: 110–111). Summarized, Schmoller’s research program strives for an integration of theoretical and historical perspectives in a comprehensive interdisciplinary approach that underlines the tensions between socio-economic progress and moral perfection, which need to be overcome by socio-political interventions (Shionoya 1997: 201–202). This perspective is prominently exposed in Schmoller’s controversy with academic historian Heinrich von Treitschke, a national-liberal public figure in the Hohenzollern milieu. Responding to Treitschke’s accusation that Schmoller and his companions in the *Verein für Socialpolitik* objectively serve as “patrons of socialism”, Schmoller maintains that liberal thought in political economy serves the interests of the possessing classes, while social democrats pursue a socially toxic brand of revolutionary ideas. Instead, the formation of the new German nation-state would require an integrative approach that promotes social reform in welfare and education to bring the working class into the institutional and cultural scaffold of society at large. In accordance with a fundamental distinction between an evolutionary-natural and an ethical-cultural domain of socio-economic development, Schmoller presents *Socialpolitik* as a feature of the latter. The division of labour would be subject to a natural logic of differentiation, driving social inequality and ensuing conflicts. Ethical-cultural *Socialpolitik*, however, would maintain the division of labour as a means for increasing productivity while simultaneously acknowledging the need for improving humane socio-cultural conditions and social cohesion. Coping with a distribution of property and income largely perceived as unjust, state-organized redistribution should allow for countering revolutionary tendencies in a conflict-ridden class society (Schmoller 1874).

In view of these normative concerns, the Schmollerian concept of *Volkswirtschaft*, roughly translated as “national economy”, serves as a basic analytical unit to denote a specific stage in the economic and socio-cultural development process, which refers to a complex whole, grounded in historically dimensioned institutional and structural patterns. This implies that economic phenomena are to be analysed as integral components of the overall socio-cultural context of a society undergoing persistent change (Schmoller 1893: 220–221). Accordingly, Schmoller maintains with reference to Roscher that the historical method is to guide comparative studies on the general cultural development of peoples, nations, civilizations, and thus ultimately of mankind as a whole (Schmoller 1893: 261). In his *Grundriß der Allgemeinen Volkswirtschaftslehre*, which summarizes his concepts and ideas, the starting point of analytical explanations is marked by three aspects: first, an understanding of economic phenomena as an expression of ongoing developmental processes; second, the consideration of the psychological as well as institutional dimensions of economic activity, which for Schmoller underpinned the interrelatedness of economy, state, religion, and morality; and third, the normative counterposition to natural law individualism and class-struggle socialism based on the idea of social cooperation (Schmoller 1900/1923: 124). Accordingly, Schmoller insists on the recognition of the historical evolution of institutional patterns as opposed to idealizations and abstractions of natural law with their ahistorical and rationalistic character (Schmoller 1900/1923: 83–84). From this follows the historical relativity

of customary and moral conditions as something becoming and evolving – dependent in their meaning on the concrete historical context. Customary traditions and moral norms are an integral part of economic life, as exemplified by the embeddedness of the profit motives of businessmen in ethical spheres of moral fairness. Even the most primitive modes of market exchange would be based on a sentiment of closeness, that is, on mutual trust (Schmoller, 1900/1923: 37–8). In the course of historical improvements, however, and with the increasing knowledge of the world related to them, all of these conditions may come down to similar basic patterns across nations (Schmoller 1900/1923: 43–45).

In view of these issues, Schmoller expresses reservations about the concept of capitalism as used by the younger historicist generation of Werner Sombart and Max Weber, because of the materialist flavour of an alleged overvaluation of capital as an economic driving force that would neglect customary and institutional aspects (Schmoller 1903: 144). Schmoller's own vision of the development process of modern industrial civilization refers to the dynamic of economic and socio-cultural evolution, driven by acquisitive instincts in market competition and regulated by socio-cultural developments that substitute intellectual insights and customary beliefs for pure instincts. This is the analytical foundation of what Schmoller denotes as historical-ethical approach to political economy (Ebner 2000: 359). Moral and legal progress consists primarily in the fact that, with a view to realizing the common good, certain legal principles prevail and thus tame the prevailing group and class egotisms (Schmoller 1904/1923: 635). Accordingly, as outlined already in the paradigmatic controversy with Treitschke, Schmoller's theory of economic development addresses social differentiation and the social division of labour as key aspects in the potential fragmentation of economy and society – a constellation that requires social welfare, a wider diffusion of property, as well as educational measures and the institutional embedding of market competition (Schmoller 1904/1923: 761–762).

The latter perspective also informs his posthumously published monograph on the “social question”, presenting an excerpt of his reworked *Grundriß*, where he underlines the need for a socio-cultural integration of the working class into a stratified and unequally structured German society. This solution goes beyond policy confines. In fact, most fundamentally, these measures in the fields of welfare provisions, property formation, and moral education tend to unfold their societal impact in a most sustained manner in terms of a socio-cultural upgrading that is quite in line with the idea of progress in ethical affairs. Accordingly, Schmoller's hope for the continuation of the Hohenzollern rule in the framework of a “social monarchy” – a project originally articulated when the young Wilhelm II came to power, persistently supported by Schmoller until the very end of his life in 1917 – accentuates the idea that social reforms could bring about an improvement of all strata of the population both in material and moral terms and thus promote an “ethical solution” to the social question (Schmoller 1918: 333–334). Resonating with the conservative character of these ideas, Schmoller points out that social reform is meant to provide the means for social pacification, that is, the economic, social, cultural, and political integration of the working class and related organizations in the institutional

frameworks of the existing state, thus contributing to an abortion of the motives of socio-political revolution in the labour movement (Schmoller 1918: 642–643). Even during the political catastrophes of World War I, Schmoller expects that the Wilhelmian system, as a socially enlightened system of rule, would persist through working class support against efforts of both socialist radicalism and democratic liberal republicanism, which aimed at the abolition of the Hohenzollern monarchy (Schmoller 1918: 647).

With the fall of the Hohenzollern and the November Revolution in 1918, these concepts became swiftly outdated. Moreover, the *Methodenstreit* prevailed, as Schmoller's positions also came under sustained criticism primarily because of his rejection of deductive theoretical systematization in favour of historical case studies that should serve inductive reasoning on patterns of institutional change and stages of economic development. Despite the criticism voiced against his methodological and political views, Schmoller's research program of an induction of theoretical schemes by means of identifying historical development patterns in the empirical material together with his demand for the unity of political economy and related social sciences remained an important influence, both explicitly and implicitly, for German economic and sociological debates in the 1920s. This holds even beyond the offshoots of the Historical School. Indeed, in his programmatic essay from 1926 titled "Gustav Schmoller and the Problems of Today", Joseph Schumpeter, in these days Germany's premium theoretical economist, dealt with Schmoller's research program in most affirmative terms by outlining the paradigmatic qualities of his perspective on institutional change (Schumpeter 1926). Walter Eucken, a major figure of the emerging Freiburg School of ordoliberal law and economics, needed to critically cope with Schmoller's work even until the end of the 1930s (Eucken 1938). In conclusion, it is fair to suggest that the Schmollerian agenda has remained persistently relevant for subsequent generations of scholars both with regard to the focus on historically conditioned cultural aspects in the analysis of economic phenomena and the normative viewpoints on social reform (Ebner 2000, 2003; Nau 2000).

With these concerns, Schmoller's conservative approach to social reform, which was meant to overcome social and ideological fragmentation by means of integrative measures in the areas of welfare, property, and deduction, echoes a wider discourse in contemporary German political economy on manoeuvring spaces between the Scylla of classical liberalism and the Charybdis of revolutionary socialism. Thus, Schmoller's position was meant to balance the institutional outreach of private sector entrepreneurship, labour unions and employer federations, and state bureaucracies. In this way, his approach differed from Adolph Wagner's, his close colleague at Berlin University, major figure of the Historical School, and actual initiator of the *Verein für Socialpolitik*. Wagner's line of reasoning aims to go beyond the general social-reformist educational ideals of established Schmollerian historicism. In fact, Wagner proposed a concept of state socialism as the expression of a systematic doctrinal edifice. The immediate policy means of Wagner's concept of state socialism initially consisted in the establishment of public systems of social security as a supplement to individual and cooperative provision, flanked by the

nationalization of large-scale enterprises in the areas of infrastructure and finance and by a fiscal reorientation towards a policy model based on merit goods. Wagner sees these policy demands, understood as an expression of sociocultural progress, at the same time as the object of empirically verifiable developmental tendencies in all modern economies from which he derived his “law of the growing expansion of public and especially state activity” (Wagner 1893: 895–896). This perspective is presented as a stringent theoretical variant of the historical and socio-economic direction of the German economy, emphasizing nationalization, market regulation, and a fiscal-redistributive social policy while agreeing with Schmoller's affirmative view on socio-political value judgments (Wagner 1907: 16–7). In keeping with the post-Hegelian milieu of ideas that also informed Schmoller's belief in the progressive historical mission of the Prussian state, the Hohenzollern monarchy actually serves as the vehicle for the corresponding reforms. In particular, the state is meant to enforce the moral value of social duties in order to reconcile conflicting interest groups and class interests – in doing so branding Wagner's state socialism as an inherently conservative political project of a balanced societal integration (Wagner 1893: 859).

When it comes to the context and legacy of the Schmollerian approach to *Socialpolitik*, then, the contributions of two further scholars need to be introduced, namely, those of Lujo Brentano and Heinrich Herkner. Unlike the social conservatives Schmoller and Wagner, both would add distinctly social liberal motives to the related discourse. Next to Schmoller and Wagner, Brentano may be assessed as the third important representative of the “Younger” Historical School, whose analyses of trade unionism emphasize the economic as well as social benefits of workers' associations and collective labour contracts (Brentano 1871, 1872, 1901). With his genuinely social liberal take on market competition and entrepreneurship, paralleled by a Catholic perspective on subsidiarity, he relies less on the state as a regulating protective authority and more on the free collective agreements between unions and employers. Beyond these specific concerns with the institutional combination of liberal and socialist viewpoints, Brentano's arguments on the contextuality of economic development come to reject monocausal explanations for the emergence of modern capitalism – an issue that would fuel further disputes with Weber and Sombart on the specifically religious roots of capitalism (Brentano 1923).

As a student of Brentano, a colleague of Schmoller, and from 1917 his successor as professor in Berlin, Heinrich Herkner has been identified as the last major representative of Schmoller's historical-ethical tradition in German political economy by contemporary observers (Wilbrandt 1926: 73). Herkner approaches the logic of social reform as functional support for effective economic development, whereby companies, too, are to be integrated into social policy as platforms for social regulation (Herkner 1891, 1894). Crucially, as chairman of the *Verein für Socialpolitik*, again in Schmoller's succession, he would provoke a fierce debate on the crisis of social policy by claiming that an effective form of economic policy is the most convincing form of social policy – a position that should favour efficiency considerations over normative concerns with ethical value judgements (Janssen 2000: 240–241). Despite these selective impulses, Herkner would fail in maintaining a

discourse-shaping influence. Other offshoots of the Historical School would set the tone in the search for an integrative combination of economic and social concerns, in doing so largely deviating from Schmollerian lines of reasoning by introducing new theoretical, methodological, and policy-related aspects. In effect, dealing with the “social question” in the post-Schmollerian setting would soon open a political continuum ranging from Werner Sombart’s “German socialism” on the authoritarian Right to Franz Oppenheimer’s “liberal socialism” on the democratic Left. Crucially, the distinctly social-reformist conservatism of the Historical School was replaced by more radical ideas on reformist interventions to the benefit of the design of social institutions and structures.

3 Sombart, Oppenheimer, and the Socialist Challenge

The fin de siècle crisis of liberal modernity contributed to the emergence of a new, “realistic”, and culturally critical view of social developments. The historical-developmental optimism underlying Schmoller’s and Wagner’s views on gradual social improvement through political reform comes to be replaced by a brand of cultural realism that affects the underlying understanding of modern capitalism, the social question, and its solution in terms of policy measures. Central protagonists such as Max Weber and Werner Sombart would oppose normative concerns of the Schmollerian Historical School already before the turn of the century and instead called for a value-free, systematic theory formation on the socio-cultural dynamism of modern capitalism. A first major incursion into the terrain of the Schmollerian view of *Socialpolitik* is provided by Max Weber’s famous Inaugural Lecture at the University of Freiburg in 1895. There, he underlines the functional role of social policy and welfare state arrangements for the integration of the working class into the nation-state and “the social unification of the nation”, thus countering pressures for fragmentation and conflict that arise from the economic sphere. He insists that all of this would be crucial for achieving a sustainable position in the international rivalry among the leading industrial economies. *Socialpolitik* is therefore meant to be transformed from an ethical concern to a policy tool for maintaining social coherence in an age of international pressures and conflicts (Weber 1895). At the Mannheim conference of the Verein für Socialpolitik in 1905, Weber – even before the outbreak of the controversy on value judgements in 1909 – explicitly rejected Schmoller’s theses of the stabilizing and moralizing effect of industrial cartels, since these would not at all bring forward a cooperative attitude in a competitive environment but in fact breed problems of bureaucratization and inefficiency (Köster 2019: 271–273).

After World War I, political and economic ruptures exerted a continuing influence on the thematic reshaping of German political economy, which intensified the economic and political pressure for legitimacy and at the same time spurred research efforts in the analysis of capitalism. Diverse theoretical, methodological, and normative conflict constellations overlap in the process. Thus, with the November

Revolution of 1918, the debate on social reform develops into a fermenting systemic question. Whereas the discussion on a historical theory of capitalism has been primarily concerned with its religious-cultural genesis since the turn of the century, the focus is now on its systemic characteristics and the juxtaposition of capitalism and socialism as independent economic systems. From the mid-1920s onwards, the formation of a monopolistic-bureaucratic phase of capitalism is of primary importance, while the world economic crisis from 1929 leads to a new combination of debates about economic steering and central planning, before the public debate subsides with national-socialist rule from 1933 onwards (Ebner 2022). Crucially, anti-capitalist resentment would remain widespread in this era way beyond political camps (Chaloupek 2021: 133–134). In this way, the search for a “third way” between liberal capitalism and socialist planning becomes a programmatic preoccupation, which would set out to combine the most promising elements of both in persistent attempts at formulating integrative frameworks for fragmenting economies and societies.

Werner Sombart is one of the most exposed conservative representatives of this generation of the “Youngest” Historical School in these debates. His work, along with that of Max Weber, reflects the fundamental analytical problems of capitalist development in German political economy like hardly any other. As in Max Weber, the analytical concern aims at overcoming the Schmollerian understanding of method in favour of a historical theory of capitalism (Ebner 2002). Manoeuvring between liberal capitalism and Marxist socialism implies for this generation of scholars, that the rather conservative matter of social integration by means of piecemeal reform efforts goes together with a “realist” approach that claims the acknowledgement of the factual realities of modern capitalism. Therefore, normative concerns with ethical constraints on the profit-logic of the capitalist market system, which had been widespread in the Schmollerian discourse of the Historical School, would be rejected as futile and naïve. Max Weber had elaborated on this issue in his Freiburg inaugural lecture from 1895, and Sombart followed suit in an essay on the “ideals of social policy” in 1897 (Lenger 1997: 98–101). The emphasis on the evolutionary logic of the capitalist economic system characterizes Sombart's departure from the socio-politically imbued historical-ethical approach of the Schmollerian type. A value-free analysis should theoretically inform a realist social policy, which, as a productivity-oriented structural policy, had to deal primarily with economic modernization in the context of fundamental structural changes in the industrial setting of the German economy. Aiming at an ethically motivated obstruction of this factually irresistible dynamism of modern capitalism would not only reduce economic prosperity for all social classes but also weaken the international standing of the German nation-state (Sombart 1896: 8–9).

In order to grasp the economic, social, and cultural dimensions of modern capitalism, Sombart emphasizes that economic processes in pre-capitalist systems are based on need-satisfaction, whereas capitalism is based on the logic of acquisition, with monetary accumulation served as an independent end through rational calculation (Sombart 1902: 378–379). Subsequently, Sombart outlines an analytical focus directed at the actors' motivation guiding their actions, especially relevant for the

analysis of entrepreneurial activities, and represented by the concept of the “capitalist spirit”. Unlike Weber’s approach to rational occidental capitalism, it conceives of capitalist acquisition as an expression of unrestrained accumulation that would involve both the rational calculation of the bourgeois businessman and the irrational search for novelty by adventurous projectors (Ebner 2021: 26–27). This concept of the economic spirit also serves as a central component in the approach to the “economic system” introduced in the revised and enlarged edition of “Modern Capitalism” in 1916. There, in addition to “spirit”, that is, the motivation guiding action, also the institutional forms of the economic order as well as the technological structures of economic dynamism are introduced as constitutive elements (Sombart 1916). In outlining the historically variable constellations of action-guiding motivation, institutional order, and technological dynamics that characterize a historical economic formation, Sombart then also accentuates the factors that substantially distinguish modern capitalism from pre-capitalist as well as post-capitalist economic systems. In his contribution to Weber’s prestigious *Grundriß der Sozialökonomik*, Sombart again emphasizes, metaphorically close to the concept of organic growth phases, that economic systems can be divided into historical stages of early, high, and late development. Applied to the development of Western Europe, Sombart assumes a feudal-artisanal early phase from the thirteenth to the nineteenth century, followed by a high phase asserting the principle of acquisition and rationalism, which has finally resulted in the late phase of a bureaucratically regulated mixed economy since the 1920s – with socialism looming as future option (Sombart 1925: 25f).

This perspective of socialist transformation, viewed as an inevitable fate by Max Weber and discussed with more emphasis on political decisions by Sombart, informs all analyses of the perspectives and limits of capitalist dynamics during the 1920s. Sombart provides historical-empirical elaborations of this perspective in the third volume of “Modern Capitalism”, published in 1927. There, he makes the announcement that his research was intended to make a contribution to the integration of historical and theoretical approaches and would thus be formulated in explicit continuation of Marx’s work (Sombart 1927: XIV and XIX). Suffice it to say that Schumpeter, Germany’s leading economist of the day, would applaud this effort enthusiastically (Schumpeter 1927). According to Sombart, then, central to the processes of rationalization and bureaucratization already diagnosed by Max Weber is the capitalist logic of acquisition, which would regard monetary accumulation as an independent purpose to be served by rational calculation – fuelling persistently the instability of the system as a whole. Acquisition-oriented rationalism, private-sector competition, and science-based technological innovations are thus caught up in a momentum that could contribute to the self-transformation of capitalism in the direction of a collectivist mixed system with socialist credentials (Sombart 1927: 34–35). Despite the references to Marx, these perspectives are not meant to indicate a materialist turn in Sombart’s reasoning. To the contrary, Sombart proceeds with the promotion of hermeneutic positions, which are to be oriented towards understanding the culturally objectified meaning of capitalist development (Sombart 1930). Sombart thus positions himself as the representative of an economic tradition

that views itself as part of humanities and cultural sciences, in doing so opposing both fading historicism and prevalent Marxism and the neoclassical positions that would be gaining in influence during the 1920s (Ebner 2014).

Crucially, however, the spectre of socialism would persistently remain a significant topic in Sombart's contemporary reasoning. In fact, this issue accompanied Sombart throughout his intellectual and academic life. Even before joining in the debate on realist social policy in 1897, he addresses the matter of socialism and the social movement in a voluminous volume from 1896 – at a time when he was still considered a social democratic radical by his academic peers. The revision of this volume in the form of an expanded elaboration on “Proletarian Socialism” from 1924 then takes up motifs of the Marxist critique of capitalism to reinterpret them in socially and culturally conservative terms (Sombart 1924). These programmatic statements of a conservative and at the same time potentially non-democratic response to capitalist instability and socialist incursions would soon turn towards applied policy affairs. In the wake of the Great Depression, Sombart devotes himself to current economic policy issues, especially the promotion of employment through re-agriculturalization. In fact, beyond the issue of employment and income creation, the strengthening of the agrarian sector should also boost morale and stabilize cultural affairs. Not least because of the exposed role of ideational factors in his analytical perspective, Sombart remains committed to the ideal of social integration through cultural values and beliefs. Repeated references to religion as the basis for overcoming social conflicts illustrate this, exemplified by the positive reception of the papal social encyclical “*Quadragesimo Anno*” with its corporatist and solidarist ideas. Decisively, Sombart's economic and social policy approach turns towards authoritarian paradigms soon. In a programmatic text on the future of capitalism from 1932, the focus is on interventionist voluntarism. It sees the shaping of the economy not as a “knowledge problem” but as a “problem of will”, which is to be solved authoritatively by means of adequate leadership – in bolshevist, fascist, nationalist, or other types of regimes set apart from the failures of liberal democracy and the liberal market system (Sombart 1932: 1).

This authoritarian accentuation culminates after 1933 in the programme of a distinctly “German socialism” that would be based on authoritarian forms of state and national community, curiously involving the enforcement of economic stabilization through state regulations of technological innovations (Sombart 1934: 265–266). This model of a “German socialism” with its combined modernist, social romanticist, and authoritarian elements indicates a conceptual attempt at combining private property in a market system with collective planning mechanisms and an extended economic role of the state in a mixed economic system. The underlying perspective would initially position Sombart prominently in the intellectual environment of the “Conservative Revolution” around public intellectuals and publicists such as Carl Schmitt, Oswald Spengler, and Ernst Jünger. Sombart's persistent rejection of biologicistic racism as well as his critical position on technological progress, however, would soon inflame ongoing conflicts with the newly established National Socialist regime (Sieferle 1995: 74–75). Accordingly, one may interpret Sombart's intellectual trajectory and his specific views on the social question and its

conservative solution by means of combining elements of regulated markets, extended public sector, planning components, authoritarian governance, and cultural traditionalism as an indication of the tragic failures of German conservatism in general during the early 1930s.

As far as the wish for integrating a fragmented class society into a socio-culturally coherent whole is concerned, conservative lines of reasoning are also observable in the socialist discourse of German political economy during the Weimar era. Non-Marxist positions on the combination of social reform and socialist transformation towards a mixed economy were often rooted in Christian beliefs and related ethical concerns – in this way echoing the normative perspectives of Schmollerian historicism augmented by beliefs in the feasibility of post-capitalist varieties of democratic socialism. While the decidedly post-Schmollerian line of reasoning in German political economy that can be identified with Sombart ranges from social reformism via social conservatism to a nationalist-authoritarian blend of socialism that resonates with the political Right in the late Weimar era, the democratic variety of social reforms and a culturally conservative type of socialism is most prominently associated with the work of Franz Oppenheimer. In fact, the scientific field of German political economy in the interwar period is characterized by the advance of decidedly theoretical positions based on an understanding of capitalism as unstable and increasingly monopolistic system, requiring social reform and political regulation. One of the most influential representatives of this new line of reasoning is Franz Oppenheimer, who was the first interdisciplinary professor of economics and sociology in Germany during the 1920s. His academic students also included the authoritative West German practitioner of the Social Market Economy after 1945, namely, Ludwig Erhard. Oppenheimer habilitated in Berlin through Schmoller's mediation, yet his characteristic approach to the theoretical and methodological integration of research grounded in economic and social theory aimed to rigorously grasp socio-economic life in its regularity, analogous to the approach of the natural sciences and to explain causally – without the ballast of Marx's philosophy of history (Caspari and Lichtblau 2014: 133f).

Already in his early writings on large-scale land ownership and land monopoly in the 1890s, Oppenheimer unfolds his lifelong research programme. His leitmotif was the idea that large-scale land ownership emanating from violent historical processes establishes a monopolistic "land barrier" that would serve as a source of profits also in the industrial age – with exploitative effects for the land-using population. Cooperatives interacting in market competition could overcome this property-based domination as true substance of the social question (Oppenheimer 1896, 1898). The research methodology appropriate to this problem is to deal with historical as well as comparative questions of "human collective life" as a socio-economic conception of history (Oppenheimer 1903a, b: 410f). In his elaboration on the theory of the state, Oppenheimer discusses the state in connection with the land monopoly of large landowners as an organ of exploitative class rule, which could be democratically reformed above all through land reforms (Oppenheimer 1907). Monopoly and competition are correspondingly central themes in Oppenheimer's

considerations. Accordingly, his approach to political economy refers to politically conditioned questions of power and domination in economic life (Oppenheimer 1910).

Oppenheimer's discussion of socialism and social reform is from early on dedicated to a democratic as well as competition-oriented solution to problems of monopolistic power in economy and society. This perspective also informs his further work in the early Weimar years with a comparison of capitalism, communism, and his concept of "liberal socialism". Capitalism, as a combination of violence-based class state and exploitative monopoly power, has little to do with the logic of market competition. Indeed, for Oppenheimer, a competition-oriented market economy could not be capitalist at all (Oppenheimer 1919: 3, 11). With the distinction, on the one hand, between politically defined property, which historically develops into a contested monopoly power, and, on the other hand, the self-control of markets in competition as a supra-historical constant of economic activity, Oppenheimer points to a viable way out of the crisis of capitalism (Oppenheimer 1919: 179). The model of "liberal socialism" he has in mind is a kind of property-rights socialism – characterized by cooperatives that operate in a market economy under conditions of competition (Oppenheimer 1919: 166–167). Capitalism would thereby prove to be a transitional phenomenon between land-based monopolistic feudalism and cooperative-based market socialism (Oppenheimer 1919: 192). Indeed, in this scheme of ideas, Oppenheimer suggests that the extinction of capitalism through a de-monopolizing land reform would be a most immediate policy option at hand (Oppenheimer 1923, 1924: 1111f).

This basic idea of the conflict between monopoly and competition as historical force is also reiterated in Oppenheimer's deductive approach to historical economic systems. There, the idea of class rule to secure monopolistic opportunities for exploitation is inserted into a developmental scheme that starts from a "primitive conquering state" and extends to the "constitutional state" of capitalist modernity (Oppenheimer 1926: 675–676). In this respect, Oppenheimer opposes the notion of a specific "spirit of capitalism" common with Weber and Sombart, in order to put forward his thesis of the institutional conditions of social monopoly power as the source of capitalist accumulation (Kruse 1996: 173–174). However, the suggested "third way" of a liberal and at the same time socialist reform movement that would pave a way forward beyond the National Socialist and communist threats, as put forward in 1933, factually collided with the National Socialist rise to power (Oppenheimer 1933). Still, Oppenheimer's questions about the design of a post-capitalist economic system as well as the transformative potential of correspondingly designed policies would form the leitmotif of the research work of socialist economists like Eduard Heimann, who explicitly refers to inspirations by Franz Oppenheimer (Vogt 2009: 37f). At the same time, the *ordo-liberal* concept of the social market economy, decisively promoted by Oppenheimer's student Ludwig Erhard in the early years of West German reconstruction, can be interpreted as an answer to Oppenheimer's "liberal socialism", viewed as a synthesis of market competition and social embedding (Haselbach 2000). Again, the conservative view of the balancing of market dynamics and social coherence that informs already Schmoller's reasoning, and which resonates with the opposing views of Sombart

and Oppenheimer on the shape and content of post-capitalist economic life, also persists in influencing the ordoliberal debate on the social market economy.

4 The Social Market Economy: A Conservative Synthesis?

Although the ordoliberal camp vocally rejects Schmollerian methods and policies, it still combines theoretical perspectives of neoclassical economics with historically minded socio-cultural considerations to varying degrees – most clearly in the case of Alfred Müller-Armack. However, ordoliberalism is not only directed against historicism and its collectivist-authoritarian offshoots but above all against the representatives of socialist ideas, who would push for a comprehensive economic transformation towards a centrally planned economy. Right after World War I, Ludwig Mises already delivers a common point of departure for this liberal rejection of socialist ideas on economic planning systems. He argues that rational socialist economic planning would be impossible because without a monetary economic calculation linked to private property and market prices, the relevant scarcity conditions and consumer desires would remain hidden (Mises 1922). The rationality aspects of this line of thought on the merits of the market economy are further developed in a general theory of rational action, referred to as praxeology, which is intended to serve the action-related analysis of economic phenomena, drawing not least on Max Weber's ideal type of rational action (Mises 1940). In view of these specific impulses, the ordoliberal segment of German political economy presents itself primarily as the mouthpiece of modern economic theory, whose authoritative representatives ultimately endeavour to find their own approach to a historical theory of capitalist development, whereby economic, socio-cultural, and political contexts are equally taken into account. The ordoliberals interpret the project of a historical theory of capitalism to mean that the question of the variability of motives for action and institutional forms ultimately shifts out of economics into a historical sociology of culture. The ordoliberal theory of economic systems could then deal with resource allocation and plan coordination on a neoclassical basis – and thus at the same time relativize the historical specificity of modern capitalism (Ebner 2006).

