

Ştefan Sorin Mureşan

Social Market Economy

The Case of Germany

 Springer

Social Market Economy

With the kind financial support of:



www.Diplomatic-Economist.eu

and

Dr.-Ing. Mariana Mureşan (b. Popa) (+)

© 2014 Springer Science + Business Media

Ştefan Sorin Mureşan

Social Market Economy

The Case of Germany

 Springer

Ştefan Sorin Mureşan
Bonn, Germany

ISBN 978-3-319-09212-6 ISBN 978-3-319-09213-3 (eBook)
DOI 10.1007/978-3-319-09213-3
Springer Cham Heidelberg New York Dordrecht London

Library of Congress Control Number: 2014953768

© Springer International Publishing Switzerland 2014

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed. Exempted from this legal reservation are brief excerpts in connection with reviews or scholarly analysis or material supplied specifically for the purpose of being entered and executed on a computer system, for exclusive use by the purchaser of the work. Duplication of this publication or parts thereof is permitted only under the provisions of the Copyright Law of the Publisher's location, in its current version, and permission for use must always be obtained from Springer. Permissions for use may be obtained through RightsLink at the Copyright Clearance Center. Violations are liable to prosecution under the respective Copyright Law.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

While the advice and information in this book are believed to be true and accurate at the date of publication, neither the authors nor the editors nor the publisher can accept any legal responsibility for any errors or omissions that may be made. The publisher makes no warranty, express or implied, with respect to the material contained herein.

Printed on acid-free paper

Springer is part of Springer Science+Business Media (www.springer.com)

Foreword

With the English version of *Economia Socială de Piață. Modelul German*, Sorin Mureșan is presenting a remarkable book. He analyses the German model of economic policy, which was responsible for a long upswing and recovery of Germany after Second World War. Thus, he discusses the Social Market Economy from an external perspective. The author is doing this in a systematic way: beginning with a presentation of the German model in its theoretic features and then comparing it with other theoretic models. This theoretical part is followed by a longer debate of the philosophical foundations of the Social Market Economy model, before the German reality after 1945 is discussed. Lessons from the German model conclude the book.

The fact that the German model of economic policy is analysed carefully from abroad is welcome for several reasons. First, it can—not least because of its success especially directly after the economic and monetary reform in 1948—still serve as an example for transformation economies these days. Insofar, the book might become very important for the Romanian economic policy, given that the political will for a sustainable reform policy continues to be strong in the future. Not all actions taken by Ludwig Erhard with respect to the reform in 1948 received political approval, but so did the package. In other words, the importance of the model lies—as Mureșan has shown—in the consideration of the complexity of economic activity and the interdependency of single elements of the economic order. For this reason, the formulated concept is unique. Second, the time after 1948 until today has shown the danger inherited in such an order: with numerous single interventions that were all well meant and relatively harmless, the economic order can permanently be undermined and the incentive scheme be perverted. In particular the economic and financial crisis inside and outside the Euro area shows how badly designed policy and poorly regulated markets can slowly endanger a whole continent. Having shown this is especially commendable, since it gives economic policy the opportunity to create safeguards against an incremental corruption of an economic order by incorporating the German lessons. Third—and this is important, too—the German economic science as well as the permanent reform debate could gain momentum because of a critical analysis presented by foreign experts.

Although it is naive to believe the lecture of this study would guide the federal government back to a first best policy, at least there is hope that an additional voice that is unsuspecting of partisanship strengthens the arguments for a regulative recall.

It is to be hoped that the book is reaching a large international audience and thereby is a contribution to the policy reform debate in Europe. It would also be desirable that the author is using the acquired expertise to join the debate in Germany, too.

Jena
September 2012

Andreas Freytag

Acknowledgements

This book attempts to present first of all the roots and structure of the theoretical model of Social Market Economy. Then it looks at principles used in issuing national legislation and institution building, before presenting the stages undergone by the Social Market Economy since its creation in 1948 in Germany and until 2008. Finally, the international context is analysed in which advantages can be drawn from implementing this economic system both by Germany and by a selected number of emerging markets in Eastern Europe, Asia, Africa and South America.

There are several friends, colleagues, superiors and institutions I would like to thank for supporting me with this interdisciplinary book. It is actually difficult to say who deserves more and whom to acknowledge here, given the limited space available, since I do not wish to leave out in the English version those who helped me with writing the first version of the book in Romanian in 2003.

My first thanks go to my mother Mariana who motivated me and helped with financial resources for the first translation into English of the original version in Romanian of 2003. Then, my thanks go to my wife Ines who brought understanding for my investment of a very large amount of time and resources into completing the English version of this book.

I thank Prof. Andreas Freytag of the University of Jena for offering me in the year 2000 while I was a diplomat the opportunity for the initial research at the Institut für Wirtschaftspolitik der Universität Köln and for keeping in touch over a geographical distance which came about when he moved from Cologne to Jena and I was commuting between Bucureşti, Bonn and Brussels. I thank Prof. Gheorghe Popescu for suggesting the topic in the late 1990s as a worthwhile research topic for my PhD as well as for structuring my work into feasible stages. I also thank my friend Dr. Caspar Jürgens for a lot of motivation for continuing to work academically during the years when I moved from diplomatic and political to commercial work.

For my scientific formation and overall insights into theology, philosophy, history, economics, politics, foreign policy, diplomacy and international economics, I thank Dr. Ioan Vasile Botiza, Fr. Ken Collins, Fr. Louis McRaye, Dr. Robert Taylor, Dr. Roger McGeehan, Ambassador Sergiu Celac, Dr. Nabil Ayad, Festus Luboyera and Academician Solomon Marcus.

For insights into the German economic and political system as well as into foreign policy and international economic relations, I thank Prof. Karl-Heinz Hornhues, Klaus Francke, Dr. Friedrich Wünsche, Prof. Gerhard Fels, Dr. Rolf Kroker, Wendula Gräfin von Klinckowstroem, Prof. Viktor Vanberg and Prof. Juergen Donges. To Becky Landis thanks are due for having helped me with the native speaker check during long hours of work.

