Introduction

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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D-Mark, thereby reducing the money supply by more than 90 percent, most price controls and rationing of foodstuffs were repealed, and free markets were re-established in major parts of the economy.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 occasion 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 infights 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 Holthoon'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.

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