This conceptual shift is pursued in particular by Walter Eucken from the 1920s onwards. In his early work, Eucken belongs to the academic milieu of the Historical School, but in the 1920s, he gradually distances himself from it in the direction of decidedly neoclassical theoretical positions. With the political-economic crisis of the Weimar Republic since the late 1920s, the question of effectively functioning governance models of the state also comes to the fore. Eucken echoes preceding work by Mises when he diagnoses the key problems of the democratic state as resulting from an overload of interest group demands that are fuelled by ever more comprehensive interventions into the market domain. To bring the state back to its original tasks and to liberate it from partial interest group interferences, Eucken accentuates the need for a clear-cut separation of polity and economy by means of political rule-binding in terms of rule-based authority required to cope with the

challenges of contemporary patterns of monopoly power across economy and society (Eucken 1932). Eucken combines this theoretical orientation with methodological attacks against Schmolter's historical-ethical approach and the post-Schmolterian generation around Sombart with their orientation towards the humanities (Eucken 1938). While accepting the historical dimension of economic phenomena, it is the supra-historical shape of specific types of orders in a continuum of administrative planning and market exchange that needs to be reconsidered with its diverse historical recombinations. Thus, Eucken refers to "the great antinomy" of theoretical and historical problems, which should be resolved through the rigorous analysis of institutional forms of economic order (Eucken 1940: 26–27). With this approach to the integration of theory and history, the concern with the differentiation of the institutional components of economic orders means that these components remain historically invariant (Eucken 1940: 57–58, 74–75, 216–217).

Therefore, Eucken rejects the Aristotelian differentiation of acquisition and satisfaction of needs, which is prominent in Sombart as a historically specific leitmotif of economic motivation, to replace it with the universalistic pattern of a rational planning calculus, which can be found on different levels of economic action equally in economic systems structured in terms of administration and exchange. The key issue is whether monopolistic bureaucracies or competitive firms are sovereign actors in their organizational planning efforts. In this setting, then, there is no longer any room for a separate concept of capitalism as a historically specific economic system (Eucken 1940: 95–96). The political implications of this perspective concentrate on the role of the state as an enforcer of market competition by dissolving monopolies and political-economic power structures – whereby Eucken accentuates the social question and related socio-political tasks to a lesser extent than other ordoliberalists (Eucken 1940: 236–237). This outstanding role of a strong state with the capacity to enforce the legal rules of market competition and defend them against powerful partial interests relates to the legal perspective in the emerging paradigm of ordoliberalism, which addresses the performative role of the law (Böhm 1936). At the same time, Eucken redefines the social question, namely, as subordination of workers and other employees to a bureaucratic-administrative system of regulation, allocation, and distribution of resources and incomes governed by the state, involving labour contracts and social insurance as an expression of a gradual socialization of life (Eucken 1952: 186–187). Social policy is accordingly redesigned as *Wirtschaftsordnungspolitik*, that is, a policy for maintaining a competition-based economic order, aiming at the preservation of the market process as the decisive precondition for the productive solution of social problems (Eucken 1952: 312–313). Socio-culturally relevant remarks on safeguarding the market economy against monopolistic collusion primarily refer to the "ordering powers" of key institutions of society, involving not only the state but also the institutions of science and the churches (Eucken 1952: 180–181, 325–326). Accordingly, in this conceptual context, the cultural dimension of economic systems is reduced to a reproductive function of the market system. The corresponding ordoliberal credo then relates the competitive order of market processes, primarily based on a market price system, well-established property rights, and competition-promoting policies,

with certain cultural and institutional pillars: a religious community-orientation that confronts the disruptive effects of socio-cultural rationalization and a strong state with a high level of policy competence that is fit to reject the demands of special interest groups and provides legal safeguards against monopolistic power structures (Rieter and Schmolz 1993: 104–107). In paradigmatic terms, this approach would prove to be substantial in West German post-war debates on the design of the economic system and its implications for economic policy (Gerken and Renner 2000; Peukert 2000).

However, ordoliberalism is best viewed as a rather diverse spectrum that reaches way beyond Walter Eucken's and Franz Böhm's Freiburg school of law and economics, with its insistence on the need for a strong, rule-based government, free from the rent-seeking operations of powerful interest groups and monopolistic powers, to safeguard market competition and the rule of law, embedded in a setting of compatible cultural-religious values and beliefs. In such a view, the other side of the spectrum is occupied by Alfred Müller-Armack, who formulates the concept of the social market economy as a conservative project of West Germany's post-war reconstruction and who sides explicitly with the legacies of the Historical School when it comes to the historical-cultural evolution of modern capitalism and the need for the social regulation of market systems. The early work of Alfred Müller-Armack evolves from problems of economic instability and business cycles. This matter relates to contemporary debates in German economics during the 1920s, shared by many liberal as well as socialist economists, yet it also offers particularly accentuated connections to the offshoots of the Historical School, who also joined in this research interest with a more empirical bent (Scheffold 1998: 38–39). Exploring the matter of instability, Müller-Armack deals with economic crises as expressions of overproduction and faulty monetary policies. This position informs his approach to business cycle theory and policy. There, the motive of stabilizing policy perspectives becomes prevalent, as he claims that the relationship between state and market would need to be rebalanced – a central theme of the emerging ordoliberal discourse and a key concern of the concept of the social market economy (Müller-Armack 1926, 1929).

Crucially, while ordoliberals like Eucken use the economic theory of Böhm-Bawerk and the Austrian School as points of departure, Müller-Armack rather sides with Joseph Schumpeter's theory of economic development. Just like Schumpeter, Müller-Armack takes on Marx as well as historicist scholars as critical references when he explores the "development laws of capitalism" by means of extending his economic theory of business cycles to include further historical and socio-cultural aspects. This view on contemporary political-economic affairs results in the demand – building on the work of Sombart among others – for a new theory of the "intervention state" in the unstable, bureaucratized, and thus "bound" type of capitalism (Müller-Armack 1932: 216–217). Thus, for Müller-Armack, the question of the possibilities and limits of a rule-based authoritarian state comes to the fore, also addressed by Eucken and other ordoliberals whose concerns with the fragmentation of parliamentary democracy reflect the weakness of German democratic discourse after the Great Depression. Moving beyond the support for the emergency regimes

that maintained democratic forms at least, Müller-Armack, like Sombart and other representatives of increasingly authoritarian-minded representatives of the late Historical School, even expressed sympathies for fascist and national socialist ideas on the necessity of dictatorial rule. Accordingly, in a book on the idea of the state and economic order in the new *Reich*, referring to Hitler's Third Reich, of course, Müller-Armack explicitly embraces the fascist idea of a corporative structure of state and economy (Müller-Armack 1933: 44–45). In line with contemporary discourses on an authoritarian “German Socialism”, which also included statements by Sombart, among others, Müller-Armack claimed that the notion of socialism had become acceptable. No more does it stand for “class hatred” but for the self-realization of the social powers of the nation under the guidance of the state, which mediates conflicting class interests (Müller-Armack 1933: 9–10).

However, following the *Gleichschaltung* of scientific and public debates under national socialist ideological primacy, Müller-Armack soon joins many fellow academics in turning his interest towards less politically contested topics while maintaining his basic analytical interests in the fragile relationships between political-economic and socio-cultural stability. A major research effort in this regard is the work on the political-religious history of early modern Europe that is approached by means of the concept of “economic style”, pinpointing ideas on the cultural cohesion of economic systems that refer closely to Weber and Sombart, and that would become crucial features of his subsequent elaboration on the concept of the social market economy as a model for post-war Germany (Schefold 1994). With reference to Weberian and Sombartian perspectives on the historical development of the economic system of modern capitalism, Müller-Armack sets out to examine the religious-ideological substance of the formation of nation-states in early modern Europe serving as breeding grounds of capitalism. Religious worldviews are the key criterion for the historical-geographical identification of specific economic styles, as they shape economic, political, and technological as well as scientific attitudes. In this line of reasoning, Müller-Armack refers to Max Weber's works on the sociology of religion as a most stimulating influence (Müller-Armack 1940/1981: 48–49). Economic styles reflect the “unity of expression and attitude” of a certain people or nation in a particular historical period, that is, as the unity of the cultural expressions of economic and socio-cultural life and its underlying worldviews, whereas economic systems should denote the actual mixture of style elements within a country or region, as economic styles tend to become subject to fragmentation and recombination over time (Müller-Armack 1940/1981: 57–58). Economic styles are not subject to political design: they emerge through the historical process itself, that is, by means of an evolutionary process that drives historical change (Müller-Armack 1940/1981: 58–59). In the case of Europe, then, Müller-Armack argues that a commonly shared European economic style existed in the Middle Ages, integrated by the Christian value system, which was fragmented into particular national styles and regional “style zones” in the course of Reformation since the sixteenth century, driving the formation and rivalry of nation-states as well as national economies thereafter (Müller-Armack 1940/1981: 96–97).

Following up on this application of his economic style approach to European topics, which exhibits obvious roots in the sociology of culture and religion, Müller-Armack moves on to further elaborate on the problem of overcoming socio-cultural and ideological cleavages in the organization of Germany's devastated and deeply divided post-war society. In a political-ideological setting that would predominantly favour socialist ideas over market-friendly positions – the newly founded conservative Christian Democrats with whom Müller-Armack would be affiliated with actually highlighted the motive of “Christian socialism” in their Ahlen Programme from 1947 – the matter of private property, entrepreneurship, and market competition was marginalized in public discourses. To undermine the contemporary hegemony of socialist beliefs, Müller-Armack formulates the concept of the social market economy in 1946, which is meant to combine the preservation of the competitive efficiency and entrepreneurial dynamics of a capitalist market system with a socially viable distribution of income combined with an adequate provision for the fiscal needs of the state. Crucially, the socio-economic aspects of the economic order need to be embedded in a broader cultural order of life, *Lebensordnung*, to become adaptively sustainable in the course of history (Müller-Armack 1946/1966: 105–106). Reaching beyond the two dichotomic varieties of liberal market economy and socialist planning, a “synthetic way of thought” informs the vision of the social market economy as a third variety of economic policy, that is, a market economy with self-regulating price system at the core but purposefully steered in a market-conforming and social manner (Müller-Armack 1946/1966: 109–110). In other words, the social market economy is meant to be a “a free market economy framed by market-conforming social security” (Müller-Armack 1947/1974: 84). Historically, Müller-Armack portrays the social market economy as a return to the ethical motives in social policy and social reform prevalent during the nineteenth century before the advent of nationalism and Marxism led to an idolization of market-adverse and state-centric regulatory measures. Instead, the key concern in current affairs is *Versittlichung des Gesellschaftslebens*, that is, a strengthening of the morals and customs in society (Müller-Armack 1948/1966: 176). Also at this point, the Schmollerian flavour of Müller-Armack's reasoning is obvious.

Providing a philosophically and theologically grounded substantiation of this understanding of the social market economy, Müller-Armack introduces a “social irenic” approach that describes a value-based order of social reconciliation as a means to overcome the socio-economic cleavages of post-war Germany with its quarrelling political and ideological factions. The corresponding irenic logic recognizes the diversity of worldviews as a condition for reconciliation and at last unification under a common denominator. The roots of this perspective in the philosophy of religion denote the mutual understanding of conflicting religious confessions (Müller-Armack 1950/1981: 563). Hence, Catholic social philosophy with its principles of social balance and subsidiarity would be combined with the Protestant ethos of entrepreneurship and communal cooperation, socialist concerns for social justice and redistribution, and liberal principles of individual freedom and progress in liberty (Müller-Armack 1950/1981: 564–565). Differences to the liberal model should focus on the acknowledgement of market failure, the

possible incongruence of market process and social justice, and the necessity of embedding the competitive order in an institutional framework that provides most promisingly for integrative as well as reconciliatory moments and establishes common norms and values (Müller-Armack 1952/1966: 234–235). Crucially, as the “irenic unity” Müller-Armack has in mind resembles the “style unity” of his preceding analysis of pre-Reformation Europe, it becomes obvious that his conceptualization of the social market economy as an economic style of the reconciliation of opposites bears substantial resemblance to the integrative economic style of occidental Europe. Indeed, Müller-Armack applies the same scheme to the conceptualization of European integration in the 1950s, when his academic efforts flank his political-administrative role in the preparation of the Treaty of Rome (Watrin 1998: 4). He postulates that a political appreciation of the historical European style would be an indispensable condition for fostering the constellation of an “irenic unity” among the European nations, as proceeding with European integration on the basis of an ethical-cultural consensus would allow for reconciling opposites without ignoring historically rooted specificity (Müller-Armack 1951/1981: 590). Indeed, in the face of the Cold War constellations of systems conflict, both the social market economy and European integration are perceived as outstanding integrative ideas and projects (Müller-Armack 1962/1966: 295). These motives of the religious-cultural embeddedness of a price-regulated market system, socially balanced by concerns with fiscal redistribution and welfare transfers, would remain crucial in later reiterations of the conceptualization of the social market economy. A topic that becomes ever more relevant in the course of the German *Wirtschaftswunder* is the formation of private property and the accumulation of wealth across all strata of society – an issue that should qualify a “second phase” of the social market economy by pushing its entrepreneurial content in the Christian Democrats’ economic policy program that confronted the socialist discourses of the generation of 1968 (Erhard and Müller-Armack 1972: 25–29). Finally, when debating the corresponding intellectual sources of the social market economy, Müller-Armack would persistently pay reference to Weber and Sombart, among others, thus confirming the impact of the Historical School and its offshoots (Müller-Armack, 1973/1974: 246–247).

Providing further context for Müller-Armack’s reasoning on the social market economy, one needs to take into account again that the cultural-sociological strand of ordoliberal ideas also involves Wilhelm Röpke and Alexander Rüstow, both of whom would be exiles during National Socialism and who would come to elaborate in-depth on the social and cultural roots of a liberal market order from a specifically conservative perspective (Dyson 2021). Wilhelm Röpke, like Müller-Armack, initially pursues business cycle theory before he deals with the institutional as well as socio-cultural problems of capitalist modernity (Peukert 1992: 2–3). In his first major work on “the present crisis of society” from 1942, Röpke explores conservative topics when he traces the breakdown of Europe’s liberal democracies in massification, mechanization, and centralization (Röpke 1942: 30–31). Drawing on these issues, Röpke then emphasizes that the competitive order of the market economy has been distorted by monopolizing power interests, inducing the state to carry

out market-conforming interventions in the market process, flanked by more comprehensive socio-political measures (Röpke 1944: 37–38, 100–101). The consideration that market systems were based on specific socio-cultural preconditions rooted in the moral codes of family and community values, and requiring political support, would remain his central theme during West Germany's post-war period (Röpke 1958: 56–57).

Similar positions are held by Alexander Rüstow, who, like Müller-Armack and Röpke, biographically moves out of the theory of competition policy in the direction of a historical-cultural sociology. His presentation at the 1932 conference of the *Verein für Socialpolitik*, the final one before the National Socialist takeover, accentuates the new liberal perception of a strong state that operates with the capacity to promote market competition in a previously free economy that is increasingly plagued by monopolistic power struggles and misplaced interventions (Rüstow 1932). Rüstow then presents his concept of “neoliberalism” at the *Colloque Walter Lippmann* in 1938, which advocates for a strong regulatory state combined with dynamic market competition to counter the collectivist authoritarian challenges of the time (Plehwe 2009: 13–14). These ideas inform Rüstow's suggestions on a “third way” forward for West Germany – beyond capitalism and communism as suggested with a nod to Oppenheimer – by adopting Müller-Armack's notion of the social market economy. He accentuates private property in market competition as guarantees of freedom, to be combined with an extensive social policy that should counter alienation and moral degradation (Rüstow 1949). This conception flows into Rüstow's critique of the *laissez-faire* ideology of classical “paleo-liberalism”, which allegedly reduces its concerns to economic issues, lacking a due consideration of the social and cultural underpinnings of the market system (Rüstow 1950a). The subsequent turn towards cultural history revolves around the contested relationship between individual freedom and social domination. Capitalism appears here – echoing Röpke's culturally conservative reasoning – as a degeneration of the market economy that requires reinvigorated moral foundations for social integration (Rüstow 1950b, 1952a, 1957). The corresponding set of policies resonate with Schmollerian *Socialpolitik* while moving beyond the related matter of property, income distribution, and education. Rüstow labels them *Vitalpolitik* to underline their vitalizing role in non-market domains of society, where ethical and moral patterns of responsibility and participation should be strengthened to promote individual well-being and happiness, covering a range of fields from family affairs via the natural environment to work conditions (Rüstow 1952b). Influenced by Oppenheimer's “liberal socialism”, he elaborates on a brand of “social liberalism” that accounts for maintaining a competitive market order by embedding it in moral community orientations across society (Hegner 2000). Also at this point, Schmoller's and post-Schmollerian influences on the conceptualization of the Social Market Economy are obvious, highlighting a focus on the institutional and cultural provisions for socio-economic integration and cohesion that informs conservative thought on social reforms.

5 Conclusion

Like his peers in the socio-culturally oriented debate of ordoliberalism, Müller-Armack repeatedly reiterates the vision of socio-cultural unity in diversity. This motive informs all of his relevant works on this subject: from the observation of the pathologies of capitalist development via the matter of a new authoritarian corporative regime for the Reich and the observation of the religious roots of state-formation in Europe all the way to the formulation of West Germany's postwar order (Ebner 2006). The underlying reasoning on balancing the efficiency of market competition and the moral values of social equilibration are meant to provide an integration formula that should overcome an alleged antithesis of free enterprise and social progress. The close intellectual relationship with preceding Schmollerian discourses on social reform as well as post-Schmollerian discourses on the socio-cultural pathologies of capitalism and post-capitalist prospects is obvious – it stands for a multifaceted conservative line of reasoning that aims at stabilizing established social structures by promoting institutional frameworks and policies in the domain of private property, income distribution, and public education that are meant to reconcile social interests and integrate a society that seems to be crumbling under the conditions of capitalist modernity. In line with the German Historical School and its offshoots, Müller-Armack inherently draws his conclusions on the institutional and socio-cultural substance of the social market economy from preceding explorations into problems of economic instability, cyclical fluctuations, and industrial changes (Scheffold 1999: 16–17). In this context, Müller-Armack's notion of the social market economy formulates not only an ordoliberal variation of economic order. It is designed as a culturally embedded economic style that prioritizes religious world-views as determinants of economic life, thus reiterating post-Schmollerian debates on “capitalist spirit” (Kosłowski 1998: 74–75). A further conservative viewpoint in this line of reasoning is the matter of institutional constructivism. For Müller-Armack, the social market economy is a cultural, social, and economic whole, that is, an economic style that evolves over time, driven by adequate beliefs and institutions, whereas Eucken's economic order implies that such an order can be established through deliberate constitutional choices combined with supportive policy approaches. No wonder, these differentiations have been interpreted in terms of an incompatibility between Müller-Armack's culturally framed combination of economic and social policy and the Freiburg School's focus on policies for promoting market competition (Lange-von Kulesa and Renner 1998: 80–81).

In summary, it is safe to argue that Müller-Armack's concept of the social market economy completes those concerns for socio-economic integration and cohesion that have become prominent with the project of *Socialpolitik*, promoted by the German Historical School with Schmoller as a key contributor and the post-Schmollerian generation as successors in related analytical efforts. The latter would diverge when it comes to their visions of post-capitalist endeavours. In the case of Sombart, the notion of the capitalist economic system as a mixed economy requiring social integration mutates into an authoritarian “German socialism”, whereas

Oppenheimer accentuates the anti-monopolistic logic of a democratically grounded “liberal socialism”, where competition serves social empowerment. The concept of the social market economy as promoted by Müller-Armack, flanked by Rüstow’s and Röpke’s contributions, would become a policy paradigm when the Christian Democrats adopted it for their programme and campaigns. Through Müller-Armack’s political-administrative activities, the corresponding ideas and drafts were in any case incorporated into German economic policy and European integration (Dietzfelbinger 1998; Watrin 2000; Ebner 2006). Moreover, Ludwig Erhard, an avowed academic disciple of Oppenheimer’s, political practitioner as Minister of Economic Affairs and subsequently Chancellor of the Federal Republic – especially in the former role closely cooperating with Müller-Armack – would elevate the social market economy to a hegemonic concept that is still relevant in German and European debates (Häuser 1994: 70–71). Curiously, then, a Schmoller-Sombart-Schumpeter-Müller-Armack nexus can be reconstructed right next to a Schmoller-Oppenheimer-Rüstow-Erhard nexus. Of course, differences in theoretical and policy perspectives should not be neglected. Apart from aspects such as democratic versus authoritarian governance and liberal versus socialist views on private property, the moral assessment of competition versus cartelization provides a key difference – with Schmoller defending the latter, whereas reasoning from Oppenheimer to Ordoliberalism stands for the former (Lüdders 2004: 128–129). Still, when it comes to the conservative leitmotif of reconciling the market system in industrial modernity with social reconciliation and cultural integration, commonalities prevail. In view of this, the discourse of the social market economy indeed mediates between diverging intellectual traditions in truly “irenic” fashion.

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From Schmoller Through the Catholic Social Doctrine to Müller-Armack: A Commentary on Reginal Hansen's Theory of the Ideational Origin of the Social Market Economy



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1 Introduction

In several essays (Hansen 1993, 2010, 2011a), Reginald Hansen¹ set out the thesis that the social policy concepts of Gustav Schmoller are at their core an anticipation of the body of thought of the Social Market Economy of the Federal Republic of Germany. This social policy was intended to be undogmatic and viable, in particular enabling self-responsibility and self-help. Hansen draws a connection between Gustav Schmoller (1838–1917), the prominent representative of *Kathedersozialismus* (“socialism of the chair”, professorial socialism) and the German Historical School, and Alfred Müller-Armack (1901–1978), the preeminent advocate of the social market economy, with Catholic social doctrine (*katholische Soziallehre*) assuming the mediation between the two economists. This essay addresses this thesis, describing it, discussing its impact in the scientific discussion, and subjecting it to a first critical examination.

¹Reginald Hansen (1919–2016) was a tax consultant as his main profession but dedicated his research life largely to a “rediscovery” of Gustav Schmoller. Hansen was a long-standing participant in the Heilbronn symposia; in 1996, he completed his doctorate under Jürgen Backhaus. In detail on Hansen’s Schmoller – image: Lindenlaub (2018)

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2 Hansen's Theory of the Ideational Origin of the Social Market Economy

2.1 *Various Epistemic Preliminary Comments*

Epistemic convictions are also persistently evident in the analyses and propositions regarding the economy and social policy. This is also a basis of Hansen's interpretation of Schmoller. The varying scientific theories largely explain in what way and why Schmoller stood out from the economists of his time (e.g. Carl Menger, Lujo Brentano, Adolf Wagner) regarding the economy and social policy; and they help to explain why his economic and social policy is reflected more in the thoughts of Müller-Armack than in those of Walter Eucken. According to Hansen (see in detail: Lindenlaub 2018, 3–16), Schmoller saw the task of the economic sciences as the search for theories that could be tested by means of the observed reality and were as confirmed as possible – using methods that drew on those of natural sciences, such as the method of natural experiments. As incomplete as they were, these theories were intended to help with the establishment of institutions for actively shaping economic and social life. This was a stark departure from the common opinion at the time that economic science had to reveal natural orders or development laws concealed behind reality, which economic and social policy could only help to implement “fatalistically”, as a “midwife”, as it were. A characteristic of these natural orders and development laws was that they harboured value judgments and were not empirically testable. However, according to Schmoller, political-moral judgments were not scientific insights but were only used to define scientific questions. Hence, this excluded political advice from liberal concepts that assumed a harmonious economic development, as long as disruptive state interventions did not take place, and, similarly, socialist and state socialist suppositions of a relentless natural progression towards collective property and state activities. Schmoller's proposals for the establishment of institutions were therefore lacking the certainty of springing purely from the “nature of things”; they are subject to a constant search process, as well as to change, after an empirical examination of their results. This refers to the link between epistemology and economic and social policy.

2.2 *Schmoller's Political Belief: An Economic Life Order*

Schmoller was committed, on the one hand, to the idea – harking back to Kant's moral philosophy – that humanity was autotelic and, on the other hand, in reference to Aristotelian ethics, to the precept of poetic justice. What justice concretely signified was generally acknowledged in discussions at that time (Hansen 1968, 158f). In Schmoller's view, it meant breaking down the “class tensions” that had emerged in the process of industrialization – namely, by reducing the extreme income and asset discrepancies (while avoiding a revolution), through equal opportunities and an

increase in prosperity for all citizens, along with extending the social and political participation of all social classes (e.g. Hansen 1968, 158f., 1993, 135f., 149). These were the elements of the “economic life order” (Schmoller’s term) striven for by Schmoller, which anticipate the notions of an “open society” in the current language (Hansen 1993, 156).

2.3 *The Path to an Economic Life Order: The Institutions*

In order to establish the life order he aimed for, Schmoller proposed interventions into economic life and the market situation, but of what kind? Hansen identifies the following four constitutive characteristics:

- Only for the weak and only subsidiary: the institutions should only protect the “weak” groups of society but even that only “subsidiarily”, namely, insofar as these groups could not help themselves (Hansen 1993, 162). “Weak” groups referred to the victims of industrialization and the breakdown of the old social orders: firstly, the newly emerged working class and then also the independent middle class (such as tradesmen and farmers) (Hansen 1993, 152f., 2011a, 403). The self-healing forces presupposed by liberalism failed here (Hansen 1993, 161).
- Helping self-help: insofar as the protection of the weak also included ongoing payments (such as the new social security benefits), this should only provide minimum support (Hansen 1993, 164). The focus of the support should be on helping self-help. The institutions that Schmoller suggested were intended to help the weak groups achieve equal opportunities in economic life and participate in social and political life: such as education and vocational establishments, trade unions (equal opportunities on the labour market) and cooperatives (equal opportunities on the goods and credit markets), along with commercial arbitration authorities and occupational safety measures (Hansen 1993, 148, 156f., 2010, 99f., 111).
- Persistent influence, the third constitutive characteristic: Schmoller’s institutions had to have persistent influence, such as the aforementioned educational and vocational establishments, the solidary groups (trade unions of, cooperatives) or the arbitration authorities between employers and employees. A “police state” and “ad hoc” intervention by the state into market activities was out of question for Schmoller, on the other hand (Hansen 1993, 138f). The measures taken to reconcile the classes should not be decisions made ad hoc on an individual case-by-case basis. Persistent influence also comprised the ability of the institutions to influence the behaviour of those affected in the long term. Schmoller therefore expected, on account of the wider education and the social security, the understanding of the beneficiaries for the harmonizing economic and social system he was envisaging (Hansen 1993, 162).
- Market and competition as a driver of prosperity: finally, what verdict did Schmoller generally arrive at – based on his empirical studies(!) – regarding the

possibilities of the state to intervene in market activities? Hansen explicitly refutes the interpretation that Schmoller (together with Adolph Wagner, who really intended this) advocated the intervention state (Hansen 1993, 136f.). On the contrary, he calls him an undogmatic liberal starting in his youth (Hansen 2011a, 406). Schmoller saw the driver of economic and technical progress and greater prosperity for all in the competitive system, comparing the egoism driving the system with the “steam in the steam engine” (Hansen 1993, 156; term mentioned in Schmoller 1874/75, 51). He (only) called for state regulations for identifiable social incompatibilities but never suggested direct interventions in market price setting. The (social) institutions should only be framework conditions for a sustained and trustworthy market system that raised the efficiency (also the social efficiency) of the economy and thereby reduced class tension (Hansen 2011a, 405f.). Formulated briefly, “a new social order that stands up to the challenge of the era as the pillar of a general [competitively orientated] economic order” – was Schmoller’s basic political mindset (Hansen 1993, 162).

2.4 *Schmoller’s Long-Term Influence: The Social Market Economy*

So much for Schmoller’s reform proposals for achieving a peaceful class balance. What echoes did they have? Hansen can see their long-term influence in the German Federal Republic after 1949. He identifies the “social market economy”, as conceived by Alfred Müller-Armack, as the – generally unknown (Hansen 2010, 101) – “late result” (Hansen 1993, 158) of Schmoller’s national economy orientation. He identifies in it a “consistent continuation and systematic specification of many of Schmoller’s thoughts” (Hansen 1993, 170). He sees Schmoller’s thoughts taking effect in the theoretical approach, in the constitution and in the individual measures of the social market economy. Schmoller and Müller-Armack presumed socially unsatisfactory results of purely competitive economic self-regulation, and both envisaged a socially orientated “life order”, but which made use of market-specific means to control the – upheld – market economy. The order was committed to the subsidiarity principle and as a rule favoured helping self-help (Hansen 1993, 159, 1996, 246–248, 2010, 99f., 110–112). A comment on the practice of the German Federal Republic: in Hansen’s view, starting with the constitutional social obligation of property, there was “scarcely an area of the [present-day] economic, work and social order for which one cannot concretely show that leading aspects were already outlined by Schmoller as an agenda” (Hansen 1993, 166). With the exception of care insurance, all social institutions that make up the present-day picture of the social state were planned and studied, if not already implemented, at the time of the *Verein für Socialpolitik* (“Association for Social Policy”) before the turn of the century (Hansen 2010, 100). Furthermore, a concrete example: the current social security displayed the character of Schmoller’s recommendations (an insurance

obligation but not obligatory insurances), not those of Adolf Wagner (who, with a state socialist orientation, wanted obligatory state insurances), nor of Lujo Brentano (who – in a liberal sense – also spoke out against insurance obligations) (Hansen 1993, 175).

However, the questions remain: is it exclusively the social market economy (in Müller-Armack's version) that continues along the lines of Schmoller's thinking? Was Schmoller not also the inspiration for the ordoliberal policy of Walter Eucken? Finally, how could Schmoller have influenced Müller-Armack?