I would have liked to include many more relevant pictures, charts and maps, but I had to stop at those already included here. The reason is the large amount of administrative and correspondence work I would have had to deliver in order to receive permission to use them. Nevertheless, several institutions kindly gave permissions in connection with reprints here. For this I would like to thank the Institut der Deutschen Wirtschaft Köln, Cambridge University Press (Prof. Goodin, Prof. Muffels, Prof. Headey and Dr. Dirven), Stadtarchiv Jena, Jena University, the OECD and the German Bundesanstalt für Immobilienaufgaben. To the Bibliothek des Deutschen Bundestages, the Bundeszentrale für politische Bildung and the Hauptbibliothek der Universität Bonn in whose premises I carried out almost all of my research and writing, thanks are also due.

Now I invite you to read some of the ideas I believe to be helpful for a mutually respectful coexistence in our common ancient Greek and Roman, Judeo-Christian, European, Mediterranean and Atlantic space.

Bucharest
June 2014

Sorin Mureşan

Argumentum

Why Social Market Economy?

First of all, the economic and financial crisis which rocked in 2007–2009 to the bottom the foundations of the Western free markets based economic systems we have in place since Bretton Woods, showed that globalisation brought in the meanwhile results and neoliberalism had reached its limits. In other words the doctrine of “the sky is the limit” reached its own limit. Some call this economic and financial crisis “the first crisis of globalization”.¹ It forces us to rethink the whole system in a holistic manner. This system of neoliberal style market economy exported worldwide under the US–UK leadership succeeded indeed to prove successful in bringing the highest level of wealth and to as many people history has ever seen. It was more or less done within two generations starting in 1945. Moreover, the system of Western neoliberal capitalism succeeded in 1991, after the reform of Bretton Woods by the introduction of free floating system on the foreign exchange market in 1971–1973 to win the Cold War and defeat the centralised planned economic² systems of the socialist camp. Thus, as there are so many aspects involved, we need to analyse the current status quo in economics, social aspects and finance. We need to look at what we have now, where we are coming from and where we should be going to from here. In this process of self-reflection, we would have to look comparatively at various economic, social, financial and monetary systems.

One of them is the Social Market Economy. Such a system has not been a mainstream system, but one standing since 1948 in the shadow of neoliberalism. By analysing it as a monographic study, from roots (theory and principles) to fruits (practical wealth), we might get insights which in their turn will be valuable for

¹ Compare Brown (2010), whose book title is very suggestive.

² The Western comparatively higher productivity did not come at zero cost. The systemic increase of Western public debt, private debt and other hidden costs, such as a low demography, immigration of political and economic refugees, etc., was part of the price to pay for winning the Cold War much earlier than originally expected.

creatively reforming the current systems in place now by applying as little effort as possible.

Social Market Economy is an example of a social and economic system whose analysis broadens knowledge and, in certain ways, offers a bigger picture on the many connections between the political and economic fields, both nationally and internationally, i.e. what we call the *interdependence of orders, or layers*. The statement holds true especially for a time such as this, when many countries are searching for social and economic models to suit their national interest. The Social Market Economy integrates economic performance, public security, social equity and dialogue between social partners. The Social Market Economy recreates and solves the economic role of the government as well as the distribution of public and private power in a free economy.

The Social Market Economy delves into the cultural identity and history of European societies before Christ, to ancient Greek and Roman thought. It is built mostly on Western medieval Christian doctrine, including models of Church teaching and how it was applied in the German speaking area of Europe. It also integrates the advent of political democracy with the help of the French Revolution and Napoleon Bonaparte. Since 1948, the Social Market Economy has had a fundamentally liberal philosophy.

Second, the success of neoliberalism applied between 1973 and 2008 has become possible because of the combined military power of the USA and UK. This military power enabled these countries to secure public and predictable international order. This made in its turn possible the taking up of debt (public, commercial and private). The doctrine of *growth by spending in deficit* was applied starting with the USA that was then followed by the rest of Western economies. All of the Western countries and many of their citizens took up debt and have now reached the highest level of public, personal individual and company debt as the world has ever seen. Debt taken up via the possibilities opened by financial and monetary deregulation has in the meanwhile become unbearably large, thus endangering the long-term stability of financial markets and thus that of the real economy and related trade activities. From this perspective, the whole Western economic system has to be reviewed quickly before it is too late. Total levels of debt can be estimated at over 500 % of GDP in the UK, ca. 300 % of GDP in the USA, over 300 % in Japan, over 250 % in Spain and over 290 % of GDP³ in Germany, and are no longer sustainable. This is all the more true if we compare it with the thousands of billions of dollars of surplus that China, India and some other emerging market countries have been hoarding since the early 1980s. The effects of debt and international imbalances in economic weight seem to be increasingly endangering

³ See The Economist (2011, July 9). The figures are not easy to calculate not even by the economist because all debt should be calculated by taking into consideration not only the lending contracts due at the moment of calculation of the outstanding debt but also the contracts already entered into by the sovereign, which are due only in 20 or 30 years. The latter can be pension contracts of civil servants entered into at the moment of calculation, which will be due only in 20 or 30 years time when the respective civil servants will retire.

the international monetary system. This might lead in its turn at some point to unrest or civil war. Something has to change here soon, very soon. For this we need to again address similar systems, which are/have/pursue a more ethical approach.