Hansen also recognizes the effect of Schmoller's considerations when it comes to Walter Eucken. Through the "monitoring of abuse of economic positions of power", Eucken had also wanted to achieve a "social effect of performance competition", which could by all means be viewed as a "systematic continued development of the institutions called for by Schmoller to protect weaker groups" in the community (Hansen 1993, 166–168, quote 166). However, Hansen especially emphasizes the points, referring to the epistemological stances, that bring Schmoller much closer to Müller-Armack than to Eucken. Eucken, like Carl Menger, pursued a metaphysical way of thinking. Both accused Schmoller, who rejected scientific value judgements, of "applying valuations avowedly 'from the outside' to the object of study" (Hansen 1993, 132). To put it in the language of Wilhelm von Humboldt, in their view, the historian had the – cryptonormative (Hansen) – task of presenting the aim of the realization of an idea (Hansen 1968, 153, 167f.; Hansen 1993, 119f., 168). This metaphysical way of thinking is reflected in the Eucken's ordoliberal thinking. The aim of this was the perfect market (which the state was to guarantee), with social policy orientated solely towards the performance of the production machine. Müller-Armack's concept of the social market economy, on the other hand, was about a life order that went beyond the market economy order, including an even social distribution widely perceived as fair; in this, the market economy – I would like to point out – only had an instrumental function (Hansen 1993, 170f., 1996, 170f., 246–248).

However, regardless of the concordances, which role did Schmoller's thinking play in the conception of the social market economy? According to Hansen (Hansen 2010, 100f., 109–111), it entered it through the mediation of Catholic social doctrine. Catholic social doctrine was one of the models on which Müller-Armack based himself. The common principles are self-responsibility, the subsidiarity and solidarity principle and socially mandatory property (Hansen 2011b). Schmoller's role in this: Schmoller's contributions to social policy were stated under the title of "'Social Market Economy' as part of the Catholic social doctrine" (Hansen 2010, 101) and had therefore been attributed the "reputation of a special intrinsic value" (Hansen 2010, 109). Despite the damning verdict that the nestor of Catholic social doctrine, Oswald von Nell-Breuning, uttered regarding Schmoller (Hansen 2010, 107: "These judgements are all worth nothing"): Catholic social doctrine with its guiding principles of self-responsibility, subsidiarity and restricted solidarity due to the self-help principle had taken over the standpoints that the Association for Social Policy had propagated from 1872 (Hansen 2010, 109).

3 Schmolter's Legacy in the Social Market Economy: The Resonance of Hansen's Interpretation in Scientific Discussion

The extensive “Schmolter renaissance” only reflected Hansen's interpretation of Schmolter to a very limited extent: Hansen's interpretation of Schmolter's scientific agenda only fragmentarily and of Schmolter's social policy only in part (details: Lindenlaub 2018, 26–36). And what were Hansen's thoughts on the relationships between Schmolter's ideas and the economic and social order of the Federal Republic of Germany? In the general literature on the social market economy, as far as I can see, their kinship to Schmolter's thinking is not mentioned at all. A possible exception is Joachim Zweynert (2007) who, without referring to Hansen, states appropriately that for Schmolter, as well as for Müller-Armack (who was following Schmolter), social cohesion is not possible without state participation. However, he reproaches both for this lack of a delimitation between the state and the economy (of which Eucken was not guilty), and he ignores the fact that behind Schmolter's cohesion propositions there was not a social model of “organicism” as a methodology but historical-empirical observations. Various specialized Schmolter interpreters now see in the social market economy a sort of late fruition of Schmolter's social policy thinking. However, they illuminate the topic variously – without mentioning Hansen. The authors thereby only point out individual connections. Blümle and Goldschmidt (2006, 214–216), who establish a connection from Schmolter to the ordoliberalism of Eucken, argue that it was only ordoliberalism that gave the justified social policy aims of Schmolter the necessary theoretical foundations. Peukert identifies in the social market economy a mix of welfare state thinking (Schmolter) and of neoliberalism that comprises growth and redistribution (Müller-Armack) (Peukert 2000, 129). Schellschmidt (1997, 164) and Thomas (1997, 111) emphasize the social state elements in the Federal Republic as Schmolter's legacy. Kreis (1999, 162; followed by Köster 2011, 58) states that the social market economy gave Schmolter's social policy, which lacked a system, the framework of an economic order. Priddat (1995, 310) and Nau (1998, 39f.) indicate that the interplay of market dynamics and social order anchored in German thinking since Schmolter was also reflected in the social market economy. All these statements (apart from the last) lack references to Schmolter's liberal market elements; Hansen concludes that these elements do not have to be added to Schmolter's thinking in order to arrive at the social market economy.

The theory that the Catholic social doctrine is the link between Schmolter (or socialism of the chair) and the social market economy of Müller-Armack was not discussed either before or after Hansen's statements (2010). In the texts on the history of Catholic social doctrine, which draw connections between Catholic social doctrine and the social market economy (Ockenfels 1992, 2011; Rauscher 2008; Noethelle-Wildfeuer 2008; Frambach and Eissrich 2020), the economists of the German Empire do not appear as pioneers. The authors, who identify an influence

of these national economists on Catholic social doctrine, do not establish any connections to the social market economy.

4 Similarities with Schmoller and Müller-Armack

4.1 Epistemology

An overarching life order as a goal, self-responsibility, state help for self-help, subsidiarity, institutions with long-term effectiveness, interventions conforming to the market: these are key elements of the social market economy defined by Müller-Armack, whose roots Hansen also identifies in Schmoller's social policy thinking. A renewed examination does not refute this, but the similarities in the thinking of Müller-Armack and Schmoller can be elaborated and specified as regards the epistemological-philosophical principles, the basic values of the economic and social policy, the role of social stability in this concept and the significance of the market conformity of state interventions.

The starting point for all further observations can be the common epistemological-philosophical foundations of the social policy convictions. Like Schmoller, Müller-Armack also clearly refuted acceptance of "development laws" and "natural orders". He also found the idea erroneous – with regard to socialism – that "economic development is subject to inevitability, which we can only observe but not influence" (Müller-Armack 1951/1976, 222; Müller-Armack 1972/1981, 169f.). And in his view, it was also a grave error of orthodox liberalism to view the price mechanism as a process governed by natural laws and the "market economy distribution as socially and politically satisfactory as such" (Müller-Armack (1946/1976, 106). For both economists, socialism and orthodox liberalism as an understanding and political model failed in the face of historical experience and as knowledge also because of their inadmissible mixture with value judgments; they were a *Weltanschauung* (worldview) (Schmoller 1897, 331; Müller-Armack 1952/1976, 238; Müller-Armack 1978, 328). The consequence of this viewpoint in relation to action was far-reaching. As they did not recognize "development laws", neither of the economists felt obliged to accept economic and social developments "fatalistically" (Müller-Armack always said "passive", e.g. Müller-Armack 1946/1976, 106) and instead could intervene in them actively, but to what extent? Müller-Armack repeatedly emphasized the great significance that philosophical anthropology, as developed especially in the 1920s, had for the thinking of the social market economy. In his view, it overcame older dualistic anthropology, which in its naturalistic version had seen man as comprehensively bound up with the environment, in its idealistic version as completely environment-free (Müller-Armack 1972/1981, 168f.; Müller-Armack 1973/1981, 182f.). Müller-Armack adhered to the new point of view that saw the world as only being able to be shaped within limits – like Schmoller before him. He spoke of "a present historical world and its limited historical variability",

which was “the basic formula for man’s way of existence”; such a “*presence* which one can change a small part of” was the market (Müller-Armack 1972/1981, 170). In 1874, Schmoller had replied (probably in reference to Kant) to Heinrich von Treitschke, who refuted interventions into the distribution of property determined by natural laws: “You are no doubt right that we cannot order everything in the way human wisdom might think, that we must leave a lot to coincidence. But we should snatch whatever we can out of its clutches. Because this is why the stamp of spirit was pressed on us. We should intervene confidently and intentionally in the natural order as far as we possibly can” (Schmoller 1874/1875, 79). Hansen repeatedly recalled these thoughts by Schmoller (first 1968, 159), but they also apply to Müller-Armack.

4.2 *Foundation of Values in the Economic and Social Policy*

If neither Schmoller nor Müller-Armack recognized “development laws” and “natural orders”, they could not derive from these either the objectives and methods to be followed in economic and social policy; they had to undertake a new search. Schmoller had explicitly departed from the Aristotelian notion that one could derive the “immanent purpose” from reality that subconsciously drives development forwards (Schmoller 1911, 490f.), and Müller-Armack presented the starting point of his economic and social policy thoughts as follows: the social market economy (not only the market economy) was “an order that is given values but does not set them itself and which in this respect has no theological foundation” (Müller-Armack 1962/1976, 299). The aims to be striven for had to be applied “from the outside” to the economic and social policy and the means for their fulfilment brought together “undogmatically”. The similarities between the two economists in these points continue – in principle as well as in individual questions:

- Müller-Armack drew on religion for the most important values as a basis for economic and social actions. Schmoller followed a model that comprised secular and religious ethical values equally. These values were for him a creed, not an insight; they were not given “by some revelation” but resulted from “mental processes” (Schmoller 1881, 53). Müller-Armack gave the social order a Christian foundation: the “insight into the personal value of the human soul gained from the likeness of man” (Müller-Armack 1950a, b/1981, 564). As a practical economic and social policy, he put together a bundle of objectives that he considered to be reconcilable with the foundation of Christian values. It consisted – in a variable composition and very abstract formulation – of freedom, justice, equality, economic progress/growth and security. The social market economy was the tool for “irenicly” balancing these often-conflicting objectives and thereby establishing an “overarching life order” in the market economy (Müller-Armack 1948/1976, 81, 187–189; Müller-Armack 1962/1976, 299f.; Müller-Armack 1969/1981, 131). What form the balancing of the objectives con-

flict should take and to what extent, e.g. the social policy should be subject to freedom or coercion was a technical matter. Theology played no part in this anymore. It merely represented a contribution to the basic values and did not offer an “approach to normative economic policy” (Müller-Armack 1962/1976, 298). The social market economy was a tool subject to professional judgement for achieving religiously motivated goals (Müller-Armack 1950a, b/1981, 567, 574; Müller-Armack 1952/1976, 238; Müller-Armack 1962/1976, 298, 303). Schmoller had built up the structure of his thoughts on social policy similarly. At the top, he set a couple of imperatives that were taught in all religions and moral systems and on which society was founded everywhere in essence: “Assert and perfect yourself; love your neighbour as yourself; give each their own; feel part of the whole that you belong to; be humble before God, self-confident but modest before other people” (Schmoller 1911, 494, 1923 I, 45). Also, for Schmoller, these often-conflicting ideals of freedom, justice, equality, order and progress, in a condensed form (and in this case also a very abstract formulation), did not provide a foundation for a normative economic policy. They were not “empirical truths” from which one “may draw deductive further conclusions about what should be”. Instead, they were “guiding stars and aims, ... which in the right combination prescribe good conduct...” (Schmoller 1911, 439). One can view Schmoller’s economic and social policy proposals as an attempt to achieve a (Müller-Armack would say: “irenic”) balance between the stated ideals.

- The leading ideas for the economic and social policy that Müller-Armack and Schmoller professed were formulated very abstractly, because what exactly was meant by, e.g. freedom, justice (such as in the distribution of income) and equality? And how exactly should the balance between these objectives look like? The answer by both economists – and this is another fundamental similarity – was that this concrete objective must, of course, be reconcilable with the overarching ideals, derived from the respective dominant and recognized concepts, and these concepts could change. For example, in 1946, Müller-Armack wanted to put the market economy of the nineteenth century in a “position corresponding to our sense of justice and our cultural ideas (Müller-Armack 1946/1976, 110). And from 1960 he signed the Social Market Economy over to a new social policy model, which took account of the “change in our overall situation”. Historical change demanded that “the respective strategic formulas” of the “irenic balance must repeatedly be sought anew” (Müller-Armack 1962/1976, 294, 300); the social market economy was in his view an “open system” (Müller-Armack 1952/1976, 239). In 1874/1875, Schmoller had demanded “fair economic institutions”, “whose results stay in harmony with those ideal notions of justice that, based on our moral and religious ideas, are those that are dominant or gaining dominance today”. And he continued: “we do not recognize any of these institutions as standing above history, as always having been, as necessarily continuing for the indeterminate future” (Schmoller 1874/1875, 49); the aims and effectiveness of the institutions were subject to constant monitoring, as was this interpretation by Schmoller.

- Do the basic religious values retain their significance, even if they do not lead to normative directives for concrete economic and social actions that are subject to the respective outlooks of the time? Both economists also agree on an affirmative answer to this question. Their argument is of a psychological-sociological nature. They appear to consider the unconditionality of the will that religious commandments provide essential for the implementation of social ideas – even if they themselves may not believe they need this obligation. Müller-Armack complained in 1940 that secularization had led to a lack of religiously founded social ideas and social care, which socialism of the chair, amongst others, had not been able to make up for (Müller-Armack 1941, 255). And in 1952, he stated the conviction that values were not to be generated “from secular forces” but “only from religious ones” (Müller-Armack 1952/1976, 238). Schmoller had called Christianity “the biggest link in the chain” of social striving (Schmoller 1923 I, 774), and he too had seen a social and political problem in the “dissolution and paling of our religious notions in wide layers of society”. To him, the “big question” was whether other ethical systems and civic opinion leaders would be strong enough to make “the religious pillars and norms” dispensable “for the masses of normal people” (including, at least for the time being, the envisaged retribution after death) (Schmoller 1923 I, 48).

4.3 *Social Stability*

The description of the economic and social policy concept of both economists is incomplete if one does not add that it was also supposed to provide social and political stability. The stable order presumed the “agreement” of people to the “overall order”, a “new social awareness” (Müller-Armack 1950a, b/1981, 119); Schmoller had spoken of the necessity of a “unified ethos of the citizens” (Schmoller 1874/1875, 155). The suggested institutions should also forge trust in the overall order. This applies not only to the policy towards labour but also to the middle class and to counter-cyclical economic policy.

For Müller-Armack, “a strong participation of small and medium-sized enterprises” was part of a “harmonious social order” (Müller-Armack 1946/1976, 128). Schmoller had emphasized the importance of the middle class for Germany’s political and social future; if it disappeared, then “the final result would be a social and communist revolution from above or below” (Schmoller 1870, 677). In the view of both economists, actual development refuted the Marxist prediction that the middle class would be suppressed by the dominance of large concerns in capitalism. However, both of them made it a task of the state not to leave this development exclusively to market competition but to actively support small- and medium-sized enterprises (Schmoller 1870; Müller-Armack 1946/1976, 129, 153; Müller-Armack 1962/1976, 305). Contrary to the assumption of firmly entrenched classes, they both emphasized the permeability of social groups; they noted the increasing rise of workers into the employee ranks and the possibility of mitigating the dependence of

the work relationship through acquiring housing and financial assets (Schmoller 1923 I, 417; II, 316, 629 f.)

From the beginning, Müller-Armack integrated state counter-cyclical economic policy into his social market economy agenda. On no account did he want to accept “passivity in the matter of securing workplaces” (Müller-Armack 1946/1976, 162). He had the world economic crisis of 1929 in mind; it had such a devastating effect because the economic crisis turned political (Müller-Armack 1958/1976, 335). And Schmoller? Müller-Armack accused the former German theoretical economics research of having shown little interest in matters of stabilizing business cycle fluctuations; this was due, amongst other things, to the – contrary to English and American literature – division into theoretical and practical economics (Müller-Armack 1929/1981, 223). In light of this, Müller-Armack cannot have had Schmoller in mind. Because Schmoller’s *Grundriss der allgemeinen Volkswirtschaftslehre* (outline of general – that is, theoretical – economics) was characterized in particular by the fact that, as a departure from older liberal systems, the state and economic policy were incorporated into theoretical considerations; as such, his approach was therefore a step forwards, not a step backwards, in theoretical economics. A whole chapter is dedicated to the topic of crises and combatting crises in the “Grundriss” (Schmoller 1923 II, 530ff.). And like Müller-Armack, Schmoller did not want to accept the “excessive business cycle fluctuations”, with capital losses and unemployment as a result; the “doctrine, which refrained from any social market regulation, went bankrupt” (Schmoller 1923 II, 543).

4.4 *Market Conformity of State Interventions*

Müller-Armack emphasized repeatedly that social policy measures had to “conform to the market”. And Hansen also identifies market conformity, as it were, as the central proof of his progenitor role in the social market economy, regarding Schmoller. He says, as indicated above, Schmoller never intervened in direct price setting with his proposals, but is this the case? The author is not familiar with any statement by Schmoller in which he fundamentally excludes interventions into the price mechanism, and he also makes such proposals, but this occurs – and here too the two economists are on the same track – largely in accordance with Müller-Armack. They both advocated, e.g. the setting of minimum wages under certain conditions (Schmoller 1923 II, 60; Müller-Armack 1946/1976, 132f.; Müller-Armack 1948/1976, 197). Both economists also deemed customs for protecting domestic producers to be tenable (Müller-Armack simply set them in the framework conditions of national economic activity), whereby they thought easing was appropriate as soon as international competitiveness had been achieved (Schmoller 1923 II, 738, 741; Müller-Armack 1946/1976, 156; Müller-Armack 1959/1976, 257).

The price cartels remained, which Schmoller accepted (in the eyes of liberal economists his most severe sin), but Müller-Armack did not. However, Schmoller only defended the cartels because he saw in them – on a trial basis(!) – a means of

mitigating business cycle fluctuations. He assumed that prudent leaders of the cartels raised prices more moderately during an upturn so that prices don't have to fall so sharply afterwards. With this significant restriction to competition, he didn't want to abolish "economic freedom" and the "status of private enterprise"; he considered crises to be necessary for realigning the market and promoting innovation (in our language) (Schmoller 1923 II, 556). And furthermore, cartels as a means of mitigating business cycle fluctuations were at the time a common topic of academic discussion. Müller-Armack, in particular, dedicated lengthy sections to them in his essay on business cycle research in 1929. And like Schmoller, he also conceded price dampening effects in the business cycle to the cartels. Like him, he did not (yet) want (in 1929) to fell a conclusive judgement about the effectiveness of the cartels in terms of stabilizing business cycle fluctuations (Müller-Armack 1929/1981, 234, 243); it was still being put to the test.

Apart from these cases, one can indeed only find proposals by Schmoller for indirect market influencing. They aimed to make those who were "weak" in society, i.e. the working class and the trade and agricultural middle class, competitive on the market, not to suppress competition. At the same time, they pursued the principles of subsidiarity and lasting effectiveness. In this sense, they were not the "punctual" interventions into the market fabric that Müller-Armack wanted to see avoided in the social market economy (Müller-Armack 1952/1976, 236f.; Müller-Armack 1978, 328).

However, even these indirect interventions in the market, not only the direct interventions into price setting, take away the signal effect of market prices (for certain groups), for example, social security obligation, interest and tax subsidies, subsidized housing construction, rent contributions, state investments, land redistribution through inner colonization and promotion of cooperatives. State interventions of this nature in favour of workers, as well as of the trade and agricultural middle class, can be found not only in the case of Schmoller but also Müller-Armack. In principle, only thinking in terms of market economy or controlling the economy, or increasing or abolishing market competition, was called by Müller-Armack an outdated antithetic way of thinking and by Schmoller "abstract, doctrinaire decisions, with have no use in practical life" (Müller-Armack 1946/1976, 168; Schmoller 1923 II, 61; also Schmoller 1874/75, 196).

The two economists are similar when it comes to market interventions. However, in my view, they both championed the idea of competition less rigorously than in Hansen's opinion. The market economy was simply just the – changeable – tool for achieving higher goals. But in both their opinions, it was a preferential tool: it was not only economically highly efficient but also enabled, more than a centrally steered economy, a high moral good: personal freedom and responsibility (Schmoller 1923 I,560; Müller-Armack 1952/1976, 238). For ordoliberal, this undogmatic way of thinking, for which market competition is a significant but not an absolute asset, is an agenda deficit in terms of political order (Watrin 1999, 75). But without it, the social policy goals that Müller-Armack and Schmoller set for themselves can scarcely be achieved by peaceful means.

5 The Catholic Social Doctrine as a Link Between Schmoller and Müller-Armack

5.1 *On Müller-Armack's Impression of Schmoller*

The concordances between Schmoller's and Müller-Armack's thinking on the economy and social policy are striking. Hansen sees it as conveyed through the Catholic social doctrine, which is a point of discussion. However, and this is overlooked by Hansen, Müller-Armack also refers to Schmoller himself, albeit sparingly and in part indirectly. The indirect references include his already mentioned statement that, amongst others, socialism of the chair had not been able to fill the vacuum in social provision caused by increasingly turning away from the church (Dietzfelbinger 1998, 210f.); it disregarded (see below), amongst other things, the influence – to be studied – that socialism of the chair possibly exerted on the Center party (*Zentrumspartei*), which strongly supported the social policy legislation in the empire. Müller-Armack referred directly to Schmoller when he emphasized the significance of post-Marxist capitalism research (Schumpeter, Max Weber, Sombart, etc.) for the thinking of the social market economy. “Science at that time” had, according to Müller-Armack, “[drawn] a conclusion from historical research efforts that Gustav Schmoller, Karl Lamprecht and their schools had prepared”. For the “way of thinking of the Social Market Economy”, this had resulted in the insight into historically determined “overall styles”, which “brought together spiritual, economic, social and political aspects into a whole” (Müller-Armack 1973/1981, 181). Müller-Armack was evidently aware of to what extent some basic elements of his thinking were rooted in Schmoller: the refuting of natural orders and development laws, the significance of religious norms for economic life and the historical fluctuation of notions of justice. To what extent he also took over Schmoller's social policy agenda in terms of content is not evident in this statement. Can this be explained by the addition of the Catholic social doctrine as a link?

5.2 *The Catholic Social Doctrine Link*

5.2.1 **Socialism of the Chair, German Catholicism, Papal Encyclicals, Müller-Armack**

It made sense for Müller-Armack to familiarize himself with the Catholic social doctrine by studying its German version and in the form of the two papal social encyclicals *Rerum novarum* (Leo XIII) 1891 and *Quadragesimo anno* (1931). He presumably recognized the first opportunity and for sure the second. However, as the German Catholic social doctrine was also hidden behind the encyclicals, Müller-Armack definitely came across these and with it also socialism of the chair, which probably exerted an influence on the German Catholic social doctrine.

Müller-Armack granted to the two encyclicals that they had “chosen a well-balanced intermediary system between freedom and obligation” (Müller-Armack 1950a, b/1981, 567). This meant a system in which market competition and (socially mandatory) property, self-help and subsidiary state help, coalition freedom and state worker protection had their place. These elements run through the two encyclicals and the German Catholic social doctrine from the end of the 1860s – as well as the social policy proposals of the socialists of the chair, most representative in their “balance” in the case of Gustav Schmoller. What really distinguished *Quadragesimo anno* from *Rerum novarum* was the return to a notion of order from which there had been an increasing departure in the last decades before 1914 – as I assume, under the influence of socialism of the chair – and which notably did not enter Müller-Armack’s convictions: to form corporate units for every professional trade (*Berufsstände*) in order to overcome the class society. Müller-Armack called this corporate economic order anti-competitive in 1955 (Rauscher 2008, 545); one of its advocates, the theologian Oswald von Nell-Breuning, made largely critical comments, on the other hand, about the social market economy (Roos 2008, 115).

Social Catholicism and socialism of the chair scarcely differed in terms of their economics and social policy agendas, in Müller-Armack’s “well-balanced intermediary system”. The difference lay in the fact that the advocates of the Catholic social doctrine anchored the guiding values consistently in natural laws or in Christian revelations. The accusation that this was being neglected was directed especially against Gustav Schmoller, the most epistemological of the national economists. The accusation that the leading Catholic social theorist at the time, Heinrich Pesch, made against Schmoller is characteristic: his “relativistic, positivistic stance” did not allow him to realize “that morals are not a changing, historical, human construct”; instead, only the authority of God, not a “merely historical and human origin”, could give the principle social norms the necessary solidity and consistency “for social and economic life” (Pesch 1918, 11, 121; Lindenlaub 1967, 122). Sometimes, there is an emphasis on the autonomy of the Catholic response to the problems of the time (Stegmann and Langhorst 2000, Ockenfels 1992, 13; Ockenfels 2011, 10; Frambach and Eissrich 2020, 15). However, it consists exclusively in the justification of changing “worldly” ideas through higher authority, which is in line with Hansen’s finding.

The search for Schmoller as a reference person for advocates of Catholic social policy comes up against the difficulty that he is scarcely highlighted as a direct provider of ideas. In sources and literature, significance for social Catholicism is mostly accorded to socialism of the chair and, if connections to individual persons are mentioned, then primarily to those national economists (such as Lujo Brentano and Adolf Wagner), whose guiding ideas were rooted metaphysically to a greater extent than Schmoller’s. However, it is especially the comparison of the social policy proposals that leads to the conclusion that the middling position of Schmoller, regarding the weighting of freedom and obligation, also became the line of German social Catholicism. The influence of socialism of the chair on the doctrine and practice of social Catholicism (and also the evangelical social doctrine not addressed here) is unexplored territory in historical science. My comments are also highly superficial.

They are to be understood merely as tentative pointers and questions that merit more thorough research.

5.2.2 Bishop Ketteler and *Rerum Novarum* (1891)

The encyclical *Rerum novarum* of pope Leo XIII. (1891) was the magisterial reinforcement of the Catholic social doctrine of approaching the “worker issue” with the help of social reforms, on the basis of the existing economic order. It did not see an irresolvable law of history in class struggles. Instead, it considered a third route between capitalism and socialism to be necessary. Property was considered a (socially mandatory) natural right. This also applied to coalition freedom to support fair wage entitlements, but peaceful accords took priority over strikes. Where necessary (worker protection, restriction of working hours), the state should intervene.

This agenda was a departure from “Catholic Romanticism” (Roos 2008, 108) that sought to revive the corporate units for every professional trade in order to solve the social issue. It follows on, as shown by the editorial history of the encyclical, in the direction of German social Catholicism that the Mainz bishop Wilhelm Emmanuel von Ketteler had inaugurated; Leo XIII therefore also called Ketteler his “great forerunner” (Roos 2008, 108; cf. also Frambach and Eissrich 2020, 24, 27f.; Ockenfels 1992, 11, 84; Stegmann and Langhorst 2000, 660f.; Dahmen 2000, 48f.). In 1864, Ketteler had concurred with the analysis and proposal by the socialist Ferdinand Lassalle that, following the “iron law of wages” (*ehernes Lohngesetz*), considered a raising of the wages and living standard of workers in capitalism to be impossible and sought to replace the capitalist production system with a cooperative productive mode. In 1869, on the other hand, in a startling sermon, he sided with the existing market economic order, in which capital and work were divided but could be mitigated, e.g. through the workers’ right to coalitions and strikes (Ketteler 1869, excerpts printed in *Quellensammlung* 2006, 83–85). What caused this change of mind? Merely the failure of his efforts to establish productive associations (Große-Kracht 2011, 147)? Due to information about the English trade unions, which he obtained in 1868 through an exchange of letters with Lujo Brentano (Große-Kracht 2011, 161)? Or perhaps essentially due to an essay by Gustav Schmoller directed against Lassalle about the worker issue in the Prussian Yearbooks 1864/65 (Schmoller 1864/65, excerpts printed in *Quellensammlung* 2006, 27–38, 50–59)? In any case, Ketteler’s sermon from the year 1869 reads like a religiously underpinned version of Schmoller’s essay some years before. Ketteler’s suggestions are now similar to Schmoller’s: a combination of state help and self-help; duty of the state towards worker protection legislation; (following the English example) a right to coalitions and strikes to achieve fair wages, as well as a dictate of peaceful agreement; and profit-sharing for workers but especially – through education – the moral elevation of the working class, without which the raising of prosperity could not be achieved.

If it can be corroborated that this line from Schmoller to Ketteler is not only a line of ideational concordance but also of influence, then Schmoller also played his part in the drawing up of *Rerum novarum*.

5.2.3 Volkverein (1891) and Quadragesimo Anno (1931)

In 1890, shortly before the proclamation of *Rerum novarum*, the *Volkverein für das katholische Deutschland* (People's Association for Catholic Germany) had been founded with the aim of preventing a feared social upheaval through social policy educational activity. From its center in Mönchen-Gladbach, the People's Association spread the Catholic social doctrine through courses, presentations and publications to its members (more than 800,000 before World War I broke out), to the Center party and to the various worker associations. The theory defended here is that socialism of the chair (with Schmoller in a special role) strongly influenced the Catholic social doctrine during this time, especially embodied by the People's Association, and therefore its considerations also entered the encyclical *Quadragesimo anno* (1931). Some – anecdotal – hints are supposed to support this theory.

- The People's Association was orientated in its self-understanding towards the encyclical Leo XIII. However, "M. Gladbach mainly followed socialism of the chair in social policy" (Ritter 1954, 483). The leadership of the People's Association saw in socialism of the chair "the theoretical foundations for the Christian reform" (Heitzer 1991, 19). The encyclical was "to a certain extent given as a christening gift" to the People's Association (Ritter 1954, 483). The Association for Social Policy (*Verein für Socialpolitik*; the socialists of the chair were members; Schmoller was a co-founder and long-time chairman) passed a similar judgement regarding what direction action should take. Not only did it see itself as the starting point of the "spiritual social movement", which "influenced the widest circles" (Schmoller 1897, 540), but also, according to the succinct Lujo Brentano on multiple occasions, "the whole Catholic social policy, with Hertling at the helm, has excerpted our documents" (letter Schmoller to Brentano, 10.10.1912, Lindenlaub 1967, 149; cf. also 121f.).

The Catholic social doctrine did not play a major role in the Association for Social Policy, but this was the case vice versa. As a result – according to contemporary judgement – the social policy agendas of the Catholic social doctrine represented at the People's Association, and the leading professorial socialists were increasingly similar; this was enabled by the fact that both sides had the same guiding values, albeit with different ("religious" or "humane") foundations.

- The two first speakers on social policy of the Center party fraction in the Reichstag, Georg von Hertling and Franz Hitze, were under the influence of socialism of the chair. And starting from different standpoints, the two of them converged more through the allocation of tasks for state help and self-help, which may have corresponded to Schmoller's central position. The Munich philosophy

professor (and Lujó Brentano's cousin) Georg von Hertling followed Ketteler's line (acknowledgement of the capitalist economic system). Confronted in the Reichstag with the questions of workers' insurance, he found – namely, in principle – counsel in the writings of the Association for Social Policy (Hertling 1919/20 I, 352; II, 19). Initially very sceptical of the state, after the turn of the century, he placed a greater emphasis on the state help principle (Eickhoff 1932, 90f.).

- The priest Franz Hitze, from the beginning – an influential clerk at the People's Association and from 1893 Professor of Christian Social Teaching in Münster – on the other hand, had held on for a long time to the idea of restructuring the economy along corporate units for each professional trade. The accordance with the social policy notions of “moderate socialism of the chair” was not achieved until the last decade of the nineteenth century (Alfred Weber 1898, 737f.). How did this reorientation come about? Eickhoff speaks of the influence of the discussions among economists at the Association for Social Policy (Eickhoff 1932, 177). Indeed, Hitze had a lot of personal contact with these economists, especially also with Schmoller (including at the Association for Social Policy, on the Prussian State Council and during the preparation of international worker protection conferences).
- Hitze is also present at the beginning of the scientification of the social policy operated within the People's Association. Young priests were sent to universities with study aids to study economics, where they encountered the professorial socialists. These young priests included August Pieper and Heinrich Brauns.
- The priest August Pieper (1866–1942), from 1892 General Secretary (1903 General Director) of the People's Association, “followed the counsel of Franz Hitze to combat social democracy with economic science and not just to present some Bible quotes as a justification of private property” (Dahmen 2000, 91). Pieper felt a particular affinity to Lujó Brentano among the professorial socialists, because he saw in him support for his fight for the founding of interdenominational Christian unions and because Brentano discovered the English trade unions for Germany, which alone could serve as a model. However, in all (?) other points (significance of the social kingdom for social reform, significance of education in reducing class division, significance of the middle class for the social fabric, pragmatism in the protectionism question; Dahmen 2000, 96f., 220), he evidently concurred more with Schmoller than with Brentano.
- The priest Heinrich Brauns (1868–1939), from 1900 to 1919 at first an editor, then the director responsible for publications and courses at the central branch, completed his doctorate in 1905 under the professorial socialist Gerhart von Schulze-Gaevernitz in Freiburg. He based himself on the modern Catholic social doctrine, which had been “drawn up in close solidarity with proponents of ‘socialism of the chair’ (Schmoller, Sering, Fuchs, von Schulze-Gaevernitz, Liefmann)” (Lingen kas). As the Reich Minister of Labour (1920–1928), he passed significant laws, including for the settlement of labour disputes and for unemployment insurance. They show the endeavour to strengthen the position of workers institutionally, without weakening the efficiency of the market economy,

e.g. through excessively long labour disputes (Eissrich 2019, 41). Müller-Armack was familiar with this policy from his own experience. Brauns took Leo XIII as a role model, but Gustav Schmoller's thoughts on social policy are also reflected in his actions.

- The Jesuit priest Heinrich Pesch (1854–1926), who at an advanced age had studied economics (also with Schmoller) in Berlin and felt a particular affinity to the conservative professorial socialist Adolf Wagner, presented his own economic and social model with his concept of “solidarism”. However, he was doing nothing other than labelling the balance between “public welfare and individual welfare, between duties and limits to state interventions” (formulation Noethelle-Wildfeuer 2008, 153) that had always been striven for as an imperative of the divine order of creation. If one disregards his special advocacy of a new economic order based on corporate units for every professional trade, the basic traits of Pesch's programme concord both with that of the People's Association and that of socialism of the chair (Ritter 1954, 487; Lingen M: Heinrich Brauns n.d.).

The final point can be made by the creation of the encyclical *Quadragesimo*. The theologians Oswald von Nell-Breuning (1890–1991) and Gustav Gundlach (1892–1962), both scholars of Pesch, played a significant part in this. They discussed the drafts within the “Königswinter Circle”, a think tank of the People's Association. The basic core of solidarism, the divinely ordained doublesidedness (individual and social) of property and work, entered the encyclical (Stegmann and Langhorst 2000, 734). The consequence: a repeated reinforcement of the principle of solidarity limited by subsidiarity, but this was by no means substantially new. Gundlach retrospectively stated the legal regulations (in Germany), which had a strong solidaristic influence and that had also found the agreement of Pius XI: occupational safety laws and modern labour law, “characterized by the trade agreement and state arbitration system” (Große-Kracht 2019, 130). However, these were regulations that were implemented under the significant influence of the Center party (after 1919 through Brauns) but which before 1914 had been envisaged by the professorial socialists, especially also by Schmoller.

6 Concluding Comments

Reginald Hansen opens up a new perspective on Gustav Schmoller: the practice-orientated research method that draws on natural sciences makes Schmoller a progenitor of a modern “evidence-based” economic policy. And his social policy proposals, conveyed by the Catholic social doctrine, exert their delayed effect in the social market economy of Alfred Müller-Armack. The observations above reinforce, specify and supplement this interpretation. The similarities between the two economists go beyond a commitment to an ordered life, solidarity and subsidiarity. They include the whole way of thinking (rejection of development laws, historical

relativity of the notions of justice directly steering politics), as well as the advocacy of social stability. The market conformity of the social policy measures, in the opinion of the author, is viewed less strictly than Hansen presumes. The accordance of the ways of thinking can perhaps be explained by a direct reference to Schmoller by Müller-Armack. To examine the theory of the mediation function of the Catholic social doctrine, this essay – in a first step, without thoroughness – has pursued the ways in which socialism of the chair (and which is difficult, but appears possible, especially Schmoller) may have influenced individual social Catholics and the encyclicals. This indeed results in many reference points. In particular, it also appears to emerge – reaffirming Hansen – that the independence of Catholic social doctrine only existed in the theological corroboration of the social policy proposals developed in socialism of the chair. At the same time, Schmoller also considered a religiously underpinned social policy to be essential, on account of its effective impact (one must make a clear distinction), for the realization of the social policy aims; the social policy commitment of the Center party provided an example. The history of the influence of socialism of the chair on social Catholicism is completely unexplored terrain in terms of historical science, but the indications presented here suggest a serious discussion of this influence.

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Goetz Briefs' Socially Tempered Capitalism



Daniel Eissrich

1 Introduction

Goetz Anthony Briefs (1889–1974), born in Eschweiler, was an important economist, social ethicist and social philosopher of his time who now has been almost forgotten. Briefs was also an important exponent of Catholic social doctrine. He belonged to the Königswinter circle around Oswald v. Nell-Breuning, in which preliminary work was done on Pope Pius XI's social encyclical *Quadragesimo anno*. Briefs was seen as a bridge-builder between Catholic social doctrine on the one hand and ordoliberalism and the social market economy on the other. As early as the 1920s, Briefs developed his idea of “socially tempered capitalism”, which is strongly reminiscent of elements of the social market economy. Even then, but especially in the post-war period, Briefs analysed and criticised the widespread “laissez-faire pluralism”; his ideas in this regard were incorporated into the conception of Ludwig Erhard's “Formed Society”. Sometimes, Goetz Briefs has been named along with Walter Eucken, Alfred Müller-Armack, Alexander Rüstow and Wilhelm Röpke as the father of the social market economy (e.g. Reichel 1976, 261; Ederer 1969, 28). In the following, central elements from the work of Goetz Briefs will be highlighted that at least suggest such a “co-fatherhood”.

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2 Development in the work of Goetz Briefs

At the beginning of his academic career, Briefs dealt with dedicated economic issues: his dissertation is an economic-political study of the spirit cartel (1911); his habilitation was a study on classical economics, with special consideration of the problem of the average profit rate (1913). Both works were supervised by Karl Diehl and Gerhart von Schulze-Gaevernitz at the University of Freiburg. After being exempted from military service due to an eye complaint, Briefs held several administrative positions in Berlin during World War I, and Briefs probably helped initiate the Works Councils Act of February 1920 (Amstad 1985, 16). From 1919 to 1921, Briefs was initially an associate professor of national economics in Freiburg, before moving to Würzburg and returning to Freiburg as a full professor in 1923. In 1921, his discussion of Oswald Spengler's *Der Untergang des Abendlandes* (The Decline of the West) was published. Briefs thus leaves the realm of purely economic issues and turns to broader topics of social and political development. During his time in Würzburg and Freiburg, he also wrote *Zur Kritik sozialer Grundprinzipien* (On the Critique of Basic Social Principles) in the *Archiv für Sozialwissenschaft und Sozialpolitik* of 1922 (Briefs 1922a), and *Das gewerbliche Proletariat* in Max Weber's *Grundriß der Sozialökonomik* of 1926, which was republished in 1937 in English under the title *The Proletariat: A Challenge to Western Civilization*.

In the German debate on socialisation, Briefs opposed efforts to nationalise enterprises. He saw a path to social peace rather in social and labour market policy reforms, such as workers' participation and better social security coverage, aspects which he summarised under the term "economic formation" (Briefs 1922b). At this time, positive assessments of the achievements of trade unions and cooperatives are typical for Goetz Briefs (Briefs 1980[1926], 293–300). He continued to deal with trade unions and social problems within companies after his move to the Technical University Berlin in 1926 where he co-founded the Institute for Industrial Sociology. His chair in Freiburg was taken over by Walter Eucken. In his position in the capital of the Reich, Briefs became aware of the leading role that interest groups and associations had come to play in business and politics, a topic that took up a lot of space in his later work.

In August 1931, the World Socio Economic Planning Congress, under the auspices of the International Industrial Relations Association, took place in Amsterdam, with the aim of exploring the possibilities of socio-economic planning to correct the imbalances and maladjustments that shaped the global economy. During the course of the conference, Briefs emerged as a supporter of cautious social reforms. While maintaining the market economy system in principle, a balance of interests should be achieved through social policy, a view for which he received support at the conference, especially from representatives of the Christian trade unions (Bergen 1995, 18f.). Briefs also emphasised at the conference that every economic system has the potential for conflict and friction and that the idea of complete harmony is illusory (Briefs 1932b, 254).

After Briefs had fled from the Nazis to the USA in 1934, he first became a visiting professor at the Catholic University of America and in 1937 a professor at Georgetown University. Roosevelt's New Deal, the emergence of Keynesianism and his personal acquaintance with Joseph Schumpeter were particularly formative for Goetz Briefs during this period. He developed a positive attitude towards the dynamic aspects of capitalism and also a positive image of dynamic entrepreneurship (Briefs 1960, 48, 1983[1960], 252f.; Streithofen and Voss 1980, 13–16). In contrast, his attitude towards trade unions and the role of interest groups in general in a pluralist society became much more critical. After the World War II, Briefs became an outspoken advocate of the social market economy. At the instigation of Alexander Rüstow, with whom Briefs had a very friendly relationship, he became a member of the scientific advisory board of the newly founded *Aktionsgemeinschaft Soziale Marktwirtschaft*. Briefs continued to publish in German, for example, in 1952, *Zwischen Kapitalismus und Syndikalismus. Die Gewerkschaften am Scheideweg* and, in 1966, *Laissez-faire Pluralismus. Demokratie und Wirtschaft des gegenwärtigen Zeitalters*. During various visits to Germany, Briefs was involved in many lectures and discussions, especially on the role of trade unions and the social market economy.

In May 1962, representatives of Catholic social doctrine and representatives of the social market economy met in the “Drei Mohren” hotel in Augsburg. Leading personalities from both sides took part, for example, Oswald v. Nell-Breuning and Gustav Gundlach on the Catholic side, and Wilhelm Röpke and Alexander Rüstow, for example, represented the Social Market Economy. The Catholic Goetz Briefs was part of the delegation of the social market economy and proved to be an important mediator between the two camps during the conference (Frickhöffer 1994, 153; Klein-Zirbes 2004, 36).

Briefs supported Ludwig Erhard in the 1965 German parliament election campaign as a scientific advisor (Brintziger 2014, 79). Despite various attempts to persuade him to return to Germany permanently, in which Alexander Rüstow was also involved, Briefs remained loyal to his new homeland in the USA.

3 The Concept of Marginal Ethics

The name Goetz Briefs is often associated with his concept of “marginal ethics”. Briefs first used the term in 1921 in his discussion of Oswald Spengler's “The Decline of the West”:

By “marginal ethics” I mean the ethos of those economic subjects who are least hindered by moral inhibitions in the competitive struggle, who, on the basis of their minimum ethos, have the strongest chances of success under the same circumstances and thus force the other competing groups, under penalty of exclusion from competition, to gradually adjust their purchase and sale characteristics to correspond to the respective lowest level of business ethics (the “marginal ethics”). (Briefs 1921, 5)

Table 1 Some examples of the use of Briefs's concept of marginal ethics

Wilhelm Röpke	Röpke (1936, 100f)	International monetary order
	Röpke (1961, 189f)	Advertising and commercialisation of more and more areas of life
	Röpke (1960, 26)	Economic order
Hartmut Schweitzer	Schweitzer (2005, 26–27, 37)	Spread of corruption
Andre Habisch	Habisch (2010, 102–105)	Actions of investment bankers before the financial crisis
Werner Schöllgen	Schöllgen (1961, 203, 245f)	Health insurance fraud, tax evasion, price undercutting
	Schöllgen (1946, 1953)	Theological questions
Bruno Molitor	Molitor (1975, 13)	Work propensity and voluntary unemployment
Horst Steinmann/ Albert Löhr	Steinmann and Löhr (1994, 28)	Business ethics
Hans Willgerodt	Willgerodt (1968)	Planned economy
Anton Rauscher	Rauscher (1977)	Welfare state
Arthur-Fridolin Utz	Utz (1964, 60f)	Social ethics
	Utz (1994, 184)	Consumer behaviour

Goetz Briefs's concept of marginal ethics is still occasionally used today in different contexts. The following table lists some examples (Table 1).

Briefs chose this term with care, following the neoclassical concept of marginalism (Briefs 1983[1958], 259). "By 'marginal ethics' is meant the still tolerated, still bearable behaviour in interpersonal relationships, behaviour that still remains within the norms that apply in a particular area of life" (Briefs 1980[1963], 51). Briefs calls behaviour that takes place within these boundaries intramarginal behaviour; action that violates the boundary is called submarginal. (Briefs 1980[1963], 52f.) If submarginal behaviour offers higher earnings prospects in economic life than would be the case if the given standards were adhered to, this tends to lower the existing rules, because the competitive prospects of those who adhere to the old standards deteriorate. Briefs attributes, for example, the decline of patriarchy to this effect: In the early days of capitalism, some factory owners still cared for their workers to a certain extent. The competitive pressure in the nineteenth century from entrepreneurs who saw no such obligations and had correspondingly lower costs or higher productivity made this impossible in the long term. Like many other aspects of merchant morality, patriarchy disappeared because of economic considerations. Briefs continues to cite unfair competition and deterioration in the quality of manufactured products. He illustrates the latter with the German textile industry before World War I. Here, individual companies deviated from long-established, costly standards (the weave density of the fabrics was reduced), and since this loss of quality was not readily apparent to customers, these companies had a competitive advantage. Gradually, competitive pressure led to more and more companies lowering their

quality accordingly. Briefs identified five rounds of incremental quality degradation phases before cartelisation created new, binding rules for the quality of cotton products (Briefs 1921, 87; 1983[1958], 263; 1980[1963], 54f).

The marginal ethics mechanism affects not only individual behaviour but also organisations and interest groups, with a corresponding effect on the economy as a whole. For Germany in the 1920s, Briefs sees submarginal pressure from two sides: On the one hand, a small number of “completely unscrupulous” representatives of the working class and, on the other hand, the capitalist “racketeers”, with both groups “forcing down” the level of social morality of their classes and crushing the population in a “terrible pincer” (Briefs 1921, 88).

Especially in the capitalist economic order, the problem of marginal ethics is particularly evident:

[...] the “marginal ethics” forces the aligned interests, which fought against each other in free competition for the benefit of the consumer, together. (Briefs 1921, 5) [...] If one wants to see the inherent reprehensibility of capitalism anywhere, then one should see it in the fact that the groups with the lowest social ethos make their ethos standard binding for the entire social class to which they belong. (Briefs 1921, 88)

Institutionally, capitalism has the lowest safeguards for social morality¹ (Briefs 1921, 88). These facts alone led Briefs to call for an external regulatory structure for the economy²:

In a strictly liberal idea of society, the decline of marginal ethics has a socially destructive effect. The coexistence of people in a society requires a necessary form and structure, especially in the economic sphere. (Briefs 1980 [1925], 106)

Noppeney (1998, 193–195) sees parallels here between Frank H. Knight and the work of Wilhelm Röpke and Goetz Briefs. What these authors had in common was that they identified a tendency towards instability and dysfunctionality in a *laissez-faire* competitive society and derived from this the need for some form of “domesticating counter-power” to channel competition.

¹Briefs later showed that similar effects can also be found in the planned economy, which arose, for example, through incentives via bonuses and privileges. The establishment of swindling to meet standards, fudging of costs, hoarding of labour and meeting the performance targets through deterioration of quality can be observed here as a decline in marginal ethics (Briefs 1980[1963], 81).

²Later, Briefs emphasised that changes in the prevailing marginal ethos do not have to be negative per se. They can also be a consequence of innovation processes or changes in the framework conditions and thus be part of the dynamic development of the market economy. There are also phases with an improvement in marginal ethics, for example, through new regulations and laws or also in situations where compliance with moral standards offers a company advantages, for example, if there is sufficient pressure from public opinion. Overall, however, Goetz Briefs assumes a kind of Gresham Law, which leads to a permanent decline in ethical standards over time (Briefs 1957, 49).

4 Liberalism, Individualism and Capitalism

For Goetz Briefs, economic systems are historical phenomena that by no means occur in any pure form:

... forms that are not completely mutually exclusive, so that one form does not “prevail” so much as it predominates – perhaps “still” predominates or “already” predominates, depending on the transitional character of the time. The dominant form in each case characterises the economy of its time and constitutes the categories in which the consciousness of the time grasps its economic conditions. The prevailing forms are called the “economic constitution” of the time. (Briefs 1980[1926], 213)

At the same time, Briefs emphasises that every social system can only be understood in the context of its preceding one, because every new system orients itself at the latest in the struggle against the old system and thus includes elements of the old within itself:

Thus individualist liberalism carried within itself the formal idea of the mercantilism it fought against: the idea that the “law” governs economic-social life, only no longer the law of the – state, but the natural law of the freely acting economy. So socialism carries the idea of individualism – to the point of self-poisoning – within itself: the “right” of the individual, and indeed first of all of the “disenfranchised”, but furthermore of all individuals, to be realised through socialisation, i.e. practically somehow through coercion. (Briefs 1923, 342)

In this sense, capitalism arose “historically by chance, in individual causality” (Briefs 1980[1926], 234). Its basis was the emergence of liberalism and individualism.

Liberalism first appeared in the form of a “free-from-something” view – freedom from the absolutist state, freedom from state interference in the economy, freedom from religious regulations, etc. With individualism, these thoughts became a positive “liberal philosophy of life”:

The fundamental principles of individualism may be summed up on the following way: first, the individual is the true and only substance of social life, and his natural state is a state of freedom to dispose of his personal gifts, of his property and rights in exactly the way he thinks fit, and to proceed thus by means of contracts freely entered upon. The individual is free to buy and sell, to hire and to fire, to invest or disinvest, to move or to stay, to engage in this business or that, to handle things in this way or some other. He is his own sovereign, as long as his actions in no way curtail the right of others to do likewise. (Briefs 1983[1944], 301)

Individual freedom implies the principle of individual responsibility: if the individual is free to make his own decision, he must also bear the resulting consequences; accordingly, self-interest becomes the maxim for action, and if everyone follows self-interest, the logical consequence is competition as the principle of individualistic society. Self-interest and competition are seen as necessary, beneficial and desired aspects of individualism:

The earliest protagonists of liberal thought believed in a providential arrangement leading to a pre-established harmony; the later masterminds of liberalism, such as Jeremy Bentham and John Stuart Mill, undertook to prove that a rational utilitarian mechanism of necessity

would lead to peace and harmony among the individuals and the nations. (Briefs 1983[1944], 302)

But then the liberalistic and individualistic ideas met the “hard and stubborn facts of life”. The property-less working class in particular quickly realised that free choice for their own benefit was only an empty promise for them and that the burden of self-responsibility could hardly be borne in the event of unemployment or incapacity for work (Briefs 1983[1944], 302f.). In this context, Briefs also speaks of the “rules of the game of the economy”, such as individual freedom, self-responsibility and free competition, which form the “constitution” or “guiding norms” of capitalism³ (Briefs 1980[1933], 116f., 1932a, 212). The basic problem of capitalism is “the different positional strengths in the playing field”, which ultimately leads to the fact that each individual is not seen as an economic subject, as was actually intended in classical liberalism, but that society is divided into primary and secondary economic subjects, the latter being little more than economic objects whose participation in economic life is limited to the role of a seller on the labour market (Briefs 1932a, 213f., 1980[1933], 117).

In addition to the urgent need of many workers, the lack of perspective was above all problematic: the fact that even with the utmost personal initiative, a worker was hardly in a position to significantly change his economic situation. “The fact is, however, that wage labour in most areas of capitalism is not a transitional stage, but hardened to the ‘class’, i.e., is endowed with the predicates of permanence and heredity, like everything class-related” (Briefs 1980[1926], 217). The reason for this is a wage level that typically just covers current consumption needs, but with which capital accumulation or the education of descendants that would allow the worker or his children to leave wage labour relations is not possible (Briefs 1980[1926], 220f.).

5 Socially Tempered Capitalism

The possibility of social conflict exists in every social constitution. However, whether these conflicts break out openly or are intercepted and mitigated depends decisively on the economic system and the social order. The aim of social policy is the “... preservation and safeguarding of a structure of society based on its own principles” (Briefs 1980[1933], 116). For Briefs, the “pacification of the proletariat” was the central task of the time (Briefs 1980[1926], 227). Briefs assumes that wage workers are generally less interested in revolutionary changes than in social advancement. The severity with which the social conflicts were argued out, especially in Germany, was not only due to the typically cited issues such as wages

³Although Briefs already used the term “rules of the game” in the context of economic order, the usage is somewhat different from that used later by the representatives of ordoliberalism of the Freiburg School (cf. Goldschmidt 2006).

and property but also to the everyday conflicts and tensions in the factories (Briefs 1980[1926]; Streithofen and Voss 1980, 13).

Briefs did not see a fundamental unity between the proletariat and socialism; the example of the USA, where practically no socialist tendencies were recognisable, was too clear (Briefs 1980[1926], 283). Not so in Germany, where the people had an "... instilled reverence for all that calls itself science, and good faith in promises" (Briefs 1980[1926], 287). Although Briefs shares some of the arguments of socialism and even recognises Christian elements in socialism and Marxism, he vehemently rejects the overall concept. Socialism, he argues, is based on misconceptions:

... to the passion of the class struggle, of the idea of dictatorship, of the proletarian belief in the Messiah and the falsification of all history to the history of class struggles, to the narrowing of the view so that it interprets all the hardships of labour, all the consequences of machine technology, all the frictions of personal and social life in terms of the opposition between capital and labour. (Briefs 1980[1926], 235)

Briefs describes Marx's thesis that capital accumulation on the one hand always means increased misery on the other hand as inaccurate and untenable (Briefs 1980[1926], 310). Ultimately, the result of socialism is not the improvement of the situation of the proletariat but the equalisation of society as a whole at its low social level:

Society ... is the owner of the means of production, the individual "beneficiary of the proceeds" of the economy. When private property disappears as a legal category, a kind of general proletarianism arises; it becomes the normal form of existence of the citizen in the socialist state. (Briefs 1980[1926], 338)

Apart from the communist state, in which the state runs the economy in "collective compulsory associations and collective compulsory organisation", Briefs actually only sees the fascist norm state as an alternative to capitalism, where the state itself does not run an economy and leaves it to the private sector but sets the norms and rules in such a way that private interests only apply "... in so far as they coincide with what the state defines as its interests" (Briefs 1932a, 223).

Ultimately, capitalism also deserves to be rejected in principle because of the manifold social problems it causes. But since the alternatives have proved useless, "... one must resign oneself to it by mitigating its terrible effects through social policy" (Briefs 1980[1925], 95). This creates socially tempered capitalism (Briefs 1980[1925], 93). Briefs called for social transformations and installations to be carried out in the economic system that lead to more social justice (Briefs 1980 [1948/1949], 161). This included an "order of the economy in which property is socially bound and burdened with social mortgages" (Briefs 1921, 72). On the positive side, Briefs noted that capitalism apparently offers the possibilities for such social measures: "Capitalism itself has, on the whole, demonstrated adaptability that was previously considered completely impossible. It has endured a wealth of social and socio-political interventions that appeared incompatible with the formulas of classical economics" (Briefs 1980 [1948/1949], 158).

As early as 1925, Briefs also saw broad tendencies in Catholic social doctrine that wanted to “socially temper” capitalism in order to reduce the social grievances of laissez-faire capitalism without replacing the capitalist economic system as such (Briefs 1980[1925], 43). Briefs and other representatives of Catholic social doctrine thus left the path that was actually set by Pope Pius XI’s encyclical *Quadragesimo anno*, which envisaged a class-professional order as an alternative to capitalism. In the end, the view that a reform of capitalism is the only sensible and viable path finally prevailed in Catholic social doctrine.

Here, Briefs outlines the idea of a principle between individualism and socialism; he describes both the absolute society and the absolute individualism as fantasy. Both society and the individual are “reality and entity *sui generis*” (Briefs 1923, 50–53). “Individual and society are entities of their own kind linked in unity; they are subject to the conditions of their mutual *a priori*” (Briefs 1923, 325). This also rejects extreme individualism and socialism: while the former violates the sovereignty of the community, socialism violates the individual’s right of self-determination (1980[1925], 82). Elsewhere, Briefs summarises this thought as follows: “Without freedom and self-responsibility there is no economic prosperity ... But without community, without mutual responsibility, without love and a sense of duty ... there is just as little prospect of avoiding chaos” (Briefs 1921, 80). It must be emphasised that Briefs did not want to describe a “third way”; he was convinced that “the capitalist system is here to stay” (Briefs 1957, 54), which is why he stuck to his view of “socially tempered capitalism”.

There would be possibilities for pacifying the proletariat by integrating it into society as a whole, by improving social standing and the economic situation, ultimately also with the aim of the workers themselves trying to improve their own situation “in a conventional way” (Briefs 1980[1926], 227). In his writings on industrial sociology, Briefs also tries to show ways of improving the situation of the worker in the everyday production process (cf. Amstad 1985, 97–105). Wilhelm Röpke also refers to Briefs when he expresses the hope that it is possible, even under capitalism, to reduce alienation in the production process and to provide the worker with meaningful activity (Röpke 1963[1937], 77f.).

Central to Briefs, however, is the question of the social mobility of the workers and thus the question of a sufficient level of wages to make this possible. Very similar goals can also be found again in the work of Wilhelm Röpke, with explicit reference to Goetz Briefs. Röpke, too, ultimately saw two perspectives for the future: the general proletarianisation of the population through socialism or the gradual convergence of the proletariat with the middle class (Röpke 1948, 147).

A change in the social question took place when trade unions began to accept the rules of the game of capitalism for their own actions. The approach of maximising the price of labour as a quasi “monopoly provider” is, in Briefs’s eyes, a milestone for the solution of the social question. Thus, trade unions became an important regulatory factor in liberalism (Messner 1968, 4).