Third, a rethinking of the system is due for ethical and health reasons as well. In order to achieve higher productivity levels than the rest of the world, the West had to make its own sacrifices. Here I talk of human and family sacrifice by the workforce in the form of erosion of family and ethical values and burnout syndrome affecting the health of the workforce, thus indirectly increasing the cost of health. In its turn the cost of health diminishes productivity. To correct this, again, we need to look at a market economy system which is more “social” or more “human” in its approach or style. This is a common ideal not only for the social democrats in Europe but also for the conservative and Christian-Democratic political forces as well. Thus, for example, at the Statutory Congress of the European People’s Party in December 2009 in Bonn, Germany, a political document has been adopted which basically states that as far as economic policy is concerned, we must “*return to the founding fathers of the Social Market Economy. The axiom of ‘as much market and private initiative as possible, as much state as necessary’ is today more valid than ever before. In this sense, the role of the state versus the role of private actors, especially in the financial world, must be carefully reassessed, considering the public demand for more economic efficiency, social coherence and solidarity*”.⁴ It is this reassessment which this book tries to make.

Fourth, if we look at social market economic systems, we have to look at them on the European continent, in its Western half. Although various forms of more or less interconnected Social Market Economy systems and related styles of economic policy have been put in place more or less spontaneously over historical periods in the Netherlands, Belgium, France, Switzerland, Austria and Italy, and even the Scandinavian lands, the Social Market Economy in Germany has been implemented as a new creation, replacing the totalitarian centralised economic system driving Germany between 1933 and 1945. Therefore, if we want a new system, we should look at it in that country where it has been created anew. By looking at how the Social Market Economy has been developed and implemented in Germany, we can better see how a new system can manage to successfully replace an old one. Social Market Economy is the economic and social system that made the miracle of economic and political rebirth of Germany possible after its crushing defeat in the Second World War and social confusion by the excesses of the national-socialist dictatorship.

Fifth, since the European Union and the euro area, as the largest market worldwide has the German model at its core, we should look at the Social Market Economy in Germany. The German economy is the first in Europe both with regard to size and resilience. It will have considerable influence on the evolution of the economies of the EU and the international economic policies of the latter.

⁴ See European Popular Party (2009), p. 8.

Sixth, taken on its own, Germany is the fourth largest economy in the world in the classification according to its contribution to the total world GDP. Also, Germany is the second largest exporter of merchandise worldwide. Both facts are reasons in favour of the decision to look at the system developed in Germany.

References

- Brown G (2010) *Beyond the crash: overcoming the first crisis of globalization*. Simon & Schuster, London
- European Popular Party (2009) *The social market economy in a globalized world*. In: Congress document adopted by the EPP Statutory Congress Bonn, 9–10 Dec 2009. Internet portal www.eppbonn2009.eu. Accessed 19 Dec 2010
- The Economist (2011, July 9) *Debt reduction. Handle with care. "Deleveraging" will dominate the rich world's economies for years. Done badly, it could wreck them*. Leaders section (with July 7 date in online edition). Print edition, London

Contents

1	Introduction	1
1.1	Methodology	5
	References	8
2	Philosophical and Historical Roots for the Social Market Economy	9
2.1	The European and German Historical and Philosophical Context	9
2.2	Christian and Secular Philosophy	17
2.2.1	Scholasticism and Catholic Social Teaching	17
2.2.2	Evangelical Protestant Social Ethics	29
2.2.3	Jewish Contributions	35
2.2.4	Secularisation, Nation and Economy	44
2.2.5	Liberalism in Germany	50
2.3	The Socio-Economists, Forefathers of the Social Market Economy	53
2.3.1	The Political and Economic Context of Germany Between 1918 and 1945	53
2.3.2	The Freiburg Circles. Other Groups of Dissident Intellectuals	57
2.3.3	Individual Contributions of the “Forefathers”	64
2.4	Ordoliberalism	112
	References	120
3	Models of Capitalism	127
3.1	Anglo-Saxon and Rhineland Capitalism	127
3.2	Operating Styles of Capitalist Economic Systems	129
3.2.1	Liberal Style	130
3.2.2	Social-Democratic Style	131
3.2.3	Corporatist Style	133

3.3	Practical Models of Capitalist Market Economies	134
3.3.1	The US American Model	135
3.3.2	The Dutch Model	137
3.3.3	The Swedish Model	139
3.3.4	The Italian Model	143
3.3.5	The German Model	147
	References	156
4	Pillars of the Social Market Economy as Implemented in Germany	159
4.1	Market Economy and Its Institutions	167
4.1.1	Political Freedom, Private Property, Monetary Reform . . .	167
4.1.2	Business Organisations (Companies), Profit and Investments	176
4.1.3	Competition	184
4.1.4	Monetary Stability and Predictability of Economic Policy	188
4.1.5	Wages, Trade Unions and Company Management	195
4.2	Social Order and Its Institutions	206
4.2.1	General Principles	206
4.2.2	Principles for Taxation and Social Income Redistribution . .	213
4.2.3	Social Security in Practice	216
4.3	Environmental Protection, Sustainability and Institutions	221
	References	231
5	Building Up and Implementing a Social Market Economy in Germany	233
5.1	Rebuilding a Market Economy and an Industrial Base (1945–1969)	234
5.1.1	Strategic Decisions (1945–1948)	235
5.1.2	Start Off: First Measures and Successes (1948–1951) . . .	241
5.1.3	Building Institutions and Legislation: Continuing Success (1952–1960)	243
5.1.4	Consolidation of Success and First Difficulties (1961–1969)	247
5.2	Macroeconomic Dirigisme (1969–1982)	250
5.2.1	First Years of Macroeconomic Dirigisme (1969–1974) . . .	253
5.2.2	Chronicisation of Unemployment, But Growth Is Uninterrupted (1974–1982)	256
5.3	Return to Ordoliberalism, But Via More Public Debt (1982–1998)	261
5.3.1	Economic and Financial Policy	263
5.3.2	Social Security Policy	268
5.3.3	Environmental Policy and Roots of Sustainability	281
5.3.4	German Reunification as Expansion of Territories for Application of the Social Market Economy	285

5.4	Towards A New Social-Democratic Synthesis and Renewal of the Social Market Economy in the Post-1998 and Post-9/11 Era	293
5.4.1	Domestic Economic and Political Aspects	293
5.4.2	European Unification and Enlargement	301
	References	306
6	What Is on the Horizon for the Social Market Economy?	309
6.1	Theories and Doctrines: Neoliberalism, Socialism, Ethical Values	309
6.2	Immigration, Multiculturalism, Europeanisation, Globalisation: Germanisation or De-Germanisation?	320
6.3	Market Economy and Social Order: Keeping a Balance	328
6.4	Production of Goods and Services: International Position Due to the Social Market Economy	337
6.5	Social Security: Investing in Human Capital, the Environment and Sustainability	341
6.6	Any Applicability of Aspects of the Social Market Economy Outside Its Genesis Space?	346
6.6.1	North-East and South-East Europe: Estonia, Romania	348
6.6.2	Outside Europe: China, Brazil, South Africa	357
6.7	Case of a Western Monetary Reset or Reform	369
	References	370
7	Principles and Economic Style Moulded Into Sustainability and Foreign Policy Interests	375
7.1	Can Elements of the Social Market Economy Model Be Useful for a New Global Economic and Financial System After an Eventual Western Monetary Reset?	378
	References	383
	Appendix A: Presidents and Chancellors of Germany After 1949	385
	Appendix B: Federal Ministers of the Economy After 1948	387
	Appendix C: Selection of Important Legislative Acts: 1884–2000	389
	Appendix D: Components and Monthly Spending of a Standard Salary	393
	Appendix E: National Income, GNP, GDP of Germany, 1991–2010, EUR Billion	395
	Appendix F: Population, Million, 1950–2009	397
	Appendix G: Company Mergers and Acquisitions Around the Globe, Number, 1990–1999	399
	Appendix H: Volume of Worldwide Company Mergers and Acquisitions, USD Billion, 1990–2000	401

Appendix I: The Sixteen Länder and Respective Capitals, 2013	403
Appendix J: The Main Regional Economic Blocks, 2013	405
Appendix K: Photos	407

List of Abbreviations

AD	Anno Domini
a.s.o	and so on
BDI	Bundesverband der Deutschen Industrie (Federal Association of German Industry)
BGB	Bürgerliches Gesetzbuch (German Civil Code)
BOD	Board of Directors
CDU	Christlich Demokratische Union Deutschlands (Christian Democrat Union)
CIS	Commonwealth of Independent States
Comp.	Compare
CSU	Christlich-Soziale Union (Christian Social Union)
DGB	Deutscher Gewerkschaftsbund (German Trade Unions' Association)
DM	Deutsche Mark
DRG	German Democratic Republic
EC	The European Community
ECB	European Central Bank
EFTA	European Free Trade Association
ERP	European Recovery Programme
ESCB	The European System of Central Banks
EU	European Union
FDP	Freie Demokratische Partei (Free Democratic Party)
Fr.	In French
FRG	Federal Republic of Germany (mostly meant as West Germany, 1949–1990)
G7/8 G20	Group of 7/8 respectively group of 20
GDP	Gross domestic product
Germ.	In German
GNP	Gross national product
HGB	Handelsgesetzbuch (German Commercial Code)

IGMetall	Industrie Gewerkschaft Metall (Industrial Metal Trade Union)
Ital.	In Italian
N.B.	Nota bene
NATO	North Atlantic Treaty Organization
NGO	Non-governmental organization
NPD	National Demokratische Partei Deutschlands
NSDAP	Nationalsozialistische Deutsche Arbeiterpartei (National Socialist German Workers' Party)
o.n.	Our note
OECD	Organization for Economic Co-operation and Development
ÖTV	Öffentlicher Dienst, Transport und Verkehr Gewerkschaft (German Public, Transport and Traffic Trade Union)
S. Theol.	Summa Theologiae by Thomas Aquinas
SGB	Sozialgesetzbuch (German Social Code)
SGM	Shareholders' general meeting
SME	Social Market Economy
SPD	Sozialdemokratische Partei Deutschlands (Social Democratic Party of Germany)
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
USSR	The Union of Soviet Socialist Republics
VAT	Value-added tax
WCL	Works council
WTO	World Trade Organization
ZDR	Zentralverband des Deutsche Handwerks (Central Association of German Craftsmen)

List of Illustrations

Illustration 2.1	The Freiburg and Cologne schools of thought and Ludwig Erhard: main ideas	114
Illustration 4.1	“The villa of the Social Market Economy” in a sketch of the economic and social system as applied after 1945 in Germany	230
Illustration 5.1	Stages of the social market economy as applied after 1945 in Germany	234

List of Charts

Chart 3.1	Percentage of beneficiaries of social assistance in countries, over no. of years. Source: Goodin et al. (1999), Fig. 9.3, p. 183. Reproduced with kind permission of Cambridge University Press and the authors	132
Chart 3.2	Open unemployment rate in Sweden, 1960–2010, approximate data. Chart years 1960–1994. Source: Statistics Sweden, Labor Force Surveys and National Accounts Statistics, Forslund (1997) p. 147, Fig. 5 then extended with own calculations on OECD data	142
Chart 4.1	Total number of companies in Germany, classified according to legal form, 2009	178
Chart 4.2	Percent of companies per employee numbers, processing industry, 2000	181
Chart 4.3	Percent of companies, per size according to employee in processing industry, 2009	181
Chart 4.4	Turnover share of companies per employee numbers, in industry, 2000	182
Chart 4.5	Turnover share of companies, per size according to employee in industry, 2009	182
Chart 4.6	Changes of inflation rate in Germany, 1963–2010	192
Chart 4.7	GDP per capita in all German Länder in 2010	197
Chart 4.8	Trade union members, 2000	199
Chart 4.9	Trade union members, 2010	200
Chart 4.10	Air pollution volumes, 1990–2009, thsds. tons	226
Chart 5.1	Statutory health insurance expenditure, % of total, 2010 and 2000	274
Chart 5.2	Unemployment, %, 1970–2010	280
Chart 5.3	Total national income of united Germany, EUR, 1991–2001	286