Briefs initially saw the trade unions as a movement that did not go into the ideological realm, rather one that worked in the economic, social realm, and only partly in the political realm. The trade unions do not only reach the proletarians in the

strict sense but wage workers in general (Briefs 1980[1926], 291). The “contradiction ... between labour as the factor of all human economy and the individual worker as a thoroughly accidental factor in the competitive system” is resolved by the trade unions, “... since the isolated individual supply of labour is abolished by the creation of a collective worker in the form of the trade unions” (Briefs 1980[1926], 295). The central aim of the trade unions is to improve the economic and social situation of the workers. Efforts to advance to another class and to leave wage-worker status remain a matter for the individual (Briefs 1980[1926], 296). But the equalisation between the classes is certainly a result of trade union efforts; it manifests itself in the better education of the next generation, consumption habits and lifestyles oriented towards the middle class. Briefs sees this process as far advanced in England and the USA, while in Germany in the 1920s, it is typically accompanied by “guilty conscience” and the accusation of switching from the socialist-influenced proletariat to the “petit bourgeois”. In the perspective that one or at least one’s descendants can get out of the precarious conditions of the proletarian existence and work their way up to the “lower middle class”, Briefs sees an important incentive factor but above all a factor for “softening” the proletarian fate and for the pacification of the proletariat. The middle class thus also acquires an essential significance for social policy; social mobility will typically lead the worker into this stratum, and an erosion of the middle class would again destroy the chances of advancement for the worker (Briefs 1980[1926], 315–317; cf. also Klein-Zierbes 2004, 55 f.).

Not only the situation of the middle class but also the general development of the economy is of utmost importance. All these factors, opportunities for advancement, improvement of living conditions and equalisation between the classes are most closely connected with the positive development of the economy as a whole (Briefs 1980[1926], 350). And the bargaining power of the trade unions is also strongly dependent on the general development of the economy; while in times of boom the trade unions can exert intensive influence, in times of crisis and depression, the possibilities are severely limited (Briefs 1980[1933], 119). Even the state is dependent in its social policy on economic development, because in the long run, it cannot exceed the economic possibilities, which its policy presupposes (Briefs 1980[1933], 119).

6 Laissez-Faire Pluralism

However, the trade unions were only the forerunners of a broad development in which the “mass soul” came to light, a “joy of organisation from the special-purpose association to the singing club” (Briefs 1921, 70). Towards the end of the nineteenth century, more and more economically free individuals tried to assert their interests by founding private organisations, a process that gradually accelerated and led to the individual economic struggles developing into a battle of association interests. Even before World War I, one could actually speak of an economy thoroughly

organised by associations. During the war, it became clear that the performance of the domestic economy and the production of armaments and supplies were a decisive factor in the war. As a reaction, the state tried to organise and direct the economy for the purpose of its own survival, using the existing organisations and creating a multitude of other special-purpose associations. In many countries, the war economy revealed a high level of flexibility in the economic system in relation to this state control, and the view that the economy can also be managed and directed on a permanent basis and that there were no “natural economic laws” of economic freedom became more and more prevalent. Governments had also recognised that the management of the economy is simplified when economic interests are represented and bundled by organisations such as interest groups and trade unions. “The focus of economic life moved from the purposes of the individual economic subjects to the purposes of association subjects and finally to the state” (Briefs 1921, 4f.; 1957, 56, 1966, 42f.). Briefs now speaks of the second phase of liberalism, in which “[...] individualism [...] has been abolished in the immense grouping of individuals” (Briefs 1980[1933], 122). This second phase is characterised by the pluralistic society, which is a market economy characterised by organised interests in which a large number of intermediary organisations, interest groups, associations and societies exist between the levels of the state and the individual.

In the second phase of liberalism, the organisations and groups insist that the liberties related to the individual by classical liberalism are now applied to groups and organisations: they “adopted [...] the liberal and individualist principles as the principles of their own attitude and policy, now thus applied to sub-collectives. Thus, liberalism becomes purely pragmatic, a matter of mere expediency for organised interests” (Briefs 1980[1948/1949], 158; 1962, 288).

The groups now adopted the pattern of individualism as a matter of course. They claimed the freedom to define their group interests, to organize and conduct their affairs as they thought fit, to bargain and negotiate by the strength of concerted action. They claimed exclusive self-responsibility, the right to act along the line of their group interest however defined, and they transformed the competitive market struggle into a group struggle. In short, they acted along the pattern originally devised for an individualistic society subject to market laws and market competition (Briefs 1983[1944], 304f.).

Finally, the competition between individuals in some areas seemed almost a marginal phenomenon – the formation of associations had undermined the market process (Briefs 1983[1944], 304, 1983[1958], 266f.).

An additional characteristic of the pluralistic society is that “[...] the pluralistic associations claim and put pressure on the democratic state as a lever for their group purposes. Today’s welfare state arises from this entanglement between the democratic state and pluralistic society” (Briefs 1962, 288).

[...] pluralism shall mean that phase in the evolution of western democracies in which a multitude of uncoordinated (conflicting and bargaining) pressure groups engages legislative and administrative backing and support for the pursuit of particular group ends. Thus, the pluralistic state acquires the quality of a clearing house of conflicting group ends, if not a junior partnership to a dominant group or coalition of groups. (Briefs 1957, 47)

In the second phase of liberalism, the former "... neutrality of the state has turned into a very active cooperation with the pluralist organisations" (Briefs 1980[1948/1949], 159).

"The huge increase in productivity has disenchanted anti-capitalist radicalism [...]" and this because it offered interest groups unimagined opportunities to succeed in their demands. But these successes also led to a "tremendous fortification of the interest groups", which finally "[...] in addition to their original drives, have an institutional interest in ever new demands and continue to exert pressure on the counterpart as well as on the state" so that there is virtually an "inflationary pressure" of new demand (Briefs 1962, 289). In this situation, the character of the interest groups also changes, and the former solidaristic self-help institutions turned into large bureaucratic organisations, some of them semi-state-like. The term "fortified trade unions" is often associated with the name of Goetz Briefs, describing their development from spontaneous, democratic self-help organisations to bureaucratically organised, hierarchical associations under often oligarchic leadership (Briefs 1965, 556–558). In the "fortified phase", the interest groups tend to restrict the freedom of their members; they place institutional interests above the individual interests of their members (Briefs 1957, 57, 69). The personal responsibility of the members is reduced, and the supposed responsibility of the group takes its place.

If, in a pluralistic society, interest groups compete with each other and their success is not dependent on market mechanisms but on public perception, the press and politics, correspondingly, no economically optimal results can be expected (Briefs 1957, 64–67).

... for the mechanism of wage and price formation, tremendous consequences had to result from this group organisation ... The system of the economy lost much of its flexibility, its automatic adaptability ... What is called rigidity certainly occurred to a great extent. (Briefs 1980[1948/1949], 158)

Since organised groups have the power to autonomously define and implement their own goals, consolidated group interests pose a threat to the common good. No corrective intervention can be expected from the state either, "[...] if the government is dependent on the same associations for the elections, whose group interests have no or only a limited orientation towards the general interest" (Briefs 1980[1963], 60).

The ethos of self-interest, which formerly regulated the behaviour of the individual, now rules the behaviour of interest groups. It is they who seek to "maximize" their interests as they define them. In place of individual self-determination, we now have that of the interest groups; in place of individual responsibility, the responsibility of the interest group; in place of competition among individuals, competition among groups. In both cases any real concept of the common good is conspicuously absent. Frequently present is the naive or arrogant identification of a group's interest with that of the entire community. (Briefs 1983[1958], 267)

Briefs answers "No" to the question of whether an orderly state of the economy emerges from the interaction of the different interest groups, i.e. the pluralistic society can be regarded as a functioning economic system. The reason for this is neither a mechanism analogous to the market equilibrium in the individualistic economy nor a comprehensive orientation of interest groups towards the common good nor

efficient control by the state to harmonise group interests are foreseeable (Briefs 1961, 223–225): “Pluralism has neither an autonomous economic nor an autonomous social principle, nor an autonomous political ordo” (Briefs 1957, 68).

In the second phase of individualism, in the group-individualistic society, such a clear-cut principle of order was missing; supply and demand as an ordering principle was interfered with by pressure of unions, by State aid for this or that group, and by pressure from public opinion. As this group organization became a complete reality and as the State was enlisted for the interests of each and all groups able to exercise political pressure, the market seemed less and less the only or decisive factor, and distribution became politicized. (Briefs 1983[1944], 310f.)

Furthermore, there is no reason to expect that the goals set by associations will in any way add up to “social justice” (Briefs 1980[1963], 58f.). In a pluralist society “... no all-round social-moral bond is created, rather at best a bond of solidarity between the allied groups” (Briefs 1921, 88).

After all, organisations like to pass the “loose ends” of their policies to governments in the form of responsibilities and obligations. The groups articulate their individual demands without assuming responsibility for their effects themselves, and governments find themselves caught in the tension between chaotic and growing group demands and the actually necessary promotion of the common good (Briefs 1957, 61).

The state is thus overloaded with functions, which also results in responsibility for, and thus power over, the most diverse areas of social and private life, “... which must drive the ‘free’ society close to the totalitarian systems” (Messner 1968, 6). And if the “[...] state largely loses its sovereignty over the social groups in a pluralistically formed society, then the conflict between the substructures precipitates conflict within the structure of state and government itself” (Briefs 1962, 295).

7 Liberalism and Totalism

“Unleashed laissez-faire pluralism is today the core problem of all Western societies and democracies” (Briefs 1966, 286). And not only the market economy but also democracy is thereby called into question. For Goetz Briefs, capitalism and democracy were two closely linked phenomena (Briefs 1983, 219). Democracy, like the liberal economic system, has undergone significant changes over the course of time. The first phase of democracy was strongly influenced by Christian religious ideas still lingering from the Middle Ages. Especially the first democracies in England, Switzerland, Holland and the USA were based to a large extent on these Christian ideas at the beginning. In the second phase, modern democracy, this reference to God was lost and replaced by reason. Democracy is no longer founded on Christian values but rather is supported by the Rousseauian social contract. At this stage, belief in reason and in the purposes governed by the contract is the basis of democracy. A functioning form of order on this basis requires a number of virtues, for example, respect for the rights and freedoms of others, respect for the law and a

sense of co-responsibility. With the erosion of these virtues, which Briefs attributes primarily to the weakening of the primary institutions of the community, such as the family and the church, democracy in the twentieth century is transformed into a democracy of “expediency” and “wise adjustment” (Briefs 1957, 67f., Briefs 1980[1954], 164ff.). The “mass” becomes the new form of community – a development that is questionable, especially from a Christian perspective:

... the Christian standpoint toward a mass society albeit of an individualistic or of a totalitarian making. Man should live his life in an “ordo” and in subdivisions of this “ordo”. If he is prevented from doing so, we may assume that a tragic concatenation of destiny and guilt brought it about. (Briefs 1941, 90)

In the development towards “expediency” and “wise adjustment”, Briefs certainly sees a weakening of democracy, which is ultimately based on values: “Thus democracy more than any other type of government needs basic agreement on fundamentals” (Briefs 1940, 176).

In western democracies, the conflict between state and society is determined by the constantly growing weight of the associations ... The associations are increasingly taking away more and more areas of self-determination and self-responsibility from their members. The economic power struggle of the associations, which forces the state to intervene, decisively determines political events with the result that the state becomes economised and society, i.e., economic society, becomes politicised. (Briefs 1980[1957], 152f.)

Briefs sees considerable potential for problems in the combination of a pluralistic society shaped by associations and a democracy based solely on utilitarian considerations. Above all, there is the danger that the state, invoking its democratic legitimacy, claims to determine the values, purposes and goals of society and the individual. And in view of the pluralistic structure of society, these factors are then also determined by powerful interest groups that themselves have no democratic legitimacy (Briefs 1966, 245–247).

Briefs recognises here a dialectic of liberalism: in the second phase, liberalism has a tendency to turn into its opposite and to lead to a tertiary stage of liberalism, totalism (Briefs 1980[1948/1949], 161). In the transition to totalism, a similar process takes place as in the replacement of classical liberalism by pluralism:

In the second phase, the organisation claimed for itself those principles, freedoms and responsibilities, those self-interests and that power which, in the old liberalism, belonged to the individuals. In the turn to totalism, the shift of these freedoms, interests and power from the organisations to the authoritarian, totalitarian leadership takes place. (Briefs 1980 [1948/1949], 160)

Briefs sees comprehensive tendencies to break out of the rules of the game of capitalism, which became so strong that an “anti-liberalism” emerged from it, which began “... to condense into a kind of myth, into a myth of planning or whatever one calls the decidedly economically constructive ideas from which public opinion and literature abound” (Briefs 1932a, 212). A complete departure from the concept of the market economy can ultimately only end in two forms:

There is, in the form of Bolshevism, a centralised and collectivist planned economy, an absolutist state economy in which virtually none of the supporting links of the rules of the

game are left. There is the case of the fascist norm state, which in principle allows entrepreneurial self-activity to become effective only to the extent of its congruence with the purposes of the state. (Briefs 1932a, 223)

But unlike many of his contemporaries (such as Spengler in 1920, Schumpeter in 1946), Briefs did not see the flight to socialism as the only possible option or inevitable fate, even though he warned of the danger of totalism as a possible third stage of liberalism (Briefs 1983[1944]). In particular, Briefs also noted that not countries with a long and stable liberal tradition, such as England, Holland and the USA, had shown themselves to be particularly susceptible to totalism, but precisely countries such as Germany and Russia. And so, Briefs still saw various possibilities for the future of the state in the 1930s:

The situation forces it to choose between taking over the “masses” and changing from a fiscal and social state to an economic state with a centrally controlled state economy, or giving space back to the social self-regulation of economic matters, while limiting it to its mere norm function. The possibilities of the future for the old capitalist and state-founded, economically narrow and socially overheated area of Europe seem to lie between the state economy and the normative state over a “constitutional” economic society. (Briefs 1932a, 230)

Despite a certain pessimism, Briefs also saw the possibility of successful reforms of *laissez-faire* pluralism. Central to this is the removal of the entanglement of interest groups with the state and government. On the one hand, the state must return to deciding according to the principles of the common good and, under this aspect, also reject the claims of individual interest groups. On the other hand, the interest groups must once again fulfil their tasks independently and not only become involved in ensuring that the state carries out these tasks. This also goes hand in hand with the demand to restrict the interest groups to their valid functions. But also, on the part of politics, a much stronger focus must be placed on the principle of subsidiarity: the state should not actively try to take over tasks that can be equally solved by associations and groups (Briefs 1966, 138–244).

8 Ludwig Erhard's Formed Society

With his critical attitude towards pluralistic society, Goetz Briefs became one of the pioneers of the further development of the social market economy in the 1960s. When the economic situation in Germany became more difficult in the mid-1960s, Chancellor Ludwig Erhard wanted to build on the successes of the post-war period and invoked the joint effort of the time. At the CDU party conference in March 1965, Erhard presented his concept of the “formed society”, with which the “social market economy” was to be expanded into a comprehensive social order. The ideas of Goetz Briefs had a significant influence on the concept of the “formed society” (Brintziger 2014, 79; Fischer 2006, 138; Heimann 1974, 570; Stöss 2013, 247f.).

Ludwig Erhard described the meaning of the term “formed society” at the CDU party conference as follows:

So, what does it mean then: “Formed society?” It means that this society no longer consists of classes and groups that want to enforce mutually exclusive goals, but that, far removed from all corporate-state ideas, it is essentially cooperative, that is, it is based on the interaction of all groups and interests. This society, the beginnings of which are already recognisable in the system of the social market economy, is not formed through authoritarian coercion, but out of its own strength, of its own will, out of knowledge and the growing awareness of mutual dependence. (Erhard 1965, 704f.)

Erhard had previously stated in his book *Prosperity for All* that “...democracy is endangered by playing off and enforcing positions of power... The problem of classifying organised group interests in the overall structure of people and the state is in any case far from being satisfactorily solved” (Erhard 1990[1957], 16). At the party congress, he emphasised: “The big questions ... cannot be answered according to the particular interests of the individual groups” (Erhard 1965, 704 f.). For Erhard’s advisor, Rüdiger Altmann, the Formed Society turned against the “functionless proliferation of organised interests”. The “connections, obligations and entanglements” between the state and the interest groups are to be reduced; they merely cause a “gutting” and inability to act on the part of the state, which nevertheless overlays ever more parts of society with its apparatus (Altmann 1968, 30, 49).

As early as 1960, after the success story of the social market economy, Alfred Müller-Armack called for an analogous concept for the development of a social framework, which in his view requires “a kind of social concerted action” (Blum 1980, 160).

The concept of the formed society only found a clearly defined expression in the beginnings of anti-cyclical fiscal policy and a common structural policy of the federal, state and local governments. Overall, however, the formed society failed together with the Erhard government; it “did not survive the next economic slump” (Blum 1980, 160).

9 Conclusion

As early as the 1920s, Briefs’s conception of socially tempered capitalism contained much of what Müller-Armack later formulated for the social market economy: “... on the basis of a competitive economy, to combine free initiative with social progress secured precisely by economic performance” (Müller-Armack 1976, 245). Oswald v. Nell-Breuning later used the term “socially tempered capitalism” as a synonym for the social market economy, although he used it with a negative connotation that Briefs did not use. Above all, it was his critical attitude towards laissez-faire pluralism that went into the conception of Ludwig Erhard’s “Formed Society”. Briefs himself emphasised the compatibility of the social market economy with Catholic social doctrine on the one hand and the contrast between the pluralist society and Catholic social doctrine on the other (Briefs 1983[1960], 255ff., 1966, 12–14).

Looking at Goetz Briefs’s works on pluralism in the light of today, with its countless and powerful lobby and activist groups, non-governmental organisations and

associations of all kinds, one automatically gets the impression of utmost topicality. This impression is reinforced by the fact that many of the developments described and criticised by Briefs seem much more advanced today than they were in Briefs's lifetime. And so, in particular, his works on pluralist society and trade unionism still evoke very contrasting reactions today (Papcke 1993, 770).

Briefs's description of the era of pluralism, in which the importance of reason and science is repeatedly emphasised but the impression of inefficiency and chaos still arises, is still apt today:

It is the "irony of history," one of the practical jokes history plays when man tries "to go it alone," that the era of rationalism ends up in its own dialectical negation. Short run and merely institutional "rationalities" of a multitude of interest groups block over-all and long-run rational decisions and actions. (Briefs 1957, 68)

Briefs critically remarked that these days, with a fundamentally individualistic attitude of the general population, there is at the same time an exaggerated belief in organisation and "regulation from above", although the idea of organisational individualism represents a contradiction in terms (Briefs 1921, 52 f.). Briefs, on the other hand, argues for personal freedom:

Just as little mere moralising can prevent submarginal behaviour as little and even less can coercion. If it is true that economic life should get by with a minimum of morality, it is even more indisputable that it should get by with a minimum of coercion. In the long run, both go against human nature. Submarginal behaviour is the expression of man's freedom – his freedom to be a selfish racketeer or a responsible member of society. (Briefs 1980[1963], 61)

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The Muthesius Circle: Financial Journalism in the 1950s



Jan Greitens

1 Introduction

The economic policy of the early Federal Republic of Germany is typically perceived to be shaped by ordoliberalism. However, ordoliberalism faced criticism not only from more leftist, socialist ideas but also from another movement that was oriented toward classical liberalism.

Köhler and Nientiedt discussed this dispute within liberalism using the example of anti-trust legislation in the 1950s (Köhler and Nientiedt 2017). Even for contemporaries, this dispute had reached alarming proportions. “After World War II, the contest of opinions in the liberal camp essentially came to a head in favor of so-called neoliberalism [ordoliberalism], which stands in stark contrast to historical liberalism [classical liberalism], especially with regard to the economic order. And this dispute over direction has taken on forms in West Germany that give rise to concern and fears that liberalism as such could suffer damage as a result.” A “fraternal quarrel” has been written wherein “historical liberalism [classical liberalism] stands against neoliberalism [ordoliberalism].” (Mötteli, C. 1955. *Der Liberalismus in Westdeutschland*. *Neue Zürcher Zeitung*, September 17. All direct quotations were originally in German and have been translated by the author.)

An important protagonist of the classical liberals was Volkmar Muthesius, who exerted great influence as a publicist in the early Federal Republic. As a publisher and editor, Muthesius had considerable journalistic opportunities to offer. In the controversy over the anti-trust law, he was made personally responsible for an “unqualifiable attack on the intellectual fathers of the social market economy and the Federal Republic of Germany.” (Mötteli, C. 1955. *Der Liberalismus in Westdeutschland*. *Neue Zürcher Zeitung*, September 17.)

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As a publisher, Muthesius cultivated an extensive network of authors as well as influential people in politics and business. Within it, a circle of people, whom he called “like-minded friends,” shared his positions and met regularly in Frankfurt. This network is hereafter referred to in as the “Muthesius Circle.” In addition to anti-trust legislation, this group met to discuss the structure of the monetary system, which was also subject of intense debate in the 1950s due to the Bundesbank law of 1957.

This study aims to shed light on the origins and historical influences of the Muthesius Circle on the monetary and banking discussions in the Weimar Republic and during the National Socialist era. The focus is not on the activities carried out by the circle in the 1950s. For this purpose, Alfred Lansburgh and his magazine *Die Bank* is considered as the role model for Muthesius’ *Zeitschrift für das gesamte Kreditwesen*. Then, this study examines the committee of enquire on banking of 1934, in which bank representatives and journalists successfully opposed the National Socialists’ far-reaching plans to nationalize the banks. In the course of the protests, a network of bank representatives was webbed. The attitude of this group toward National Socialism is then discussed, followed by the formation of the Muthesius Circle in the 1950s.

2 Volkmar Muthesius

Volkmar Muthesius was born in Weimar in 1900. After graduating from school, he studied law in Jena and earned his doctorate in 1924. After working as a bank clerk, Muthesius turned to economic journalism. At the beginning of the Great Depression, he worked for a few months at the *Deutscher Volkswirt* and then became the head of the economics and business department of the *Berliner Tageblatt*. From 1939 to 1944, Muthesius worked for *Deutsche Allgemeine Zeitung*. After the war, he founded the *Zeitschrift für das gesamte Kreditwesen* in 1948 and the *Monatsblätter für freiheitliche Wirtschaftspolitik* in 1955. Both were published by Fritz Knapp publishing house, of which he became co-owner and managing director. From 1961 to 1971, Muthesius was the president of *Bund der Steuerzahler* (German Taxpayers’ Association). He died in Kronberg in 1979 (Munzinger 1979; Frankfurter Personenlexikon 1994).

In his views, Muthesius closely followed Ludwig von Mises, with whom he conducted an almost servile exchange. In a letter dated December 16, 1954, Muthesius emphasized that, like Mises, he rejected any expansion of the public sector and called for “unconditional monetary stability” (Mises Collection at Grove City College Archives, Series 1, Box 22, Folder 10).

Many of Muthesius’s books involve the subject of money and inflation. In his memoirs in 1973, Muthesius describes himself as an “eyewitness of three inflations,” referring to 1923, 1948, and the 1970s. At the same time, Muthesius always advocated sound and free money (e.g., in Muthesius 1973). In an unpublished text

titled “Woran scheiterte Hitler?” (What made Hitler fail?), Volkmar Muthesius wrote in 1946:

The inflationary effects, however, goes much further, because it gradually became impossible to gain anything at all for money, as far as it was not a matter of rationed goods included in the card system in some form. (...) a “second money” saved the original from excessive discrediting. In Germany, rationing – as the system of stamps, cards, points, coupons, among other – was by no means limited to a few essential goods, but was extended further and further, so that the circle of goods and services that can be obtained for mere money became ever narrower. A really valid assessment of the purchasing power that money possesses is really only possible if money is “free”. (Hessisches Wirtschaftsarchiv).

In his role as editor, Muthesius at times felt compelled to take a mediating position between the classical liberals and the ordoliberals. In a letter from Muthesius to Mises on the subject of capital market policy, dated January 2, 1954, he wrote: “I would like to take [Ludwig] Erhard’s side on this; he sees the nonsense very well, but has not been able to prevent it thus far. Of course, I completely agree with you when you say that West Germany cannot actually be called a liberal country for a long time yet” (Mises Collection at Grove City College Archives, Series 1, Box 22, Folder 10).

3 The Ideal of a Financial Journalist: Alfred Lansburgh and *Die Bank*

The dominant liberal attitude in financial journalism emerged in the later years of the German Empire, shaped by the widespread economic liberalism of the time with a positive attitude toward the prevailing gold standard (this development is described in detail by Radu, 2017). During this period, two formative journals were founded and long dominated the discussion of money and finance in Germany. From 1901 to 1943, the *Centralverband des deutschen Bank-und Bankiergewerbes* (Central Association of German Banks and Bankers) published the journal *Bank-Archiv*, which discussed all contemporary issues concerning banks and money. The journal also featured a wide range of authors from academia, politics, and banking practice (Herr 2020).

By contrast, the journal *Die Bank*, founded in 1908 by editor Alfred Lansburgh (1872–1937), repeatedly sought controversy with pointed positions. The hyperinflation of 1923 was of particular importance for the further development of the journal and the reputation of Lansburgh as editor.

Alfred Lansburgh was born of Jewish heritage in London in 1872. His family moved from London to Berlin, and his father died in 1875. Lansburgh later became an employee of *Berliner Handels-Gesellschaft (BHG)*, headed by Carl Fürstenberg at the time. During this time, he read numerous economic texts in his spare time and educated himself autodidactically outside universities. He carried out this in connection with the *Verein der Bankbeamten* (Association of Bank Officials) in Berlin,

founded in 1890, which established a well-stocked library and held various lectures, particularly on economic policy (Greitens 2022a).

As the imperial era was generally highly liberal in economic terms, Lansburgh adopted an overarching paradigm of classical liberalism, which was dominant in financial journalism and within the banking community. He often referred to the classical economics of the eighteenth and nineteenth centuries. For example, in his texts at *Die Bank*, Lansburgh frequently referred to David Ricardo (23 times), Adam Smith (11 times), and Jean Baptist Say (7 times). Unfortunately, determining which concrete economic texts he read is not quite possible.

The neoclassical ideas that have become dominant since the 1870s were rather foreign to Lansburgh, who said, “The theory of marginal utility, with which one has tried supporting the wavering building from Jevons to Wieser and Böhm-Bawerk, turns economic science into a psychological–philosophical analysis, with which not a single economic problem can be clearly recognized, let alone practically solved” (Lansburgh 1922, 417).

Equilibrium is achieved through the “four correctives: ‘interest rate,’ ‘price,’ ‘wage,’ and ‘gold movement’” (Lansburgh 1937). First, interest has the function of ensuring balance between savings and investment because “who produces must consume; otherwise, the economy will be in disorder. The economic instrument, by which to avoid this danger of stagnation in the economy, is referred to as the *interest rate*” (Lansburgh 1923, 62). Based on this view, banks are financial intermediaries: “Savings’ are, thus, transformed into ‘loans’ or ‘capital investments’” (Lansburgh 1933a, 127). As such, Lansburgh did not distinguish between money and capital. If one complained about the lack of means of payment, for Lansburgh, this indicated “in reality, a lack of capital” (Lansburgh 1909, 1129). In this context, an active monetary policy can only do harm: “Do we now need a second elastic element in addition to elastic prices, elastic money? (...) The price can be hindered in its function as a key to the division between goods and purchasing power, and between supply and demand” (Lansburgh 1917, 716).

Lansburgh later became a close interlocutor with the President of the Reichsbank, Hans Luther (Borchardt and Schötz 1991, 55). Lansburgh called him “Hercules-Luther” and wrote only positively about him (e.g., Lansburgh 1933c, 426). As Lansburgh championed the Luther and Reich Chancellor Heinrich Brüning. His son later speculated on his father’s self-reproaches because his “orthodox economic ideas, in the spirit of the Manchester School” may have involuntarily contributed to National Socialism’s success in the crisis (Lansburgh 1990, p. 92).

With his plea for a restrictive monetary policy, Lansburgh opposed the expansionist plans of the National Socialists and continued to rather bluntly criticize them. He called the plans of the National Socialists, such as Gottfried Feder, “over-zealousness” of people with “little expertise” and stated that the economy must be protected from such “rash zealots” (Lansburgh 1933b, p. 1696). He opined that the goals of the National Socialists were only applicable in a simple “small-state or regional system of estates” and thus presupposes “primitiveness” and “small-scale mediocrity” (Lansburgh 1933b). The alternative contemporary ideas of monetary

theory, such as those of Georg Friedrich Knapp, were more susceptible to instrumentalization by the National Socialists.

Given the *Schriftleitergesetz* of October 4, 1933, according to which a chief editor had to be “aryan” (§6), Lansburgh could not remain editor of the *Die Bank*. The “aryanization” took place under the mediation and supervision of the *Centralverband des Deutschen Bank-und Bankiergewerbe* and Otto Christian Fischer. With the issue of June 20, 1934, Ludwig Mellinger became the managing director of the Bank publishing house and the main editor of *Die Bank*. Mellinger had been a staff member of *Der Bank* since 1930. In 1935, Lansburgh was banned from writing, and 2 years later, he committed suicide (Lansburgh 1990, 127).

Die Bank has a direct line of continuity to Muthesius’s concern for “sound money” in the 1950s. Muthesius repeatedly quoted Lansburgh, saying “Bad money is just about the greatest misfortune that can befall a people” (Muthesius 1958, 11), or “Bad money is the greatest misfortune that can befall a people” (Muthesius 1973, 34). The sentence comes from the last lines of the first volume of Lansburgh’s *Wesen des Geldes* (Essence of Money): “The ruin of its currency is probably the greatest misfortune that can befall a nation. Even a lost war does not bring such serious immediate damage as the ruin of its monetary system.” Or “Bad money is, I repeat, pretty much the greatest misfortune that can befall a nation. The outcome of the World War, which was highly unfortunate for Germany, certainly represents a catastrophe such as a nation experiences only once every few hundred years. And yet I do not know which is more disastrous for Germany at the moment, the tragedy of war or the comedy of money” (Lansburgh 1923, 83).