Chart 5.4	Evolution of GDP, %, 1992–2001	292
Chart 5.5	Public debt in Germany, EUR, 1970–2010	298
Chart 6.1	The state’s share, % of GDP, 1980–2010	316
Chart 6.2	Globalisation of trade with goods, % of global trade, 2000	325
Chart 6.3	Globalisation of trade with goods, % of global trade, 2009	326
Chart 6.4	Globalisation of trade with services, % of global trade, 2000	327
Chart 6.5	Globalisation of trade with services, % of global trade, 2009	328
Chart 6.6	The share of the state in the selected countries of the developed world, % of GDP, 2001 and 2009	330

List of Tables

Table 3.1	Public social security expenditure in selected countries, % of GDP, 2007	137
Table 4.1	Degree of wage contract binding of companies and employees, 2000 and (>) 2009, % of total number of companies at national level resp. of employees	198
Table 4.2	Germany's social security expenditure, 2000 (provisional) and 2009 (estimated)	218
Table 5.1	Sources of German tax revenue, EUR,2001 and 2010 (estimation Nov. 2010)	291

About the Author



Ștefan Sorin Mureșan was born in Cluj-Napoca in 1965 into a Romanian Transylvanian family with roots in the Barițiu family of the founders of the modern national Romanian state which began with the 1848 revolution. He graduated from the German school in Romania and first got a mechanical engineering degree from the Polytechnic University of Cluj-Napoca in 1989. Before getting his MA in diplomatic studies from the University of Westminster in London in 1994, he had studied after 1991 philosophy, theology, international relations, European history, international trade and finance and international business law at Oscott College in Birmingham, England (Catholic University of Leuven) and at the US International

University–Europe during the time it had its campus in Oxford, England. He studied the political system of the Federal Republic of Germany at the Faculty of Political Science at the University of Bonn in 1996. After 1999 he studied economics in the Ph.D. programme of the Faculty of Economic Science at Babeș-Bolyai University in Cluj-Napoca which awarded him a Ph.D. in economics in 2003. Dr. Muresan’s affiliation currently is with the Altiero Spinelli Centre for the Study of European Organisation at the Babeș-Bolyai University of Cluj-Napoca.

His postgraduate work specialisations were at the Research Center of the US Library of Congress in Washington, D.C. in 1996 and at the Foreign Affairs Committee of the German Federal Parliament in Bonn from 1996 to 1997. The author has been awarded the “Eudoxiu Hurmuzaki” scientific prize for history of the Romanian Academy of Science in 2010. Since 2014 he is also a member of the Romanian Association for the Club of Rome.

Mureşan's work experience is in Romania and in Germany: as a diplomat (First Secretary) in the Department for Economic Diplomacy of the Ministry of Foreign Affairs in Bucureşti and in the Romanian Embassy in Germany. He also worked as a parliamentary expert for international parliamentary relations for the President of the Parliament of Romania in Bucureşti. In privatisation and M&A, he worked for the State Ownership Fund (Romanian privatisation agency) and acquired practical business experience with the Terapia SA pharmaceutical plant in Cluj-Napoca. The author taught as an associate professor "Global Economic and Financial System" at Babes-Bolyai University in 2004–2005 and was affiliated there with the Institute of International Studies.

While in Germany he works as a business consultant specializing in East–West business development for industry and trade, in international project management and as a political consultant.

As of 2012 he teaches "economic diplomacy" for incoming international undergraduate students at the University of Applied Science in Würzburg. Mureşan also works occasionally on international relations and EU project funding for the German National Agency at the Federal Institute for Vocational Education and Training.

The main research for this volume has been done in Bonn, Germany, between 1996–2014 when the author was a business consultant, a diplomat at the Romanian Embassy in Bonn, and exchange parliamentary staff at the Bundestag's Foreign Affairs Committee.

Chapter 1

Introduction

Exactly 200 years after the decisive year of 1789, during the other decisive year of 1989 as the centralised economy system was abandoned across the Soviet bloc, a great deal of marketing, financial and accounting literature appeared. This was not only in Central and Eastern but also in Western Europe. The victory of “capitalism” over “socialism” boosted massively the “managerial” and “econometric” view on economics, at the expense of economics as a social science. Proportionally on the bookshelves there was significantly less literature based on economics as a social science than on the heyday concept of “management” of companies.

Most of the books which first flooded the market of Eastern Europe attempted to present opportunities for quick and substantial profits by offering management models from developed, experienced Western countries which had benefited from coherent economic systems. These management models had been created in countries that relied on mature and stable institutions and in which legislation was obeyed. The models were transferred and “sold” via these books to countries in which it had not yet quite been figured out what kind of economic system to adopt, in which back then there was a systemic vacuum and where most citizens still wore “teenager” shoes when it comes to understanding market economy. But economics as a science¹ is rather a social science, not a mathematical one nor where statistics dominates such as in econometrics. It might need a mathematical dimension and needs to compute documentary backgrounds in order to enable political decision, but its backbone is and remains social.² Therefore, an economic analysis has to be a

¹ Whether economics is a science at all is also a question to answer. We can operate scientifically with economics, but I would categorise it to that area what is today known as social “science” and thus economics, as a discipline rather belonging to political philosophy.

² See the suggestive cover of *The Economist* (2009, July 18). There, the dissolution of the modern economic theory, which we know has been under the dominance of the econometric view on economics, is illustrated in the form of an economics book made of ice cream which is melting away. This dominance had been in place at least starting with the reform of the Bretton Woods system in 1971–1972.

multilateral study of social, political, legal, institutional, cultural and identity aspects of the country it is applied in. Economics is rather a science mainly “of words” rather than “of figures”.

This book attempts to present the system of the “Social Market Economy” from a systemic and interdisciplinary perspective. The clearest results of implementing the Social Market Economy have been achieved in Germany, a country where the concept has been created by and around Ludwig Erhard.

Understanding the German system from this perspective is important for several reasons and for several categories of readers in transition countries and emerging markets.

First of all, it is intended for economists, political scientists and sociologists. Economics and sociology, in their current form, are relatively new sciences, born in the eighteenth and nineteenth century during the needs created by industrialisation and based on philosophical, ethical, religious and natural science concepts.

Second, for macroeconomists and experts in international policies, it is more important to understand the German economy than its political system, simply because Germany is, above all, an economic and technical nation. It has the biggest economy in Europe and that gives the country its political weight. Moreover, Germany is situated at the crossroads of all European trade routes going in between the south and the north, the west and the east.

Third, understanding is important for pragmatic reasons, for true business people, who operate in daily commercial businesses and who create the taxable income out of which research, politics and administration are fed. Knowing and understanding the macroeconomic background, origin, social context of one’s business partner or friend and especially the way their immediate and long-term interests were shaped increase productivity. Only by analysing things from an interdisciplinary perspective, by seeking friendship with one’s business partner, can one find and map out solutions for profit in one’s company, without having to take one’s partners “out for a ride”, an expression that is still all too familiar in transition countries and increasingly also in industrialised ones.

In order to illustrate why it is important that transition countries understand Germany from an interdisciplinary perspective and in a historical context, we will present an example from the life of Western and German knight orders. These knights are known as the francophone Knights Templar, the germanophone Johanniter Order (Johanniter, with the Catholic branch of the Maltese Knights) and the Teutonic Knights (Lat. *Ordo Theutonicorum*) or “Deutscher Orden” who became the backbone of the state of Prussia.

These orders may be regarded as a first export vehicle from Western Europe to the North East (Prussia) and the South-East (Byzantium and the Holy Land) for Western Christian values and, along with them, sociopolitical (political interest groups, fortresses, hospitals, charity associations and so on) and economic structures (trade patterns, specific merchandise, etc.). More intense contact between Western knights and the Byzantine-dominated east was established once the crusades began.

The Teutonic knights have always had a direct influence in Eastern European, especially in Transylvania (Romania) and Masuria (Poland) after the early thirteenth century, simply due to proximity reasons. Eastern European countries felt intensively, during the transition of the 1990s, the full impact of the activity in Western Europe and Eastern Europe, of the German knights and their achievements.

While territories in today's Northeast Europe (Poland, Belarus and the Baltic States) had no Roman empire history and were not yet touched by Christianity, all South-Eastern Europe as far north as Romania were Roman provinces, Christianised as early as the fourth century. At the beginning of the second millennium AD, South-Eastern Europe had a lively Christian tradition under the jurisdiction of the Patriarch of Constantinople. A part of these territories were mentioned by Pope Urban II himself in the famous sermon where he stated that the crusades were willed by God and should thus be carried out by Westerners. In November 1095 AD, at Clermont Ferrand in France, the Pope mentioned a territory of "Romania" in Byzantium and the Holy Land of Israel—Palestine as being in need of military support against the advancing Ottomans and Muslims.³ In his sermon, he beseeched Western Christians to help their Eastern brothers. In the West, there were no major armed conflicts at the time. Thus, the large number of nobles with military training had no means of earning a satisfactory living. Consequently, many followed the Pope's call and ended up in a large movement of reawakening of the ancient Roman offensive spirit. They organised themselves in groups of Christian fighters, thus forming knight orders. Until the early fourteenth century, they had organised four major crusades. In just decades, these associations of nobles, Christians and volunteers became true "monk militias" and military associations, organised for defence against the structures of another religion, Islam.

Among the new orders formed in this context were the Teutonic Knights.⁴ They were established in 1189–1190 AD in Acco, Palestine, as a military Christian religious order under papal jurisdiction. To finance their military campaigns, they needed money. For this, they attempted to create their own state with their own income. They settled first in South-Eastern Europe, in Transylvania (now) in Romania,⁵ where the Teutonic Knights obtained, shortly after 1200 AD, from King

³ Compare Kean (2005), pp. 147–149, where the establishment of a latin state within Byzantium is described. Comp. also Runciman (2001) pp. 105–106. Romania was the name given to territories put under Western crusader rule after the sack of Byzantium in 1204 AD.

⁴ For details regarding the Order's situation and economic difficulties at the turn of the century, see Wensierski (2000), p. 62. Among the highest ranking Tertiaries of the Order, there is Edmund Stoiber, former president of the CSU and former CDU/CSU candidate to the office of German Chancellor in the 2002 election campaign.

⁵ Before the Magyars were pushed by the Germans eastwards from the Pannonian plain into the hilly Transylvania, the latter had been a part of the Romanian–Bulgarian Empire of Ioniță Asan Caloian. This empire was a confederation of Christian–Orthodox states in South-Eastern Europe, with the capital at Trnovo, in today's North-Eastern Bulgaria. It stretched from northern Greece to the Tisa river. Comp. Dumitriu-Snagov (1996), p. 55.

Andrew II of Hungary, the right to settle in Burzenland (Țara Bârsei), in the Carpathian basin close to Brașov. “King Andrew II of Hungary [...] had bestowed on the Order property [...] in Burzenland in Transylvania. The order had to defend here the border of Christian Hungary from the pagan Cumans. To this purpose, the Order built six fortresses [...] In 1224, the Pope, after appeals by the Order, took the Burzenland into the ranks of his, meaning the Holy See’s property. Thus he supported the Order in its attempt to separate this land from Hungary and turn it into an independent territory [...] The Hungarian king cast the brothers in the German Order out by military force [...] out of Burzenland. He had wanted helpers, but his helpers wanted to become independent and he was strong enough to not allow that”.⁶

Unsuccessful in Transylvania, the Order did not give up on its statehood for finance idea, but focused on the Baltic region and today’s Prussia, a region until then unfamiliar with Greek and Roman Mediterranean civilisation. There, not having to deal with the Hungarian king but only with the Duke of Masovia, the Order succeeded in founding the first Christian theocracy. It stretched from the shore of the Baltic Sea, from Gdansk (Danzig) to beyond Kaliningrad (Königsberg). The monastic state built by the Teutonic Order became, after being secularised in 1525 AD and adopting the Lutheran Reformation into its Constitution, the kingdom of Prussia.⁷ Political and economic life continued and even flourished in Prussia. It succeeded under King Frederick the Great, to defeat Austria under Empress Maria Theresia in the mid-eighteenth century. Later, at the beginning of the nineteenth century, it became a leader in the Anglo–Russian–German coalition against Napoleon’s France. Prussia’s power reached its peak in 1871 when it formed the foundation for the Second Reich under the Chancellorship of Bismarck.