4 The Committee of Enquire on Banking of 1933/1934

The banking crisis of 1931 questioned the existing banking system, calling for a political examination of the events. With the National Socialists coming to power in January 1933, the extent to which the anti-capitalist Nazi ideology may be implemented was debated.

The representatives of the left wing of the NSDAP demanded a radical renunciation from economic liberalism and a breakup and nationalization of banks. In particular, Gottfried Feder, a founding member of the NSDAP, urged the most rapid and comprehensive restructuring possible. As the party’s “chief ideologue” in economic policy, Feder called for the “breaking of the interest slavery” and the fight against “rapacious, Jewish finance capital” (Köhler 2008, 60f; Wixforth 2014, 284).

However, the new government was concerned with stabilizing the economy. As such, radical system changes at the banks may have brought additional unrest (Köhler 2008, 64). Nevertheless, in response to political pressure, a banking enquire was set up. At the meeting of the Reichsbank Board of Directors on April 7, 1933, company President Schacht announced that the necessary reforms in the field of banking must be tackled. Schacht coordinated the course of action with Adolf Hitler and received the approval of the Reich Ministers of Finance and of Economics. The

committee of enquire was officially appointed not by the Reichsbank but by the Reich government, thus giving the committee the greatest possible legitimacy and authority, and was thus not parliamentary compared with the previous bank enquiry committees of 1908 and 1926. A press release from the Reich government on June 30, 1933, served as the official kickoff (Müller 2003, 114; Kopper 2006, 233f).

At the suggestion of the Reichsbank, the committee of enquire on banking was formed at the Reichsbank, to obtain recourse to the Reichsbank's Economics and Statistics Department. The majority of the 15 members were representatives of the Reich authorities and academia who advocated private-sector structures. Representatives of the banking associations were deliberately omitted, although they participated as experts. From the left wing of the NSDAP, only Gottfried Feder – who by then was State Secretary in the Reich Ministry of Economics – was included in the committee, which left him largely isolated. However, excluded from the discussion were prominent Jewish experts, such as Max Warburg (M.M. Warburg & Co.) or Georg Solmssen (Deutsche Bank), who were the most important representatives of the banks before 1933 (Köhler 2008, 66f).

The committee began its work at a constituent meeting on September 6, 1933 (Müller 2003, 115). As early as the second meeting on November 14, 1933, several principles, which had been laid down by Schacht and accepted without objection by the other members, were adopted. Thus, the demand for nationalization of the banks was practically off the table by this meeting (Müller 2003, 122f).

The questioning of experts began on November 21, 1933. A total of 26 written papers were made available shortly before the start of the enquire, together with statistics compiled by the Economics and Statistics Department of the Reichsbank. In a total of 28 sessions, 123 experts were heard, and the enquire ended on December 20, 1933. Press representatives were given guidelines for positive reporting (Müller 2003, 125; Kopper 2006, 236f; Mellinger 1934a, p. 1777).

Three main topics emerged. First, the presence of the state in the banking sector was questioned, linked to the question of the future role of the municipal savings banks. Second, the separation of credit and securities business, meaning commercial and investment banking, was discussed. The third set of issues concerned the structure of private banks, which involved concentration and the question of whether the big banks must be broken up and replaced by regional institutions (Köhler 2008, 67; James 2001, 61).

The first drafts of banking legislation were already being written in parallel with the negotiations of the committee of enquire. Nevertheless, almost a year passed between the conclusion of the committee in December 1933 and the adoption of the "Banking Act" (Kreditwesengesetz, KWG) on December 5, 1934. For the first time, the KWG provided a uniform legal framework for banking. For example, a licensing requirement was created for the operation and the establishment of branches, thus restricting the freedom of business in the banking industry. This license was accompanied by legal protection of the terms "bank" and "banker." The repeatedly criticized misuse of the professional title by credit brokers, pawnbrokers, or real estate and insurance brokers was prohibited (Köhler 2008, 71ff).

The supervisory authority for banks and savings banks was the newly created office for the banking industry. Attached to the Reichsbank and under the direction of the Reichsbank President, the office consisted of representatives of the Reich Ministries of Economics, Finance, Interior, and Agriculture. In return, so to speak, for the preservation of the German universal banking system, Schacht demanded that the banks be willing to submit to increased state supervision (Köhler 2008, 69ff). Thus, the big winner of the banking enquiry was the Reichsbank, which was able to steer the banking system with the new competences (Barkai 1988, 199).

The question of breaking up the large banks in favor of regional ones was intensively discussed in the committee of enquiry. At the center of discussion was the proposal by Kurt von Schröder, a Cologne banker who established contact between Hitler and Franz von Papen in January 1933 to form a joint government.

At the meeting of the committee on November 28, 1933, Schröder called for decentralization, at least of the Dresdner Bank and Commerzbank, which had been majority state-owned since the crisis. He saw in this the possibility of achieving a better and state-controlled supply of credit. Schröder presented the anti-bank attitudes of the party base and the power interests of regional and local party leaders (breaking up may lead to “Gau-banks”) (Köhler 2008, 67f; Müller 2003, 163). Bank concentration was a *disorganization of the economic policy leadership of the liberal state* (James 2001, 69).

Von Schröder was unsuccessful in convincing the other experts or the committee (Müller 2003, p. 163; Köhler 2008, p. 68). Even Karl Rasche, invited as a representative of Westfalenbank and who advocated regionalization, said, “It’s impossible to make eggs out of an omelet again.” Instead of breaking up the large banks, Rasche called for building regional structures more slowly (James 2001, 70; James assumed that Rasche was rewarded for this positive attitude with a board position at Dresdner Bank.). Schacht clarified at the end of the committee of enquiry that while he welcomed the strengthening regional banks, direct government intervention in their favor was out of question (Köhler 2008, 70).

In the fight against the plans to nationalize and break up the banks, the representatives of private banks in and around the committee of enquiry gained high reputation among the banking community. This applied first of all to Christian Otto Fischer, leader of *Reichsgruppe* Banken and who was therefore at the center of the dispute.

However, Ludwig Mellinger, also part of the group around Fischer that headed *Die Bank* from 1934 on, also supported the banking community. Mellinger welcomed the report of the committee of enquiry, which was forwarded to the “Fuehrer and Reich Chancellor” (Mellinger 1934a, p. 1777). He is particularly pleased that the nationalization or “splitting of the universal banks into credit and securities banks” was prevented (Mellinger 1934a, 1785) and expects an increase in bank profitability as a result of the concession requirement.

Mellinger sees the KWG as the introduction of the Führer principle in banking (Mellinger 1934e, p. 1821). The new supervisory office presented high possibilities that they “amount to a complete steering of credit” (Mellinger 1934e, p. 1821; Mellinger 1934e, p. 1813). Mellinger views this law positively, calling the results

“suitable” (Mellinger 1934e, p. 1821, 1822), and attributes a central role to Fischer in the banking enquiry and in preventing the nationalization of the banks (Mellinger 1934c, 1219f, 1223; Hofmann 1980, 89; James 2001, 62).

However, the private banks may owe this law primarily to Hjalmar Schacht, who skillfully arranged the composition of the banking enquiry, thwarted Gottfried Feder early on, and practically buried the issue of nationalization in the second session before Fischer could even appear as an expert to the (James 2001, 65; Kopper 2006, 234f, 238).

5 Christian Otto Fischer and the *Hauptgruppe Banken*

Otto Christian Fischer had been a member of the board of directors of Reichs-Kredit-Gesellschaft (RKG) from 1925 to 1938. Together with Friedrich Reinhart and August von Finck, Fischer was one of the first representatives of the banking industry who publicly supported the NSDAP even before 1933 and agreed with its anti-Semitic rhetoric. He was rewarded by becoming the most important banking official in the *Third Reich*. In 1933, Fischer became chairman of the *Centralverband des deutschen Bank- und Bankiergewerbes*, which was transformed into the *Hauptgruppe Banken* in 1934 (see James 1995, 391, 2001, 57, 277; Wixforth 2014, 290).

Fischer saw himself as a link between traditional banking and National Socialism (James 2001, 277). He wanted to subordinate the banks to the “claim to totality of the National Socialist state” (Fischer 1934, 10; also Fischer 1934, 64); “The proclamation of the leader and performance principle is the declaration of war against a state of affairs which owes its origin to the stuffy atmosphere of Marxist methods of government, and the elimination of which is an absolute necessity, especially in the field of banking” (Fischer 1934, 42). The introduction of the Führer principle by the *Hauptgruppe* was intended to prevent “excessive competition” that can harm the overall interests. Nevertheless, an alleged ideological restraint of Fischer towards the National Socialists was later claimed by his colleagues in the RKG (James 2001, 5). Walter Hofmann wrote an obituary for Fischer in 1949 in the *Zeitschrift für das gesamte Kreditwesen*, absolving him of all possible involvement and rather transfigured him into a resister (Hofmann 1949, 463f).

The concrete competencies of the *Hauptgruppe Banken* were limited and laid in the bureaucratic-administrative supervision of banking. Local competition disputes could be resolved (Salden 2019, 351f), but otherwise, *Hauptgruppe Banken* was primarily an “information agency” for its members (Wixforth 2014, 285).

On October 11, 1935, Fischer founded the *Deutsches Institut für Bankwissenschaft und Bankwesen* (German Institute for the Science and Practice of Banking), which became an important instrument of his activities as head of the *Hauptgruppe Banken*. In his speech at the founding ceremony, he stated the Institute’s goals: to serve “scientific research into problems of banking and credit” (Fischer 1935, 3). In this way, Fischer intended to fight against the consequences of the committee of

enquire on banking of 1933, which had led to a state of agitation and resentment against banks (Fischer 1935, 4). Employees were not allowed to act as emissaries of their banks but were to subordinate themselves to the purpose of the institute (Fischer 1935, 6f).

Along with the Institute, a *Volkswirtschaftlicher Beirat des Deutschen Instituts für Bankwissenschaft und Bankwesen* (Economic Advisory Board) was founded (Fischer 1935, 7). For this, Bernhard Benning, head of the Economics Department at Reichs-Kredit-Gesellschaft, hosted the weekly luncheons in the RKG's casino from 1936 onward. This Advisory Board brought together the heads of the economics departments of Berlin's major banks and, as guests, the editors of *Bank-Archiv* and *Die Bank* (Benning 1960, 16; Muthesius 1962, 15).

This circle included Bernhard Benning (1902–1977, chief economist of Reichs-Kredit-Gesellschaft; after the war, Bundesbank board member), Karl Eugen Mössner (chief economist of Gemeinschaftsgruppe Deutscher Hypotheken-Banken; after the war, head of Hannover Messe), Kurt Hunscha (1902–1973; before and after the war, chief economist of Dresdner Bank), Walter Hofmann (1899–1961; closest collaborator of Otto Christian Fischer at Reichs-Kredit-Gesellschaft; after the war, board member of Frankfurter Bank), and Ludwig Mellinger (editor of *Die Bank*; after the war, head of supervisory board of Bayerische Vereinsbank). The circle maintained close friendships until the 1970s. In the 1960s, so-called *Freundesgaben* were published at anniversaries, especially by Muthesius's Fritz Knapp-Verlag, in which close friends contributed short congratulatory texts with memories of shared times (1955 for Fritz Knapp, 1960 for Ludwig Mellinger and Hermann Janssen, 1962 for Bernhard Benning, and 1968 for Karl Eugen Mössner).

One of the Advisory Board's main tasks was to combat the lack of banking statistics (Fischer 1935, p. 5). In addition, influencing public opinion was pursued. For this purpose, the magazine *Die Bank*, after "aryanization", was used in 1934. This magazine provided Fischer access to an internationally recognized organ whose contents he could now largely determine (Greitens 2021, 36).

Another goal was to promote training in the banking industry (Mantel 2009, 657). Starting in 1935, the column "Der Bankberuf, Beiträge zur Schulung und Fortbildung der Angestellten im Bankgewerbe" ("The Banking Profession, Contributions to the Training and Further Education of Employees in the Banking Industry") was introduced in *Die Bank*. This column included advertisements for the Reich training courses initiated by Fischer, reports of lecturers and participants report, introductory essays on practical banking topics, and prize competitions. The manuscripts of the lecture series of the *Deutschen Instituts für Bankwissenschaft und Bankwesen* were also published by Mellinger's Bank-Verlag. In 1941, the manuscript included a text by Fischer entitled "Der Kredit in staatsgelenkter Wirtschaft" (pp. 5–20). Even before that, the "Führerschulungen für das deutsche Bankwesen" ("Leadership Training for German Banking"), initiated by Fischer at the University of Frankfurt, had received positive attention (1934, 1139, 1401f).

Another meeting place was the *Deutsche Club* in Behrenstrasse in Berlin. Muthesius and Friedrich Pfeffer, the general manager of the Reichsgruppe Banken, also visited this place and came in contact with the bank economists. Afterward, this

group of banking representatives with liberal convictions wrote that they would have felt like in inner emigration and within “silent resistance” or having fallen in a “resigned fatalism” (Muthesius 1973, 69f).

6 “Like-Minded Friends” in Frankfurt: The Muthesius Circle

After the war, Walter Hofmann, together with Muthesius and Erich Achterberg, founded the *Zeitschrift für das gesamte Kreditwesen* at Fritz Knapp-Verlag in 1948 and deliberately placed it in the tradition of *Bank-Archiv* and *Bank*. A stability-oriented monetary policy, with explicit reference to Alfred Lansburgh, is named as one of the cornerstones of the journal (Muthesius 1955, 20, 1973, 117).

Erich Achterberg wrote that Mellinger distanced himself from the regime (Achterberg 1960, 11) and Bernhard Benning attested to his “incorruptible journalism” even between 1933 and 1945 (Benning 1960, 15). The Allies regarded Mellinger as an opponent because of his covert criticism of the monetary and financial policies of the Third Reich, even during the war (Kopper 1995, 104f and OMGUS, Investigations of the Financial Intelligence Group, SHAEF/G-5/FIN/25/2 of November 6th, 1944.). When Mellinger’s efforts to obtain a license from the occupying powers for a new journal nevertheless failed (Hofmann 1960, 27), he subsequently promoted the founding of the *Zeitschrift für das gesamte Kreditwesen* at Fritz Knapp-Verlag instead (Hofmann 1955, 16, 1960, 27).

With the Fritz Knapp publishing house, Muthesius became the pivot of a financial journalistic network. This network was used intensively, such as by Albert L. Hahn, who had become a libertarian because of his experiences of the hyperinflation of 1923. In Frankfurt, Muthesius established a circle of “like-minded friends” who met regularly, including Walter Hofmann and Erich Achterberg (formerly of the *Frankfurter Zeitung*, now coeditor with Muthesius); Bernhard Benning; Franz Böhm (since 1946 at the University of Frankfurt); Heinrich Rittershausen (until he went to the University of Cologne in 1953); Otto Veit (editor until 1933, president of the Hessian State Central Bank 1947–1952, then University of Frankfurt); Hans Ilau (journalist and FDP member of parliament); and Erich Welter (*Frankfurter Zeitung* until 1943, founding editor of the *Frankfurt Allgemeine Zeitung*, University of Mainz from 1948) (Röpke Archive at the University of Cologne: letters from Muthesius to Röpke dated February 23, 1951, taken up several times such as on January 19, 1952, or October 11, 1952. Muthesius was also connected with Wilhelm Röpke, Walter Eucken, and Franz Böhm via the Mont Pèlerin Society). In a letter to Mises, Muthesius mentions this circle: “In any case, my friends here and I – they are only a few friends – are not giving up the fight against any form of interventionism” (Letter from Muthesius to Mises, June 8, 1955, In: Mises Collection at Grove City College Archives, Series 1, Box 22, Folder10).

The efforts of this group to influence the orientation of the *Bank deutscher Länder* and the nascent *Bundesbank* (see also Mee 2019, 110f, 128f, 141, 207; Bank 2013, 195f, 201, 238) is also evident in the cooperation with Adolf Weber, a liberal opponent of the ordoliberal school in Freiburg (Greitens 2022b), and his *Münchener Volkswirtschaftlichen Arbeitsgemeinschaft*, from which the IFO Institute grew (e.g., Muthesius 1950). Adolf Weber is also associated with the circle as the doctoral supervisor of several members, Bernhard Benning and Ludwig Mellinger. Muthesius entered into a cooperation with the Bank deutscher Länder since 1948 to promote the bank's stance to the public in the *Zeitschrift für das gesamte Kreditwesen* (Mee 2019, 110f, 128, 180, 204f, 304).

Despite all the criticism of ordoliberalism, Alexander Rüstow and Wilhelm Röpke asked Muthesius if he wished to succeed Eucken at the University of Freiburg. Muthesius declined because he found the role as a publicist to be more influential (Röpke Archive at the University of Cologne: Letter from Muthesius to Rüstow, copy to Röpke, dated November 1, 1952, and letter from Röpke to Muthesius, dated November 5, 1952).

With increasing age, the interest of the members shifted toward historical retrospection, such as the establishment in 1962 of the *Archiv für bankgeschichtliche Forschung* (from 1969, Institut für bankhistorische Forschung; today, Institut für Bank- und Finanzgeschichte), by Erich Achterberg or through personally influenced writings, such as on the *Reichs-Kredit-Gesellschaft* by Hofmann (Hofmann 1980), which is also an expression of a positive interpretation of one's own role during the period 1933–1945. This role is associated with mutual confirmations of having acted properly during the period of National Socialism. This is a consistent element in the “Freundesgaben,” such as of Otto Christian Fischer that they likewise held in high esteem.

7 Conclusion

The economic policy of the early Federal Republic is considered to have been shaped by ordoliberalism. However, other liberal groups hold influential positions and exercised journalistic power. There were fraternal quarrels between those groups, especially during the 1950s.

The Muthesius Circle was an influential group around the journalist and editor Volkmar Muthesius, who pushed ideas of classical liberalism into the economic discussions of the early Bundesrepublik. He and his like-minded friends radically rejected any state intervention in banking and unconditional monetary stability.

The circle merged from several origins. One is an adherence to stable money as in the gold standard and a type of financial journalism, which was shaped by Alfred Lansburgh. During the committee of enquire on banking of 1933–1934, these representatives of the banking and financial journalists moved together to fight against plans to nationalize the banks. The central figure was the leader of the Hauptgruppe Banken, Otto Christian Fischer, who was kept in high esteem in this group even after the war.

Muthesius reunited with his like-minded friends in Frankfurt after the war. Their relationship to ordoliberalism was characterized by both cooperation and conflict. The “fratricidal infights of liberals” broke out over the anti-trust law, while less heated disputes arose over monetary issues.

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Healthcare Policies of the German Federal Republic



Ursula Backhaus

1 Introduction

The main institutions of the healthcare system were already in place, when the social market economy was introduced in Germany in 1948. The founders of the social market economy took over a system of statutory health insurance next to private health insurances, an early corporatist healthcare system, as well as a state system of public health.

In order to meet the most pressing needs of the time, the politicians of the early social market economy put emphasis on building hospitals and on increasing the number of physicians. Later on, the stability of the system of statutory health insurance became the main concern, and cost-containment policies were introduced. In 2019, with the emergence and spreading of the coronavirus disease (COVID-19), public health problems came to the forefront and required cooperative efforts within the social market economy.

In this chapter, an analysis is provided of selected healthcare policies from the early days of the social market economy to the modern times. A modified version of the concept of *Economic Style* by Spiethoff¹ is used in order to highlight multiple facets and changes of policies. The first part focusses on the early days of the social market economy, the second part describes the concept of *Economic Style*, and the third and main part analyzes the changes of major healthcare policies over the

¹According to Spiethoff, the concept of *Economic Style* has first been introduced by Sombart as a tool of economic analysis (Spiethoff 1933, pp. 51–84).

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course of the social market economy. The chapter ends with a summary and conclusions.

2 The Early Social Market Economy and Health System of the German Federal Republic

Ludwig Erhard (1897–1977) was elected to the Bundestag in 1949 as a member of the Christian Democratic Party and appointed minister of economic affairs in the cabinet of Chancellor Konrad Adenauer. This post he held for 14 years. During this time, when the West German economy recovered and started prospering, he was therefore called *Father of the Economic Miracle*. In 1957, Erhard became vice-chancellor, and in 1963, he was elected chancellor but resigned in November 1966 in a period of political turbulence.

In his autobiographic memoirs, Günter Schmölders (1903–1991) describes the beginnings of the social market economy as follows: when Ludwig Erhard (1897–1977) was minister of economic affairs, he created a scientific advisory board to the ministry, where he “wanted to discuss his current policies with his friend and later state secretary, Alfred Müller-Armack, as well as a wider circle of economics professors. For Erhard’s current economic policies, Müller-Armack had coined the catchy name of Social Market Economy” (Schmölders 1988, 125).² Müller-Armack (1901–1978) joined the ministry of economic affairs in 1952. In order to maintain personal liberty, he wanted to reach social security by measures of the social market economy rather than by socialist state interventions (Müller-Armack 1981(2), p. 317).

Maintaining personal liberty was also the goal of Wilhelm Röpke (1899–1966), who went to Geneva in Switzerland in 1937, where he taught at the Institute des Hautes Etudes Internationales. He admired in particular the country’s structure of direct democracy and decentralism and found that decentralization was at the basis of that country’s humane society and economy (Backhaus 1999). Röpke’s call for decentralization applies to all spheres of society. Central to his concept of *Social Liberalism* is the view that widespread decentralization prevents political dictatorship: “It is hardly forgivable naïveté to believe that a state can be all-powerful in the economic sphere without also being autocratic in the political and intellectual domain” (Röpke 1950, 102). Erhard, who was taught the concept of *Liberal Socialism* by Franz Oppenheimer (Erhard 1964), later changes the emphasis and follows the same concept of *Social Liberalism* as his friend Röpke does. The principle that was brought forth by Oppenheimer is the same, but in one case, it is

²The original German quote reads as follows: “Die Mode des wissenschaftlichen Beirats bei einem Bundesministerium hatte eigentlich Ludwig Erhard kreiert. Er hatte das Bedürfnis, mit seinem Freund und späteren Staatssekretär Müller-Armack und einem weiteren Kreis wirtschaftswissenschaftlicher Professoren seine aktuelle Politik zu diskutieren, für die Müller-Armack den zugkräftigen Namen” “soziale Marktwirtschaft gefunden hatte (Schmölders 1988, p. 125).

socialism; in the other case, it is liberalism. One could interpret these two cases as two different shoes, which are of the same size. The aspect of decentralization highlighted here rather belongs to the common principle than to those aspects, where the two concepts markedly differ. When Erhard introduced the social market economy in the German Federal Republic, he mainly relied on Röpke's concept of social liberalism.

Ludwig Erhard (1969, p. ix) emphasizes his gratitude to Wilhelm Röpke, when he introduced the *social market economy* in West Germany against the opposition of the military government, which had rather seen Keynesian solutions to be introduced. Keynes preferred a centralized system, because that way, the policies he suggested could have been introduced more easily. Röpke focuses on decentralized measures instead and warns of the danger of inflation and possibly deflation, monetary disorder in any event.

The proponents of the early social market economy in Germany found a health system in place, which today is also referred to as Bismarck System, in contrast to the Beveridge System.³ Central to the German health system of the Federal Republic are institutions based on Bismarck's (1815–1898) social security reforms: compulsory health insurance was introduced in 1883; compulsory accident insurance in 1884; and compulsory old age insurance followed in 1889. The risk of illness also led the self-employed and people with high income to demand health insurance. Private health insurance plans developed in order to serve those who were not part of the mandatory insurance system. The ideas on mandatory insurance against catastrophic risks were developed by Gustav von Schmoller (1838–1917) (Backhaus 2007, 181). This was an insurance-based concept of the welfare state, which has been replaced by the British concept of the welfare state (Beveridge 1942) almost throughout Europe. In the social market economy of the German Federal Republic, basic principles of the insurance-based healthcare system remained in place.

Public health efforts emerged well before 1948, for instance, during Cameralism when professional associations formed in order to enforce quality standards and when measures of hygiene were systematically introduced (Backhaus 2007, 86). The introduction of worker safety measures can be traced back to early studies by Roscher, who created the basis for worker safety legislation (ibidem, 119). In responding to the needs of their time, the politicians of the early social market economy built on these earlier efforts.

In the early social market economy, many policies contributed to improve the health of the population but were rather implicit by nature. For instance, the time after World War II was characterized by shortages of food. In order to improve the nutritional basis, refugees were distributed among farms, and mechanization of agricultural production was fostered. Other implicit health-political measures include improvement of the housing situation, the creation of employment

³The British concept of the welfare state goes back to a government report published by William H. Beveridge, in 1942, "Social Insurance and Allied Services." Major features of the Beveridge system are the National Health Service, which is tax financed, and provision of healthcare for free to all citizens.

opportunities, a concern for higher and stable incomes, and investment in schools for the provision of better education. Implicit health policies contribute to economic growth and better public health and thus improve the health state of the population.

In the following part, the main focus is on explicit healthcare measures. As a tool of analysis, the concept of *Economic Style* has been selected. By looking at multiple dimensions, it is particularly suited to highlight changes and challenges of healthcare policies of the social market economy.

3 Dimensions of *Economic Style*

A modified version of the concept of *Economic Style* by Spiethoff (1873–1957)⁴ is used in order to analyze major health and healthcare policies from the early days of the social market economy to the modern times. As suggested by Jürgen Backhaus (1997, 311ff), Spiethoff's categories will be extended from originally 16 to the following 19 dimensions in order to show long-run effects.

1. *Ethical beliefs*
2. *Personal motivation*
3. *Mental attitude*
4. *Population density*
5. *Demographic change; population mobility*
6. *Division of labor*
7. *Intellectuals and handicraft*
8. *Organic and inorganic technical processes*
9. *Size of the community*
10. *Coherence of society: family and contract*
11. *Specialization in society*
12. *Ownership constitution*
13. *Order of the production of goods and services*
14. *Concept of distribution*
15. *Concept of labor*
16. *Economic circle*
17. *Social constitution*
18. *Concept of taxation*
19. *International alliances and contracts*

The concept of *Economic Style* is highlighting features which are no longer part of mainstream economic analysis. Examples include ethical beliefs, mental attitude, or coherence of society. While this tool of analysis shows major aspects of the health system of the social market economy in its dynamic development, it is a drawback

⁴As an application of *Economic Style*, Spiethoff mainly had the long-run analysis in mind, while Eucken also suggested a horizontal application (Eucken 1950, 38).

that cooperation of these aspects is not provided. Richard E. Wagner (2021, 490) has made the point that widespread cooperation among many actors at different levels is needed in order to overcome a public health crisis such as COVID-19.

4 Analysis of Selected Healthcare Policies of the Social Market Economy

The analysis of selected healthcare policies of the social market economy is provided along the following 19 dimensions of *Economic Style*:

4.1 Ethical Beliefs

After World War II, public health had a bad reputation due to National-Socialists' unethical beliefs resulting in oppression and persecution (compare Huster 2012, p. 75). In order to ensure ethical behavior, a decentralized approach has been chosen in the early market economy that strengthened the corporate healthcare system and self-administration of professionals. An example is the regulation of the market of physicians, which focused on the institution of "Kassenarzt." This is a physician licensed by the Association of Statutory Health Insurance Physicians with compulsory membership, who gets reimbursed for treatment of patients insured by Statutory Health Insurance.

In order to increase healthcare supply after WWII, the so-called *Kassenarztrecht* (1955) gave a privileged position to the Association of Statutory Health Insurance Physicians. They received a state monopoly in order to secure an adequate supply of Statutory Health Insurance Physicians nationwide, the so-called *Sicherstellungsauftrag*. In addition, the Association was put in charge of the distribution of the honorarium among its members who were paid on a fee-for-service basis. The fees for particular services followed a fixed scale. This meant that individual physicians no longer had to compete with each other in negotiating the honorarium with health insurances. In addition, the Association was put in charge of quality control of the work of its members (Rosenbrock and Gerlinger 2014, 148).⁵

As a consequence of the law of 1955, the capacity of ambulatory healthcare provision increased. However, there was also a strong rise in healthcare costs.⁶ Two decades later, reforms were directed toward cost containment, a liberalization of

⁵ Once a monopoly has been established, the external pressure to keep costs low is weakened, and rent-seeking may occur (Tullock 1967, 224–232).

⁶ The seminal work by Arrow appeared in 1963. Arrow showed how the institutional environment of medical care influences the behavior of individuals. For instance, under the assumption that healthcare providers maximize their own utility, a fee-for-service remuneration provides an incentive to maximizing the number of services (Arrow 1963, 941–73).

healthcare, introduction of selective contracts, and the introduction of quality controls from an impartial side. By introducing budgets and competitive elements, cost-containment policy withdrew some of the privileges the Association of Statutory Health Insurance Physicians had obtained in 1955.

A change in perspective occurred when the “New Public Health” approach became popular in the 1980s. The goal was to achieve health equity through equal provision of access to healthcare and preventive strategies. In 1989, § 20 SGB V was introduced, which was directed toward the reduction of health inequities in society. Subsequently, measures of prevention were included in the reimbursement package by Statutory Health Insurance, but additional efforts are needed in order to further reduce differences in health chances (Rosenbrock and Gerlinger 2014, 55).

Ethical beliefs are also reflected in goals of hospitals and other healthcare-related businesses. For instance, a hospital with a focus on ethical components is typically more stable than a profit-oriented one.

4.2 Personal Motivation

Personal motivation and ethical beliefs are not independent from one another. The community, as the owner of a hospital, will behave differently from a private business, which is profit-oriented, and most likely each of them will respond in a different way to changes in healthcare policy. Both of them are part of the same regulatory environment, the so-called self-administration, in which professional associations hold powerful positions.

4.3 Mental Attitude

Rudolf Steiner (1861–1925), the founder of anthroposophy (Steiner 1923/1924), focused on mental attitude in his holistic approach to health and healthcare. The University of Whitten-Herdecke, founded in 1985, introduced the study of anthroposophical principles into the curriculum of medical education.

4.4 Population and Population Density

After World War II, population density was high, even in rural areas, because of many refugees who had to be fed. The focus was on providing enough food for the population and adequate access to healthcare provision. Prior to 1960, licensing of physicians’ practices was mandatory and ensured an equal distribution of physicians. In 1960, the judgment of the Federal Constitutional Court granted Statutory Health Insurance Physicians free choice of residence in setting up a practice

(Rosenbrock and Gerlinger 2014, 185). Thereafter, it turned out that physicians preferred to set up residence in metropolitan areas and the more privileged parts of a city.⁷ A shortage of physicians at the sparsely populated countryside resulted (Rosenbrock and Gerlinger, 2014, p. 442). In order to provide more equal access to healthcare, monetary and other incentives are provided by the State and local communities to attract young physicians to the countryside and unprivileged parts of the cities.

4.5 Population Mobility, Demographic Change

As the demographic change highlights a shortage of skilled and unskilled labor in care, population mobility offers a chance to reduce this gap. Nurses from abroad fulfill an important role in providing care. However, setting incentives for population mobility should not solely be in the hands of the State or Federal States but also with individual communities. Community governments are in a better position to create individually attractive conditions for living. It is quite obvious that in this case, the Subsidiarity Principle applies.

4.6 Division of Labor

The Corona crisis showed that working and living can be combined on a large scale. This combination requires a well-functioning digital infrastructure. Basically, this option is also open to those areas with a low population density. Progress has been made, for instance, by the introduction of electronic health applications, but further efforts are needed in improving the digital infrastructure.

4.7 Intellectuals and Handicraft

There is the phenomenon of the intellectual physician, whom we know from Franz Oppenheimer. As a physician, Oppenheimer, the son of a reformist Rabbi, was rather unprivileged. He had to work in the proletarian quarters of Berlin, where he witnessed urban housing problems. After he had recognized that the main sources of mortality and diseases are to be found in the social environment, he turned to the social sciences and developed his vision of a new order of society. Central to his vision were individual freedom and a healthy social and productive environment.

⁷In an international comparison of OECD countries, Germany takes place 4 with 4.5 practicing physicians per 1000 inhabitants, but the numbers do not reflect regional distribution, and areas with a low population density are underserved (OECD 2022).

Oppenheimer proposed a land reform and the establishment of cooperative settlements in order to create a healthy environment of work and production. Confronted with massive unemployment in the industrial quarters of Berlin, crowded living conditions, and illness, he devised a scheme that would bring industrial laborers back to the land by buying defaulted estates and turn them into small agro-industrial farms. Oppenheimer expected that people who live in freedom in a cooperative settlement are healthier than those who live in crowded industrial quarters or those who live under fiefdom at the countryside. Oppenheimer's experiment, to buy bankrupt estates and transfer them into cooperatives, was also the key to turn around the trend toward depopularization in rural areas. Oppenheimer was the teacher of both, Ludwig Erhard and Alfred Müller-Armack.

Intellectual and handicraft aspects are combined in healthcare. While intellectual efforts helped develop strategies aimed at halting the spread of COVID-19, the aspect of handicraft came to the forefront when nurses and caregivers were applauded for the work they performed during the COVID-19 crisis. Their efforts were publicly recognized. Next to public recognition, an adequate monetary reward for their efforts is yet to follow. This is also a key in solving the acute shortage of nurses and other caregivers.

4.8 Technical Processes

According to Erhard and Müller-Armack, entrepreneurship is the driving force in the social market economy (Erhard and Müller-Armack 1972, 374). In the early social market economy, pharmaceutical products were reimbursed by statutory health insurance upon prescription, at prices set by the companies themselves. This practice has changed, because technology is one of the major drivers of healthcare costs. Health economic evaluations commissioned by the Federal Joint Committee (G-BA)⁸ or by the State Ministry of Health (IQWiG 2020, 92) are in place in order to guarantee the financial sustainability of the healthcare system. Additional cost-containment strategies include drug price regulation in the pharmaceutical sector, rebates, re-imports of pharmaceuticals, and selective contracts with hospitals.

A major challenge to the financial sustainability of the healthcare system is biogenetically produced products (Berger 2021). Application is currently mainly to patients who receive orphan drugs. This could change, when bio-engineered products become eligible to a wider circle of patients, for instance, in the case of diabetes mellitus. Should a person receive live-saving medicines if the market comes up with

⁸“According to SGB V, in relation to the specific commission the Institute determines the methods and criteria for the preparation of health economic evaluations (HEEs) on the basis of the international standards of evidence-based medicine and health economics recognized by the respective experts in these fields. For each HEE, decisions must be made, among other things, on the perspective, the time horizon, the choice of comparators, the underlying care pathway, the model, the data basis, and the presentation of uncertainty” (IQWiG 2020 92).

exorbitant prices? Reimbursement of such prices is a threat to the sustainability of the statutory health insurance, if many patients become eligible.

4.9 Size of the Community

Often, even very small communities have their own hospitals. As Röpke (1959, 345) has shown, this also has a political dimension. Smaller economic communities are more likely to develop a lively, local, and self-determined democracy than larger units and community hospitals part of that tradition.

Since 1972, hospital planning is the responsibility of Federal States (Länder). Critics want the central State (Bund) to be in charge of hospital planning. Their reasoning is that fewer and highly specialized centers should replace the historically grown hospital landscape and thus improve quality of treatment. Smaller communities could downsize their hospitals and provide access to a minimum of care. By establishing centers for telemedicine, qualitatively better treatment could be made available in small communities and rural areas.

4.10 Coherence of Society: Family and Contract

A large portion of healthcare is provided within families. As family ties are loosening, contractual relationships with ambulatory and stationary healthcare services gain importance. Recent COVID-19 measures highlight adverse health effects on families. An increase of mental and physical problems of children was reported due to a reduction of contacts, restricted physical activity, poor diet, and an increase in violence in the family. Likewise, the elderly had to cope with the effects of isolation and a loss of social contacts.

4.11 Division of Labor in Society

While physicians typically set up residences and were self-employed during the early years of the social market economy, a trend toward more employment and part-time employment of physicians becomes obvious. In particular, a strong rise of female employed physicians in joint practice is reported. In 1991, about one third of all physicians were female; in 2021, their share rose to nearly half of all physicians (Bundesärztekammer 2021). Liberalization in contract law in the Eighties has allowed for the introduction of more flexible work forms for physicians (Rosenbrock and Gerlinger 2014, 169). In particular, working parents with small children can take advantage of more flexible work forms in order to balance life and work requirements.

4.12 *Concept of Ownership*

In healthcare, we find private ownership next to state ownership, as well as ownership by churches and nonprofit organizations. Erhard and Müller-Armack saw an advantage in private ownership. They proposed to establish private schools, hospitals, universities, etc. In the case of private schools, they suggest that the State should subsidize tuition fees so that a student in need can gain access (Erhard and Müller-Armack 1972, 155).

A rather recent development is that global profit-oriented business chains buy medical residences on a large scale. Physicians employed by these chains report that there is pressure to prescribe lucrative IGEL services, i.e., healthcare services that are not reimbursed by Statutory Health Insurance and for which patients have to pay themselves. As evidence-based medicine has not shown clearly medical benefits of the so-called IGEL services, they are not included in the reimbursement package. The Joint Federal Committee (Gemeinsamer Bundesausschuss, G-BA) is the highest committee of the self-administration and in charge of the reimbursement package of Statutory Health Insurances.

4.13 *Production of Goods and Services*

The production of goods and services is characterized by information asymmetries. Patients typically have less information than healthcare providers about the risks of and benefits of alternative treatments and therefore rely on health professionals' advice and treatment. If opportunistic behavior is assumed, asymmetric information gives rise to *adverse selection* and *moral hazard* (compare Danzon, 1993, 678). In the ideal case, *Moral hazard* has to be controlled and prevented by health insurance. Often, various cost-containment policies by the State play a role in controlling the rise of healthcare costs.

In the social market economy, cost-containment policies were put in place in the 1970s. A particular focus was on Statutory Health Insurance Physicians (Kassenärzte), who serve about 90% of the population. The so-called measures to control the quantity of healthcare services delivered (Mengensteuerung) included a variety of measures such as budget cuts and a maximum annual fee to be distributed, which is negotiated annually by the top organizations of the self-administration (the so-called Bundesmantelvertrag). Hospitals were also in the focus of cost-containment measures. Prior to 2002, a retrospective payment scheme was in place, where hospitals were paid on the basis of costs incurred. In 2002, Diagnosis-Related Groups, adapted to the German institutional environment (G-DRGs), have been introduced to hospitals in order to provide incentives for a restriction of hospital services delivered.

4.14 Concept of Distribution

In the early social market economy, a fee-for-service scheme was in place for healthcare providers working in the ambulatory sector and retrospective payment of full costs incurred in the stationary sector. Consequently, healthcare providers faced incentives to increase the volume of services provided in both the ambulatory and the stationary sector.

In the complex modern social market economy, we note a shift. Due to cost-containment regulations in the healthcare sector, most of the risk of morbidity and financing has shifted from health insurances to healthcare providers and to patients. In the ambulatory sector, a modified fee-for-service reimbursement system combined with budgetary constraints set incentives to physicians to restrict services delivered to patients.

In the stationary sector, the so-called German Diagnoses-Related Groups have been introduced in 2002. Despite a modification, which considers complexity of a case and length of treatment, the G-DRGs set incentives to limit services provided per patient so that the risk of morbidity and risk of finance are partly carried by the hospital.

Statutory Health Insurances no longer carry the risk of morbidity and risk stemming from the regional distribution of their patients. It is the mission of the Health Fund, founded in 2009, to equalize the risk of morbidity and finance among Statutory Health Insurances, in order to create an equal basis of competition. Equalization occurs with respect to morbidity and region. Before the regional component was put in place, health payments to be reimbursed tended to be higher for patients from metropolitan areas than for patients from rural areas. This put health insurances with a patient basis from predominantly metropolitan areas at a disadvantage.

4.15 Concept of Labor

Basic safety regulations in factories and a social security system were already in place when the concept of the social market economy evolved. Pioneering efforts with respect to safety regulations go back to Wilhelm Roscher (1817–1894). He advocated for accreditation of healthcare providers and for state control of the medical sciences. According to Roscher, a safe market requires laws of concession, professional ethics, regulation with respect to consumer and worker security, and a healthy morale of the people. He proposed the institution of a factory inspector, who would gain information from within the factory as a basis for future state regulation. Roscher does not consider the local level as the appropriate level to regulate industries, in particular when a local industry was the only employer in the community (Roscher 1913⁸, § 60a, 339). In building on Roscher, Erhard and Müller-Armack emphasize the role of entrepreneurship: “By mobilizing a large and growing labor force, entrepreneurs contribute towards a process that is essential for the

development of an active and prospering economy” (Erhard and Müller-Armack 1972, 374).⁹ They suggest.

that companies would provide education for employees more efficiently than a state program could do and that provisions for life and work of employees, including company medical services and housing, would lead toward the regional development of the country (Erhard and Müller-Armack 1972, 375).

4.16 Economic Cycles of Production

The so-called First Health Market, which is characterized by health insurance, is less affected by economic cycles of production than the fast-growing Second Health Market (Zweiter Gesundheitsmarkt), which has formed around the turn of the twenty-first century. The fast-growing Second Health Market provides services typically not covered by health insurance: young professionals, the well-off elderly, and people who can afford it enjoy a wide supply of healthcare services. A large range of services is offered, including wellness, nutrition, sports, travel, fashion, digital devices, ambient-assistant living, and other innovative health products. The Second Health Market is prospering but subject to economic cycles. Therefore, we find many diversified health businesses that compensate for losses in one line of business by offering other services in case of an economic downturn.

4.17 Social Constitution

The ideas about the social constitution in the early social market economy go back to Gustav von Schmoller, who investigated insurance solutions for preventing hardship for families. He created the foundation for an insurance system based on actuarial and, by implication, market principles, but guaranteed by the state. He wanted to introduce catastrophic health insurance, which would be obligatory, and beyond that open up the market so that people could buy additional health insurance for more encompassing coverage. Schmoller was the architect of social insurance but had reservations about unemployment insurance. In the case of basic sickness, old age, and accident insurance, he was in favor of general, compulsory insurance-based compensation through a variety of independent insurance funds at the local level, run jointly by workers and employers, and with the possibility of choices between different insurance schemes (Backhaus 2007, 328).

Discussions in the modern social market economy about such issues as care for the elderly and the pandemic, although in principle open to an insurance-based

⁹This reads in the original: “Die privaten Unternehmer helfen so mit, eine große und immer wachsende Anzahl von Arbeitskräften zu mobilisieren, sie tragen damit vielfältig zu einem Prozeß bei, der für die Entwicklung einer aktiven und gedeihenden Wirtschaft unerlässlich ist“(p. 374).

approach, are often dealt with by specific tailored programs. For instance, in Germany, the old-age-care insurance system (Pflegeversicherung) is a political solution to what, in principle, is a problem that any insurance market could readily handle. This specific political solution, which was introduced in 1995, is laden with disincentives and hence inefficiency, and predictably has produced a large deficit. Had a market-based approach been opted for, the political electoral effect could not have been attained, but the deficit, if one had occurred, would not be a mortgage on current fiscal policy. The insurance-based approach has the advantage of creating incentives to reduce risks and losses. This is not true for most program-based projects. Instead of emphasizing market failure, Schmolter tried to create the conditions under which markets can evolve (Backhaus 2007, p. 329).

Creating a better functioning market for health insurance is also the goal of the Health Fund, which was established in 2009. The Health Fund distributes social security contributions and tax payments among statutory health insurances according to morbidity and geographically based structural risk. By preventing incentives to *Adverse Selection* among health insurances, a more equal basis for competition is created. Differences between statutory health insurances remain, for instance, with respect to individual (additional) charges or healthcare services reimbursed. The Health Fund underwent several reforms; in particular, the morbidity-based structural risk equalization scheme was subject to major changes.

4.18 Concept of Taxation

In 1972, the dual financing system for hospitals has been introduced. Federal States (Länder) receive the so-called Sicherstellungsauftrag for hospitals, i.e., Federal States have been put in charge of planning the hospital capacity. Since hospitals represent a service of general public interest (the so-called Daseinsvorsorge), tax financing is justified for maintenance and construction costs of hospitals (Simon 2017, 274). Dual financing roughly means that taxes are used for costs of investment and that health insurances pay for running expenditures of hospitals. Critics want to abolish dual financing, because for years, the Federal States have not paid costs of hospital investment in full.

Other issues of taxation include healthcare providers' liability insurance. In 2014, a nationwide protest of midwives drew attention to their problem. Many midwives had to close their practices due to exorbitant rates of professional liability insurance (Rattei 2014).

Taxation is also a tool of the State in order to respond to economic crises. In order to stimulate demand and relieve citizens in coping with the COVID-19 crisis, the Federal State cut value-added taxes temporarily, a measure that was highly popular with citizens.

4.19 International Alliances and Contracts

Erhard and Müller-Armack pushed the idea of European cooperation on the basis of market processes (Erhard and Müller-Armack 1972, 393). Fifty years later, European harmonization with respect to economic matters has been reached in the Single European market, and progress has been made toward convergence of the member countries' healthcare and social security systems.

In the Maastricht Treaty (1992), the European member countries agree to contribute to the well-being of all citizens, which includes a general level of health (Art. 3(1) EUV). The Subsidiarity Principle is a constitutional principle restricting the EU's competences (Leidl 1998, 39). According to the Subsidiarity Principle, the provision of social and healthcare measures by the union to a member state is possible only if the member state is not able to provide for itself (Art. 129 (1) EUV). Subsequently, the scope of the Union's social and healthcare policy goals was extended by the Treaties of Amsterdam (1997) and Lisbon (2007), while the Subsidiarity Principle was retained.

In 1992, the European Council proposed to strive for convergence of social and healthcare systems. A strong incentive toward convergence of social and healthcare systems is offered by the Single Market itself. The creation of the Single Market with new freedoms has increased competition between member countries, and a rise of firms' social security payments would make a particular location less attractive for investment. In particular, for countries with relatively high social security payments, this is an incentive not to raise social security payments any further.

In addition, several other measures devised by the EU lead toward convergence of social and healthcare systems. These include data banks to be developed in the area of public health and sharing information and measures of positive integration by setting up new public health structures and occupational safety regulations or by creating new markets. An example of the creation of new markets is the European-wide licensing procedure of pharmaceuticals, which gives pharmaceutical companies access to the EU's Single Market. Other strategies toward achieving convergence include negative integration such as the abolishment of trade barriers or the judgments of the European Court of Justice (EuGH). While the judgments of the EuGH are binding, there are also voluntary methods to achieve coherence. Examples include the EU's open method of coordination including learning from best practices (compare Rosenbrock and Gerlinger 2014, 483).

The judgments of the EuGH met with a mixed response. In 1998, the EuGH gave patients more freedom to take out cross-border care. German statutory health insurances were required to reimburse cost of treatment abroad. Health insurances feared that more patients would choose treatment abroad and that they would incur an additional unknown burden of costs. In 2004, hospitals protested when the EuGH decided that physicians would have to be reimbursed for their time spent on-call duty. A judgment of 2016 also stirred furor, when the EuGH decided that mail-order pharmacies abroad were entitled to give rebates to German customers of prescription drugs. This judgment is incompatible with German drug price regulation (Korzilius 2019, A921).

The EU's influence on health and healthcare is twofold. By the creation of the Single Market, welfare and health states of the population are enhanced for all member states. While the Subsidiarity Principle is still in place, the EU has made substantial progress toward achieving convergence of the social security systems of its member states.

5 Summary and Conclusions

In this chapter, the healthcare policies from the early days of the social market economy to the complex modern institutions are analyzed along the dimensions of *Economic Style*. The focus of analysis is on the changes of healthcare policies in the social market economy of the German Federal Republic. The early social market economy focused on building up the healthcare capacity and ignored incentives that would lead toward a rise in healthcare costs. In the 1970s, cost-containment policies replaced earlier policies. When *New Public Health* emerged in the 1980s, the focus shifted to providing access to healthcare and the introduction of preventive measures. This is in line with European policy and contributes to a convergence of the health and social security systems of European member states. Nevertheless, a fractured hospital infrastructure, slow progress with respect to digitalization, and a public healthcare system overwhelmed by the COVID-19 crisis require further reforms of both the public and private healthcare sector. The COVID-19 pandemic highlighted severe shortcomings of the healthcare system, requiring deep structural reforms. More cooperation among actors and between healthcare sectors is needed. Frequent reform efforts over the last half century changed the character of the corporatist healthcare system as compared to the time of the early social market economy. Maintaining the stability of the system of statutory health insurance was the major motivation of reforms, and over the course of the social market economy, one could diagnose a turnaround of healthcare policies toward more State influence.

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The End of Laissez-Faire



Frits L. van Holthoorn

1 Introduction

When I received the invitation to contribute a paper to the Heilbronn conference of this year on *The Origins and Changes of the Social Market Economy*, I was immediately thinking of Keynes's essay *The End of Laissez-faire*, his *Treatise on Money* and his *The General Theory of Employment, Interest and Money* as an excellent contribution to the conference. Planning, of course, had been already taken place since Bismarck's social policy, but in 1926, the mood in Europe and the USA was set against it, particularly in Great Britain, where laissez-faire was seen as the normal course of things. In the three publications, I mentioned Keynes was grappling with the problem how planning could be introduced in the economy in a prudent and responsible way. His *General Theory* became a huge success in the years after World War II, but we may wonder whether Keynes would have been entirely happy with this success. It became a tacit understanding that full employment could be reached with a mild inflation. Keynes always considered inflation to be a matter of robbery.

In the Interbellum, the world witnessed a severe crisis. It started in the USA and from there spread over the world and lasted basically till the outbreak of World War II. So the need for intervention in the economy arose. In the Netherlands, the government refused to accept the challenge, maintaining that the economy should take care of itself, and in Britain, Keynes had to deal with the fact that laissez-faire was a fundamental truth, and he had a hard time convincing his countrymen that planning was becoming a fact of life.

In the present essay, Keynes's biography is taken as a guideline to how, under his influence, economics was transformed into a tool that all governments in the Western

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world came to use to manage the economy, nationally and internationally. Subsequently, I shall describe how these policies led to a close cooperation between the USA and Europe but also to the isolation of Russia owing to the Cold War and the “special operation” of Russia in the Ukraine. Lastly, I will deal with block-forming in the world as a necessary precondition to move forward to a stable and durable existence.

2 Keynes’s Contribution to Economic Planning

The End of Laissez-faire was a chapter in Keynes’s criticism of the plan to re-introduce the Gold Standard in Britain. The idea was that prices and wages would automatically adapt to the new standard. Keynes argued that this automatism did not exist and that the decisions of those who saved and those who invested could be counterproductive to full employment. If we ask what Keynes’s doctrine was as he developed it in his *Treatise on Money* and his *General Theory*, we are looking at two things. First, there is no way the economy can reach an optimum relationship between economic variables, and we should add without the intervention of an authority outside the economic transactions, such as the Treasury. Keynes wrote:

The most important Agenda of the State relate not to those activities which private individuals are already fulfilling, but to those functions which fall outside the sphere of the individual, to those decisions which are made by no one if the State does not make them. (Keynes 1930a, 321; see also Harrod 1966, 355)

This was Keynes’s way of introducing the need for planning. Of course, he did not mean to suggest that there is a strict division between individual actions and what the State must do. In fact, the major job of the State is to deal with the unintended consequences of individual actions. The object of Keynes’s two major works was to argue that the economic process did not automatically offer a solution to the problems these consequences create. The rate of interest does not control the equilibrium between investment and saving, and savings do not determine investments.

Keynes’s critics accused him of inconsistency, and perhaps the title of his most famous work, *The General Theory*, was unfortunate, because Keynes presented theoretical notions to solve practical problems, not a general theory. In combining theory and its practical application, he was a genius. Harrod defends Keynes against the critique of inconsistency by observing that Keynes looked at the economic situation in the first place. That meant dealing with inflation immediately after World War I and with deflation since 1929. Keynes’s approach had the virtue of flexibility.

One of the last things that Schumpeter wrote was “Keynes and Modern Macroeconomics”. Schumpeter was fascinated by the man and his success. He himself spent his last years at Harvard. As a teacher, he was not a great success, and many of his colleagues thought that his theories were out of date. Schumpeter saw the star of Keynes’s rising in Harvard and Schumpeter’s fascination had to do with

the secret of Keynes's success. He himself wrote in his little piece, which appeared at the end of his great *History of Economic Analysis*:

Keynes was Ricardo's peer in the highest sense of the phrase. But he was Ricardo's peer also in that his work is the striking example of what we have called the Ricardian vice, namely the habit of piling a heavy load of practical conclusions upon a tenuous groundwork, which was unequal to it yet seemed in its simplicity not only attractive but also convincing. (Schumpeter 1954, 1174)

This quotation makes it clear that Schumpeter did not understand Keynes at all. Keynes did not act or think like Ricardo. If we have to compare him with an economist of the past, it should be Adam Smith, who was as successful as he was in weaving facts and theoretical notions together. Schumpeter was, compared to Keynes, an economist from a different school (Holthoorn 2019). And the target of his criticism should not be Keynes but the Neo-Keynesians who adapted Keynes's theoretical notions to the post-war period of expansion after 1945 through the "neoclassical synthesis".

Neo-Keynesian economics became the prevailing doctrine after World War II. In a sense, they returned to Keynes's analysis of the situation after World War I, that is, to the situation that was under the threat of inflation, not deflation. The difference was of course that their approach now was applied on a global scale. Those who regarded Neo-Keynesianism as the final breakthrough in economic theory mistook the nature of Keynes's genius. Keynes had a practical mind. He was first of all interested in problems, not theories. So the reproach – echoed by Schumpeter – that he dealt with ad hoc problems should be regarded as a virtue rather than a vice. In retrospect, it seems to be the case that the Neo-Keynesians were overambitious in their claims. In predicting the future, they could be horribly wrong as the financial crisis of 2008 made clear. This is not a reproach, rather a statement that in economics and in science, general predictions are always fallible.

3 Bretton Woods and Beyond

Though a frail man – since 1939, he was a heart patient – he demonstrated an incredible range of activities. Being a Don in Cambridge, he became bursar of King's college; he collected rare books and pictures and became the chairman of what later became the Arts Council. He promoted the theatre activities of his wife, Lydia Lopokova, a former Russian ballet dancer, and he helped build a new theatre in Cambridge. All this went along with his ceaseless activities concerning the government's economic policies. He wrote extremely well with a pungent sense of irony, which even charmed his opponents in the field. For all these activities, he did not receive a penny in salary. He sustained himself by speculating on the stock exchange.

When war broke out in 1939, he knew all the important people in and outside government. And in the role of most trusted adviser, he prepared himself for, what I

think, was his greatest achievement: the role he was going to play in the international field by turning American officials (including President Roosevelt) into sympathetic listeners to his pleas for help to his native country and advice on the role the USA should play on the international scene.

That was by no means an easy task. Many Americans at the time were unwilling to get involved in what they regarded as a European conflict. Roosevelt had to tread very carefully in helping Britain. In the beginning, Britain ordered destroyers and planes from America for which no money was available. Hence, officials could only hope that the USA would be prepared to foot the bill, if only temporarily. The help that came was Lend Lease, and to get that project started, it certainly helped that after Pearl Harbour, the USA became a partner in the war. In this respect, it also helped that the Germans declared war on the USA, sparing that country the necessity to declare war on Germany.

It is immaterial to relate the story leading to Lend Lease, Bretton Woods (1944), and America's loan to Britain at the end of the war, except by stating that the Americans adopted a generous and farsighted policy in the proceedings and that Keynes helped them in doing so. Harry White, the American negotiator, and Keynes fought many battles, but in the end, they reached a reasonable compromise. It is amusing to quote Harrod's comment on their clash:

There is a deep paradox involved in the conflict between Keynes and the Americans on this topic, which continued to the end. The Americans are in the habit of praising private initiative and inveighing against paternalistic socialism. In the mind of many Americans who do not specialise in these subjects, Keynes has been thought to be a sort of high priest of the paternalism they so much dislike. Yet, when the Americans turn their eyes away from their own rights under the Constitution towards the international sphere, it is they who have recently tended to be the chief advocates of paternalism. It was Keynes who had to fight the battle of liberalism against the voracious appetite of the Americans for paternalistic interference. (Harrod 1966, 570–571)

It is understandable that the Americans, being at that time one of the few creditor nations in the world, would have that appetite. Keynes by no means got exactly what he wanted from the Americans, but he persuaded them (with the help of many able assistants) that in their own interest, they should be more farsighted in helping to create a world of cooperating nations. It is Keynes's unique contribution that he helped create this world. In his heart, Keynes remained a monetary economist who took monetary transactions as his vantage point for considering their effects in the real world. It struck me that Keynes already in 1930 urged financial experts to help control the stranglehold of the international gold standard. He wrote in his *Treatise on Money*:

On a balance of these various considerations, it seemed, before the *de facto* return to the gold standard, that there were better prospects for the management of a national currency on progressive lines, if it were to be freed from the inconvenient and sometimes dangerous obligation of being tied to an unmanaged international system. (Keynes 1930b, 302)

And in chapter 37 and 38, he made detailed suggestions how the international gold standard could be managed. In Bretton Woods, he engineered a platform for dealing with international problems in the world, particularly in Europe and the USA. That,

and not his “doctrine”, was Keynes’s major contribution to economics and the post-war world.

Keynes convinced the political elite in Britain rather easily of the success he had reached in the USA, but the general public, often violently anti-American, was a different matter. A reporter, it is said, asked Keynes “if the rumour was true that he had made Britain the forty-ninth state of the United States.” “No such luck”, Keynes replied.

4 Block-Forming and the European Union

Near the end of his concluding notes in his *General Theory*, Keynes writes: “Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slave of some defunct economist” (Keynes 1936, 383).