The impact of the Teutonic monastic state and thus of Prussia’s based Germany on Europe meant that a big part of pre-Christian Germanic character and lifestyle traits was transferred to Protestant Christianity, taking on a militaristic and rationalistic technical style. These expanded westwards from North-Eastern Europe, even west to the left bank of the Rhine valley, a former Roman province, and even farther to the west and south, towards Alsace and Lorraine in France. These

⁶ See Boockmann (1994), pp. 68–69: “König Andreas II von Ungarn [...] hatte dem Orden Besitz [...] im Burzenland, in Siebenbürgen geschenkt. Der Orden sollte hier die Grenze des christlichen Ungarn gegen die heidnischen Kumanen schützen. Der Orden hat zu diesem Zweck sechs Burgen errichtet [...] Im Jahre 1224 nahm der Papst auf Bitten des Ordens das Burzenland in sein, bzw. des Heiligen Petrus Eigentum, er unterstützte also den Orden bei dem Versuch, dieses Gebiet aus Ungarn herauszulösen und es zu einem unabhängigen Herrschaftsgebiet zu machen [...] Der ungarische König hat die Deutschordensbrüder vielmehr im Jahr 1225 mit Militärgewalt aus dem Burzenland vertrieben. Er hatte Helfer gewollt, die Helfer hatten sich selbständig machen wollen, und er war stark genug, sich das nicht gefallen zu lassen”. One of these fortresses is the Prejmer fortress (Tartlau) near Brașov, which is well preserved, also under UNESCO protection.

⁷ The military education and lifestyle instilled in the population there for those three centuries, for which the Christian monastic state lasted, could probably partly explain militaristic tendencies, loyalty, discipline, precision but also Prussia’s portrayed impenetrability, which can still be observed today.

Prussian traits at the heart of German identity are complemented, after the establishment of the national German state in 1871, by those of the North, West and South Germans. This means “maritime commerce affiliations” in the north, “liberalism” in the west, Rhine valley “romantic humanism” in the southwest and “social and Catholic propensities” in the south. As far as current German lifestyle traits are concerned, northern and eastern traits remain dominant in politics. At least it seems at least that things remain on the same course as was made obvious when the federal capital was moved from Bonn to Berlin in 1999 and by the difficulties encountered by the CSU, as a southern Bavarian party, in imposing any of their southern candidates as Federal Chancellor of Germany. This was again true in 2002 when the CSU did not manage to impose its candidate on behalf of the CDU/CSU coalition for the office of Chancellor at the general elections during the same year. The reason is that politicians from the North and East German areas were reluctant to accept a leader from the south.

By analysing these identity elements from all four corners of the country, it is understandable why Germany has considerable reasons to want to be an engine for European integration: it holds identity features from all regions of Europe—the east, north, west and south. These elements are also a cause of its development as a continental land force and not as a maritime or aviation power.

Only by examining issues from a historical and philosophical perspective can a researcher or business person obtain a coherent and hopefully complete image on why the Social Market Economy developed mainly in a country which has primarily an economic and not a political identity.

1.1 Methodology

As this is a book looking at things mainly through the spectacles of economics, we shall confine it to the analysis of those aspects we believe to be important for the understanding of the economic system in today’s Germany.

First of all, we look at identity. We could be forward enough to define economy as the art of producing utilities, meaning goods necessary for consumption, and of maintaining and multiplying them through time. However, utilities cannot be conceived without values, simply because what is useful (*utile*, Fr.) is valuable. Furthermore, values themselves are ethical in nature, because they “do good”, satisfy needs and hence rid [consumers] of daily material difficulties. Therefore, we make a clear connection between economy and ethics. If we also make a connection with religion or theology, it should not be surprising for the reader. The “inventor” of the concept of national economy himself, Scotsman Adam Smith was a professor of ethics at the University of Glasgow while he wrote his masterpiece book on the nature of the wealth of nations. At that time, teaching ethics was mainly based on religious thought, so economics cannot really do without religious concepts.

The economy is, we believe, a material and figured expression of the way in which people in a country, by coordinating need satisfaction efficiently among themselves, apply conscious, subconscious and trusted theoretical concepts and religious and philosophical ideas in a cumulated and totalled manner, to all individuals and in day-to-day life. In other words, this means a set of values implicitly shared and accepted by the largest part of society. A country's economy is therefore the tangible expression of its national identity and of its citizens' beliefs. In order to understand economy, it is necessary to understand that country's identity and the individual identities of its people. The most important clues to understanding identity are the historical and especially the religious and philosophical framework for that people's formation, evolution and manifestation on a local and international scale.

We could dare go even deeper and state that ethics and values are not the only nor the most important defining element for identity, but that religion is. Today, an increasing number of philosophers, economists and sociologists in the Euro-Atlantic space state and admit that religion is the main tenet of identity. It defines the long-term force and stability of an individual's opinions, finally the cohesion of a nation, capacity to achieve economic success and also a nation's evolution as a group.

Even outside the Euro-Atlantic area, we see that Japanese economists say that "religion is the thing that matters most in the differentiation of economic systems in today's world economy".⁸ From this Japanese perspective, even though secularisation became generalised in Europe with the French Revolution, the main system of belief and vision on life influencing Western economies remained essentially Christian. For this reason, Japanese experts state that on a global scale, there are only two models of capitalism: "Christian capitalism" and "Confucian capitalism". Looking at Europe from the Far East, the Japanese assume that Christian capitalism is a "Western Christian" capitalism, when in fact it is more than this, i.e. it also is an Eastern Christian one.