This remark also applies to himself, though in an ironic way. John Hicks, Alvin Hansen and Paul Samuelson grafted Keynes’s theory onto neoclassical economics, and Neo-Keynesianism became the leading doctrine in the USA and Europe, but we may wonder whether Keynes would agree with this interpretation of his doctrine. To put his achievement in perspective, it is important to realize that Keynes was not involved in the creation of the welfare state. In England, Beveridge played a major role in this respect, and on the continent, the welfare state in most European countries was a development that took place after Keynes’s death in 1946. I think Keynes’s greatest achievement was his participation in Bretton Woods. His patience and acumen were an enduring legacy to discussions and agreements in the international monetary scene. And thus, he indirectly contributed to the formation of the *European Union*.

The United Nations was meant as the office for settling conflicts. It never had the power or authority to fulfil this function. Even today, Russia, though losing all credibility as a nation, can veto all attempts to accuse it of committing war crimes. Yet as a world community, we need organizations, not only to keep the peace but also to plan and take measure to save the planet. So the blocks which are arising in the world may be a useful alternative to the United Nations for acting as platforms for negotiation. The existing blocks are the USA, China and Russia. To these, we should add the organization of ten East Asian states (among them Malaysia, Indonesia, the Philippines and Thailand), the Organization of African Unity and the European Union. The Commonwealth of Nations, successor to the British Empire, does not seem to have the clout to form one.

Of these blocks, the European Union looks like a promising platform for negotiation. The Europeans have learnt to reach solutions the hard way and to stick to the agreed rules. That experience also makes a well-groomed negotiator on a global scale. It has the problem of the Russian threat on its doorstep. That threat can mean that I have written this paper in vain, because Europe and Russia will be destroyed in nuclear attacks. More likely is the issue that Russia will have to sit back and count its losses and will have to ask the world for help in preventing a total collapse of the

society, and I expect that Europe and the USA will have to restore Ukraine, its buildings and its infrastructure. It is only fair to keep Russia accountable for the destruction they are causing, but it is also realistic to expect nothing from it in restoring the Ukraine. The lesson to be learnt (and not for the first time of course) is that wars are obsolete instruments of power. With war, you cannot solve any problem, and because of the squandering of resources, we cannot afford them anymore. It is heartening to see that this message has been understood all over the globe, if not in Russia.

Blocks of nation states tend to acquire the character of an empire. The definition of an empire is when a central government reigns over populations with diverse cultures. In our history, the Roman empire is the model of such an empire, and the Habsburg Empire was a more recent example in our history, and many, including myself, have regretted its demise. Empires seem to have a tendency to be autocratic, and the USA was the first example of a democratic empire. The Founding Fathers thought it was safe to leave the matters of war and foreign policy to a president who in certain tasks acted as an elected king, as long as that king as president had nothing to say about domestic issues. So there is in the USA an inbuilt tension between foreign and domestic issues, which until now Americans have not been able to resolve. Perhaps, the European Union has a better chance of solving this issue having become wise by bitter experience.

5 The Future of the World: An Uneasy Utopia

First is a definition of the term “uneasy utopia”. Since Thomas More coined the term “utopia” (meaning nowhere in existence), utopia represented the dream of a harmonious society where everybody could lead a happy life. In the one case where it was tried – in the Soviet Union – it turned out to be a most vicious tyranny. Since then, nobody wants to recommend it. And yet it appears that we need a form of global regimentation, which comes dangerously close to a utopia, this time not as the realization of an ideal but as a necessary outcome of global policy. And so we are faced with three questions:

- (a) Can we realize such a utopia on a global scale?
- (b) Can we avoid turning it into a vicious tyranny?
- (c) Are we capable of living under utopian circumstances even if the rules and institutions that come with it function well?

Sub a.: As said, it is hard to expect binding rules from the world community on how to live and work in a sustainable world. These rules must come from the emerging blocks in the world, but before that process of negotiations can start, the blocks must shape these rules for themselves. On the traditional theme of war and peace, the United Nations must go on working towards a consensus of all member states not to have war anymore. That there still are states who condone Russia’s aggression against the Ukraine is totally unacceptable, but they are still there.

Sub b.: Looking at Europe, the discussions on rules to create a sustainable European Union are on track. Its problem is Russia on its borders. Russia will come out of the war it is waging in the Ukraine even poorer than it was before the war. Compared to China, it has become a third-world country. With such a talented population (though many promising youth and stars have left the country), that is a great shame. Thus, the EU must keep the door open to Russia. As matters stand, I expect that at some point, Russia will join the Union. I know there has been a debate in Russia since Czar Alexander I on whether Russia is European or something unique in itself. Putin's actions have made joining Europe the only option left to get out of the mess. Think of who is going to pay for the reconstruction of Ukraine after the destruction of its towns in the war. It won't be Russia, and so it will be Europe. The price that will be asked is that Russia must become a peaceful and democratic (not in name but in practice) country.

The problem on the road to a durable society is that nations nor blocks should become nanny-states. The discussion should focus not on the desirable but the necessary rules, and even with these necessary rules, we should be careful unless people rebel against them. This needs some explanation.

Sub c.: If in the aftermath of the COVID pandemic we look back at the behaviour of the Dutch, we can conclude that the Dutch had little patience with the "advice" to wear masks, to stay at home and to keep distance. We have had the anti-vaxers, who claim the "freedom" to abstain from vaccination. They made, as I see it, an abuse of the term "human rights" for they used the term to do as they liked. John Stuart Mill, however, pointed out that every person can claim his freedom as long as he does not hurt the interests of someone else. I claim that the anti-vaxers were and still are hurting the interests of those who need hospital care, but cannot get it because anti-vaxers occupy the hospital beds.

What this example shows is that people have become sensitive to the rules they have to obey. With the prospect of a durable society in the future we can expect an increase of the number of rules. The paradox of the practice of freedom is that while people have become much freer in their personal behaviour, the number of rules they are told to obey has also increased. Take the example of the motor car. Its possession gives us a great measure of freedom, but in order to use our cars, we have to obey traffic rules, to which now is added the injunction that in the end, we will have to buy an electric car if we want one at all. The car is an innocent example of the maxim that the march of civilization means an increase of the way we discipline our lives, but civilization also means that we must learn to control our aggression. Norbert Elias (1959/1977) told us how this process of mastering our impulses took place. It is remarkable how optimistic his message is for a man who as a Jew was born in what was reputed to be the most German town, being Breslau. Breslau became Wroclaw, and Elias ended as a refugee in England, where his genius was not very much appreciated. His fame came late in life.

It was David Hume who among others launched the idea of civilization as a positive force. In his essay "Of Refinement of the Arts", he wrote:

The more these refined arts advance, the more sociable men become; nor is it possible, that, when enriched with science, and possessed of a fund of conversation, they should be contented to remain in solitude, or live with their fellow-citizens in that distant manner, which is peculiar to ignorant and barbarous nations. (Hume 1742, 211)

Hume has a point of course, but he also ignored the negative side of the civilizational process, or rather he, as a true philosopher of the Enlightenment, could not imagine that it did exist. The negative comment came a century later. In his essay, *Das Unbehagen in der Kultur* (better known in its English version, “Civilisation and its Discontents”), Freud, drawing from his experience with patients who suffered from what came to be known as neurasthenics or “weak nerves”, told us that the human individual is motivated by two forces: *Eros* causes him to seek love and friendship, and *Thanatos* inspires the wild urge to kill other human beings and destroy their possessions. Freud drew on the experience of his patients and used *Thanatos* to explain the events of World War I and the Nazi-movement of which he was a direct victim. What I particularly like about his analysis is that he indicated that the wild beast houses in each of us and that certain circumstances do make it escape and create havoc. Perhaps an even more important conclusion is that the uneasiness (das Unbehagen) lurks in all of us.

Whether we can reduce or even eliminate *Thanatos* remains to be seen. It must caution us not to become a nanny-state by telling us to eat less meat, not to smoke and respect each other (even if we do not want to). Perhaps, we can create a harmonious society, even worldwide, but we have no recipe for boredom, and boredom creates the nostalgic feeling for a wild past we have never known.

6 Coda

When I started to read about German history as a youngster, many German historians still felt the need to defend the decent part of German history to an outsider. That reaction blocked the road to a mutual understanding. The Heilbronn Symposium proved to be a place for a rational and open discourse on German history. This year, I will publish a book on English, French and German historians of the nineteenth century. It struck me that no one in Europe at the time regarded Germany in a special way. Guizot in his famous little book on European civilization emphasized that the plurality of forces was the strength of European culture. And so be it.

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Political Economy of Socialism: Theoretical and Practical Controversies of “All-People Socialist” Ownership



Plamen D. Tchipev

1 Introduction

The reasons for the breakdown of socialism as a political and economic system constitute an interesting and revealing problem, and their analysis might help for a better understanding of the fundamentals an economic system is built upon. However, the ongoing research concentrates, more or less, in the circle of functional problems – economic inefficiency, lack of political freedom, exhausted resources in the military contest with the West, the technological gap, etc. Limited attention is paid to the institutional problems encountered by the socialist system. Such an approach might be understandable, in view of the general neglect of institutions, rooted in mainstream economics. However, though less visible, the problems created by the institutional contradictions of the socialist economic system were not less damaging. And what is worse, the system ran into them, virtually, at every stage of its development. At the centre of those contradictions lies the dogma of the *all-people socialist ownership* – an institution brought to life in order to abolish and overcome the “exploitative” forms of the ownership and first of all the capitalist one. Once the dogma has been established, its advocates faced various practical and theoretical problems.

The present chapter investigates the collision between the unquestionable requirement to preserve and maintain the solitary existence of the single approved form of ownership and the need to provide a certain independence of management of socialist enterprises. Seemingly a quite simple and practical issue, the collision eventually appeared as a complex contradictory knot of both theoretical and practical problems. A lot of attempts were initiated for their overcoming in the socialist

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countries and continued up to the end of 1980s, i.e. virtually to the very last days before the system broke down. The paper focuses on the experience of the Soviet Union and, more extensively, of Bulgaria.

2 The Dogma

The *socialist political economy* (SPE) emerged with the development of the new economies and societies after the socialist revolution. While societies differed from country to country and the theory tended to acknowledge some of those specifics, its general grounds were rooted deeply in the Marxian writings predicting the features of the socialist society. They were scarce, even sketchy in many aspects, which imposed the necessity to elaborate many theoretical and practical problems ad hoc. Nonetheless, the main postulates remained, more or less, unchanged, becoming later even unchangeable, thus establishing the central concept of the SPE.

The Marxian labour theory of value drove its author to the point of rejection capitalist ownership and even private ownership in general, in search of a society of economic equality for everybody. Marx's reasoning was not very sophisticated – private appropriation of the fruits of labour creates exploitation of one part of the society by another one, which is incompatible with the encompassing *socialisation* of modern production, a process involving complex participation of large numbers of people. The core of that contradiction is the institute of *capitalist private property*. Hence, its ultimate resolution must be abolishment of the private property of the means of production or, rather, their *socialisation* – making them available to the whole society.

This somewhat simplified interpretation represents correctly, in my opinion, the origins of the concept of the *most-socialised, single, all-people socialist ownership*, installed as a cornerstone of the SPE. Later, a great number of *socialist* economic categories, laws, principles, practical approaches and mechanisms were developed from this fundamental principle. While they were derived *secondarily* from the ownership, they offered possibilities for further precision. Such was the case of some economic laws, which were assumed referring just to the first (*lower*) stage of the socialism and differing from those specific for to the second (*higher*) one.

However, that was not the case for the concept of *socialist ownership*, the first (and main) pillar of the SPE. Obtaining a sacred status, it was **dogmatised**. To be precise, the fundamental dogma of SPE was not the all-people ownership itself but rather the unacceptability and incompatibility of private property with the socialist economic system. In fact, the SPE offered a lot of discussions and “developments” about the forms of manifestation, “totality” and “maturity” of the single, all-people property. What was *not* to be questioned was the denial of the right of existence of the private property of the means of production.

With few exceptions, almost everything was supposed to belong to the ultimate sovereign – *the People*, including all means of production, land, natural resources, etc. In the few cases when some “privacy” was undeniable, e.g. over personal

belongings, cars, homes (the last two not everywhere in the socialist world) – it was referred as to a *personal*, but not private, property and could not be used in any economic way, i.e. for production, by its owners.

The only (and partial) exception was made for the collective or so-called *co-operative* property, which was tolerated in agriculture, again, not to an equal degree, in every socialist country. Even where it was applied on a large scale, it did not have any specific economic significance, since its principal, the collective, could not sell the land, liquidate or change the kind of production. Thus, the *ultimate owner* of the collective property, practically, was the same as that of all-people property.

The second pillar of socialist political economy, the abolishment of the so-called *commodity-monetary*¹ relations, a euphemism for the market, was not equally successful in obtaining the sacred status. It was also rooted in Marx writings. Since the capitalist production process is subdivided into a myriad of private processes under private ownership of the production means used, the products turn into commodities by way of valuation in terms of money. In other words, while being privately produced, the products need social valuation, which is possible through a monetary evaluation of their commodity form. Once the society abolishes private property, all products become directly socialised and do not need the commodity-monetary form for their social recognition. In short, the socialist society also requires *abolishment of the money*.

It is not a secret that this point was not dogmatised, simply because it could not be realised in practice, although attempts were made in the 1920s. More precisely, it was an established doctrine, that the commodity-monetary relations will be preserved temporarily during the *lower (socialist)* stage of the system, though with serious restrictions. The latter concerned the limited sphere of application and the specific way of functioning of money within the socialist economy, which remained subordinated to the ultimate rule of the plan. Nonetheless, the monetary relations were involved in and played not the least role in the “systemic” problems of socialism.

3 Dogma Confronts Reality

As mentioned, both pillars of the socialist political economy originated in Marx’s writings. As a matter of fact, he focused on the critique of the existent society, while his perceptions of the next, “socialist”, society were quite scarce. This became apparent soon after the revolution in Russia, when the capitalist ownership was abolished and the problem of how to get rid of money emerged. The “Red-Army attack on capital (*in Lenin’s words*), expropriating landlords and bourgeoisie ... is

¹The English terms for the socialist economics categories are those offered by *A Dictionary of Political Economy*, an official edition of Progress Publishers, Moscow, 1985, which seldom coincide with modern economics terms, because they keep the original ideological meaning, which is necessary for the correct historical understanding of the analysed system of economic thought.

assumed as a beginning of the restriction and ‘overcoming’ of money in Russia” (World History, 1990, vol. 4, 36, *note in brackets mine P.T.*). The process achieved full scale during the time of so-called war-communism. Its “economic” policies² included confiscation of agricultural products, their direct distribution and paramilitary organisation of labour, which de facto amounts to a large-scale attempt to abandon the use of the money. The disastrous results emerged soon. Almost full destruction of trade, drastic fall in production, famine in the rural areas, shrinking of the population, etc. were the major “visible hands” that changed first the practice and then the theory of socialist economy concerning the role of the money.

The *New Economic Policy (NEP)* proclaimed in 1920s in Russia recognised, among other things, the unavoidability of the monetary connection in the socialist economy, at least for a period, when trade, banks and even private initiative became essential elements of this policy. However, this policy was always seen as a practical, temporary solution and nothing else: “Commodity-monetary relations, capitalist economic forms are *just means* for achieving of certain goals” (World history, 1990, vol. 4, 75, *italics mine P.T.*). The irony here is that the goals were the development of production and raising of the standard of living, but that is a different story.

Recognition of the unavoidability of money marks the starting point of the most serious contradiction of the socialist societies. It emerged as a practical solution, which was immediately confronted with the theoretical dogma, creating subsequently contradictions in the theory itself. This clash can be traced through the whole history of all socialist societies, and one can say that the latter is a history of the attempts to solve this problem. However, the true nature of this contradiction is not in theory.

In fact, the theory, at least as conceived by Marx, required that destruction of the private property goes together with the abolishment of the money as well. The problem appeared, as an ontological one, as an *institutional incompatibility*. On the one hand, destruction of the *institute of the private property* is destruction of the discrete organisation of the production. If all the production processes in an economy have a single (ultimate) owner, there is only one residual claimant, i.e. only one profit centre in the whole economy. On the other hand, if one wants to have each production process measured by its efficiency, i.e. by the prices of produced commodities, or, to put it differently, if one wants to have benefits compared with costs, this requires autonomous, economically discrete production processes and, hence, multiple residual claimants and profit centres.

The controversy expounded here may seem unimportant, but this perception is misleading. Further below, the practical problems created by this contradiction are shown, and it is pointed out how far they were reaching sometimes, causing ideological threats for the ruling *nomenklatura*.

²It is important to note that it is not just a wrong practice led by Lenin under the war pressure but a process finding ideological and theoretical support in the writings of the whole Soviet leadership of that time – N. Bukharin, J. Larin, V. Smirnov, Osinskij among the famous ones (World history 1990, vol. 4. 45) – and which, eventually, was laid down in the Russian Communist Party Program of 1919.

Given that dilemma, the socialist theory faced a complicated problem, which called for a serious re-examination of the original assumptions, if it is to be resolved. Failing to recognise the problem, theory lost its explanative power and became a **dogma**. This was the actual case with the SPE. It failed to rethink its postulates, thus masking the real nature of the ontological problems, creating sophisticated theoretical constructions and fake solutions.

Nonetheless, the very process of fruitless search is interesting and might be instructive, if the orthodox economics is being revised from a non-orthodox economic point of view.

4 Practical Dimensions of the Problem and the Attempts for Its Resolution

In practice, the problem revealed itself through the magnitude and forms of control over the economic agents. If monetary relations were restricted beyond a certain point, economic incentives were reduced to the point where this threatened the very functioning of the system. When they were released as a necessary reactive measure, the economic incentives permitted the local economic agents to sneak out of the grip of the centralised control of the bureaucrats, playing role of the *principals* of the all-people ownership. What followed was another tightening of the policy, followed by another release, etc.

The functioning of this kind of sequence became visible after the launching the NEP in the Soviet Union. It gave a chance for re-appearance of the capitalist economic forms, and the elite soon realised that after releasing, even partially, the monetary relations, they lost economic control. "... (NEP) led to the rebirth of the capitalist tendencies, activating the old and creating a new bourgeoisie in both cities and villages" (World History, 1990, vol. 4, 76).

Perhaps, the lack of experience on how to deal with this problem allowed the private initiative to go that far away under the NEP, and maybe this made the reaction that followed so sharp. Stalin's repressions not only of the capitalists but also of the peasants are striking examples of that reaction, resulting in the most direct forms of control over industry and of the most severe restrictions of monetary relations, i.e. of the most intensive use of non-economic pressure upon the economic agents in order to make them comply with the central plan. World War II might be responsible that this period of rigid restrictions lasted so long, though the reasons are much more complex.

Either way, at the beginning of the 1960s, another period of slight liberalisation of the economic life followed. For the period that followed, the present contribution focuses on the Bulgarian experience, but the historical turns in other European socialist countries in general follow the same pattern.

Without much worries about theoretical aspects, party decisions taken in the 1960s opened the door for experiments providing the socialist enterprises with

relatively large rights for economic action by making them responsible to control expenditures in production and allowing them to strive for profit (and even to retain part of it). Also, directors of the units were authorised with certain competencies to take economic decisions going even beyond the limited framework of the operational management. In Bulgaria, this process even permitted that one of the companies (TEXIM) expanded rapidly, diversified its commercial activities significantly and, with its aggressive and free policy, effectively resembled corporations of Western type. The reaction which followed coincided with the aftermath of the intervention of Warsaw Pact countries in Czechoslovakia, thus disguising somehow its economical nature. However, the severity of punishment imposed on the persons involved in that business indicates the real reason.

Nevertheless, the attempt to restrict the economic freedom of the production units and the role of the money and price mechanism was neither as rigid nor as comprehensive as before. In fact, a new wave of reforms started in the 1970s. This time, the efforts to increase economic incentives in the socialist companies aimed to place the *profit centre* at a higher level in the production chain – from the individual enterprise or company to a kind of conglomerate formation, called sometimes association, corporation, productive complex, trust (in Soviet Union) or combine (in East Germany, DDR). Sometimes, they approximated, in size, the whole industry, e.g. *National Transport Complex* in Bulgaria. It was then when the biggest Bulgarian forklift producer *Balkancar* became larger in production and capital than General Motors.

The reason for these experiments seems quite plausible. At that time, it was apparent that direct management based just on the numbers set in the central plan and complete ignorance of the price mechanism were impossible. Also, there were some attempts for theoretical justification of those practices. Since softening control over the companies was still unacceptable (at least beyond a certain point), allowance of larger freedom for the “commodity-monetary relations” at high a level of the production chain seemed the correct decision, because the number of the real *profit centres* was so small that direct party control over their managers was quite feasible.

Predictively, this policy failed again – simply because, judging by economic standards, profit centres would have to be set at a much lower level in the structure of corporate hierarchy, while the economic units, which were supposed to play this role, needed much larger range of rights to perform successfully.

What followed was the most serious attempt to find a way to ensure economically efficient production at company level while preserving at the same time the all-people ownership dogma, i.e. an attempt to maintain the right for the government to determine what is produced, who produces it, how it is distributed, which profits are permitted, how resources are to be allocated, etc.

In the first half of the 1980s, Bulgaria, by decision of the communist party, launched the *new economic approach and mechanism* for governance of the national economy. By that time, several different approaches for theoretical reasoning were tried, and a considerable amount of experience had been accumulated through the workers-self-management system in Yugoslavia.

The process, again, involved providing more freedom for the companies and after a certain point included the creation of a diversified banking system, introducing legal forms of the economic agents identical or resembling those in the market economies. This concept has never been finished. In fact, it found its final forms in the real market structures only after the political breakdown of the socialist system. Analysis of this process is interesting in itself, and a lot of instructive insights could be derived concerning the economic consequences of the *transition period*. Particularly, it might shed light on the transfer of political to economic power in the governing elite in those countries, but this is beyond our analysis here.

What is important is that at a certain point of this last wave of reforms, the company's employees, including the management (named the labour collective), were proclaimed to be *stopanin* of the company's property. The term, lacking a particular scientific meaning, could be translated roughly in English as a *steward*, but the term must be used with a number of qualifications. The idea here was an identification of a range of economic rights resembling those usually associated with ownership and its assignment to the workers' collectives. In fact, the real purpose of such a peculiar "transfer" of *some* property rights was to limit and to scale down the scope of rights associated usually with the ownership. At that point of the analysis, it is necessary to track the historical development of the theoretical views about the socialist ownership.

5 Theoretical Aspect of the Institutional Contradiction

As mentioned above, according to the original belief of the Founding Fathers of socialism, there is no room for monetary connections between separate production units in a society without private property of means of production. The system was supposed to be regulated directly by central planning. When it appeared impossible and money became tolerated, though never fully accepted, the autonomy *needed* by the economic agents became a major issue of the SPE. In practice, there was no hesitation to search for different solutions, i.e. to grant more or less authority to the enterprises or companies for taking economic decisions. However, the less efficient were the practical attempts, the more urgent became the need for a certain theoretical background of those experiments.

5.1 *Khozraschet*

This concept never got a single meaning. It was changing all the time according to the changes in the economic views of the governing elite, though there was a set of features generally associated with it. And they were very different from the original meaning. Originally, the concept was launched in 1921 by Lenin in his projects for a New Economic Policy (Lenin 1970, vol. 44). Faced with the need to overcome the

economic crises at any price, the concept and its definition were derived from the contradictory option – to make the socialist companies working as capitalist ones while keeping their socialistic nature. “The state enterprises have to transform to so-called *khozraschet*, i.e., in essence, to a great extent on commercial and capitalist principles” (Lenin 1970, vol. 44, 342). Accordingly, the concept was associated mostly with control and accountability of the political authorities over the managers, in order to ensure their compliance with directives. Hence, the economic rights assigned to the production units in the first stage did not have an elaborate specific meaning. Permitted was everything which was not forbidden exclusively, and the monetary relations were free to develop as much as they could.

It was much later, during the second wave of the 1960s, when the concept was elaborated further. By that time, it was clear that there were specific functions and rights that must be assigned to the company if it is to take use of the monetary relations.

According to certain authors, it included “(1) autonomy of the socialist enterprise, managerial and operational, (2) material incentive and responsibility, (3) monetary control” (Dictionary 1985, 69). Other authors were more specific – *khozraschet* must include self-payment and self-financing, i.e. the pricing of a company is supposed to allow it to pay for the costs and even to get some profit for financing its development and enlargement (Abalkin 1985).

At the same time, it was emphasised that the autonomy is “acceptable” (Kozlov 1986, 514) and that the company has an *immediate* goal (profit) and an *ultimate* one (satisfying the needs of the people), the latter being superior to the former (Arroyo 1985). This means that the company is allowed to make a profit as long as it is approved by the plan. If the plan sets the prices of its products lower than needed for profit, the company must take those prices and produce at a loss, while the plan will take care for it at the next stage.

Of course, this understanding of the economic functions of the company was accepted by some and opposed by others. Sometimes, profit was allowed partially; sometimes, it was excluded completely, depending on the views how deep and how far the companies’ autonomy should go.

The problems with such a “theory” are obvious – it is arbitrary and follows the turns of politics. Having this obstacle, the theory made an attempt for a different approach during the next period of softening of the governance of economic enterprises.

5.2 *The Duality Ownership Possession*

At some point in the 1980s, a group of scholars in Bulgaria tried another approach for resolving the contradiction between the all-people ownership over the economic units and the need for their independence, due to the *monetary* form of their production relations. Disappointed of the impossibility to find a workable definition of the level of independence “inherent” in the socialist enterprises, they tried *to revise* the

ownership dogma – of course, not openly and directly, and not generally, but just what was needed to make the system working without abandoning the socialist paradigm.

The idea was, while keeping untouched the dogmatic principle that all producing assets should stay in the domain of the state, i.e. of the party and governmental bureaucrats, to identify a set of rights *inherent* to the economic units by their very nature. The aim of this idea was to confer those rights upon companies once and forever, thus erecting a barrier against discretionary political intrusion. Essentially, this was an attempt to keep for the owner only the ultimate right for strategic decisions and to entrust all the other functions to the management.

Obviously, this idea originates from Roman law according to which ownership could be decomposed into different rights – the right to use the object (*ius utendi*), the right to use its fruits (*ius fruendi*) and the right of disposal (*ius abutendi*), briefly summarised: “According to the Roman concept of the ownership, a person can give away some of his rights without giving up legal ownership...” (Furubotn and Richter 1997, p. 79).

However, a serious difficulty with this principle emerged. While it is applicable for rights over private (dispersed) ownership, the SPE had to deal with a single subject of the ownership. Therefore, the alienation of rights was simply unthinkable within this system. The real analogue of that system may be found in the systems with the all-mighty sovereigns – *feudalism*: the land, there, is owned, ultimately, by the king, who makes parts of it available to his tenants, granting them just possession over a certain patch of the land.

Another origin of the idea of splitting the ownership rights might be found in Marx, who, when analysing the early forms of common ownership, concludes that where all the ownership belongs to the whole society (the *commune*), the individuals are just *possessors* of it, and, even further, they might possess property, as long as they are members of the commune and vice versa, by becoming such a member they obtain the right of possession (Marx 1978, vol. 46 (1), p. 404, footnote).

Within this framework, the SPE postulated the concept about *the owner and the stopanin*. As noted above, the latter term could be translated as a “steward”, but the real economic function assigned to it was *possessor* of certain means of production.

Thus, according to the stated reasoning, the socialist ownership could exist just as the ultimate right of the state, the separate enterprises functioned like *possessors* of the means of production and the labour collective was a socialist subject of this possession (Arroyo 1986).

Unfortunately, at this point, another inconsistency emerged – who is actually supposed to be the subject of the possession, the collective or the company itself? The fact is that this question was not resolved. On the one hand, proclaiming the labour collective as *possessor*, i.e. not only the workers but also the managers meant to introduce the Yugoslav model indirectly. Though the latter model was partially successful in practice, at least in 1960–1970, it was ideologically unacceptable at that time in most of the European socialist countries. On the other hand, within the socialist economy, the enterprises could hardly obtain the necessary degree of independence to be able to function as an active economic subject. Indeed, proclaiming

them as *possessors* does not mean anything different from saying that they should work on *khozraschet*, thus closing the circle. History did not provide time to see the actual resolution of this inconsistency, but undoubtedly, it would have been in favour of the collective. In fact, in Bulgaria, a number of laws were changed, and the process of entrusting the rights of possessors to the various collectives had started.

6 Conclusion

What emerges as conclusion from the experience of the now-defunct SPE is that at a certain level of development of its intrinsic contradiction, the dogma of the *single, inseparable, all-people* socialist ownership could not remain unchanged, since it severely impedes the functioning of the modern economic system, whose complex and diversified character needs the monetary form for realisation of the interrelations between its structural economic units. I am tempted to see this eventual development like a breakdown of the dogma in the sphere of economic science, but it is much more likely to be a self-governing, spontaneous act of the economic system, emerging under the pressure of the practical experience.

This long-lasting internal conflict within the socialist systems clearly shows that *there is an important connection* between private property and the price mechanism, to use the modern economic terms. Summarised in brief, it is proof that institutions matter not just because they impose transaction costs of the economic agents but because without them, i.e. without the structural organisation based on an autonomous character of its elements, the price mechanism could not work, so that demand and supply could determine prices, thus ensuring the functioning of the whole system. Moreover, the price mechanism cannot function, unless production is structured in countless different companies separated by the boundaries of the private property.

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