Some European researchers have similar opinions. Alfred Müller-Armack, the acknowledged father of the German Social Market Economy, highlights the importance of what he calls "...the religious roots of our political and social convictions...".⁹ Catholic morals, combined with Protestant work ethics and the desire to accumulate capital through systematic saving, were secularised by the Enlightenment, by the French and German rationalist philosophy and, in the past century, by utilitarianism and Anglo-Saxon scepticism.

Still, identity does not only stem from religion but from other sources as well. An important source is that of international political relations, influenced by the geographic position and intercourse in neighbourhoods with other peoples. Another source of identity is cultural development throughout the centuries. For example, a dimension of cultural aspects influencing identity that is very obvious with the German-speaking peoples is their inclination towards systematisation and rationality. This propensity is the basis for the efficiency estimates of any economic

⁸ See Koslowski (1998), p. 7.

⁹ See Müller-Armack (1965), p. 258.

enterprise and explains not only Austrian institutionalism but also German mechanicism.

Also, other sources for understanding and especially for “sensing” the cultural dimension of identity are **folk tales and legends**. An example of the latter in the case of German-speaking peoples is the knightly poems of the eleventh to thirteenth centuries, such as the German national epos *Das Nibelungenlied*¹⁰ and then *Parzival* (a German version of the French epic poem *Perceval*). Furthermore, the epic poem *Tristan* is also useful, as it is an example based on older Anglo-Irish tales about King Arthur’s court, from the sixth to seventh centuries. They all offer valuable insight into a time period crucial to the formation of Western peoples in general and the German people in particular.¹¹

Below, we shall see that all these elements form the grounds of the current corporatist system in the Social Market Economy. It is important that when analysed, all these elements be regarded as a whole and not only as isolated individual parts. Awareness and understanding of historical, spiritual, cultural, philosophical and political roots is of crucial methodological importance for drawing an objective and scientific conclusion on the political and economic system of a country, in this case of the Social Market Economy.

In order to be as thorough as possible, we shall first look at the European historical and philosophical context. Then, we shall move on to the national circumstances in German-speaking regions and focus mainly on Germany: examining the German historical and philosophical context, especially the Christian doctrine, with a focus on the relationship between philosophy and theology, as a means of explaining for economists and sociologists religion’s contribution to identity. Then, we are going to present specific cultural elements, such as the Germans’ natural skills for order, discipline, technique, analysis and systematisation, in the context of their relationship with neighbouring peoples. Towards the end of our theoretical analysis, we shall present the main economic and social principles of the Social Market Economy, as it was developed based on the presented identity elements.

We shall present and examine the way these principles were implemented in post-1945 legislation and institutions to create the new economic system Social Market Economy in Germany. At the very end, an interdisciplinary interpretation of the progress registered so far, by implementing and developing the system, will be followed by an evaluation of the perspectives and effects the Social Market Economy has on increasing the international standing, increasing the weight and serving foreign policy interests of the country it is applied in, in this case, Germany. We will also touch on some aspects of the applicability of this system in countries which pursue a postcolonial or a post-crisis path and also eventually for transition economies.

¹⁰ See No authors (1999).

¹¹ Comp. Jönsson (2001). For the poems, see Wolfram von Eschenbach (1981) for *Parzival* and Gottfried von Straßburg (1977) for *Tristan*.

References

- Boockmann H (1994) *Der Deutsche Orden: Zwölf Kapitel aus seiner Geschichte*. Beck, München
- Dumitriu-Snagov I (1996) *Monumenta Romaniae Vaticana*. Regia Autonoma Monitorul Oficial, București
- Jönsson M (2001) “Ob ich ein ritter waere”. Genderentwürfe und genderrelatierte Erzählstrategien im Nibelungenlied. *Almqvist och Wiksell Internat.*, Stockholm
- Kean RM (2005) *Forgotten power. Byzantium. Bulwark of christianity*. Thalamus Publishing, Ludlow
- Koslowski P (1998) The social market economy and the varieties of capitalism. Introduction. In: Koslowski P (ed.) (1998) *The social market economy: theory and ethics of the economic order*. Springer, Berlin, Heidelberg, pp. 1–9
- Müller-Armack A (1965) The principles of the social market economy. In: Koslowski P (ed.) (1998) *The social market economy: theory and ethics of the economic order*. Springer, Berlin, Heidelberg, pp. 255–274
- No Authors (1999) *Das Nibelungenlied. Mittelhochdeutsch/ Neuhochdeutsch. Nach dem Text von Karl Bartsch und Helmut de Boor*. Philipp Reclam jun., Stuttgart
- Runciman S (2001) *Geschichte der Kreuzzüge*. Deutscher Taschenbuch Verlag, München
- The Economist (2009, July 18) What went wrong with economics? Leaders section. Print edition, London
- von Eschenbach W (1981) *Parzival*. 2 Bände. Mittelhochdeutsch/ Neuhochdeutsch. Mittelhochdeutscher Text nach der Ausgabe von Karl Lachmann. Philipp Reclam jun., Stuttgart
- von Straßburg G (1977) *Tristan*. Hrsg. v. Karl Marold. Unveränderter 4. Abdruck nach dem 3. mit einem auf Grund von F. Rankes Kollationen verbesserten Apparat, besorgt von Werner Schröder. Berlin/New York
- Wensierski P (2000) Kirche. Da kann man richtig Geld machen. In: *Der Spiegel* (2000, June 19) Heft 25/2000, pp. 60–64

Chapter 2

Philosophical and Historical Roots for the Social Market Economy

2.1 The European and German Historical and Philosophical Context

European civilisations and cultures have undergone many stages of religious, cultural and political evolution, as well as of economic and social development.

We shall firstly refer to pre-Roman Europe. Germanic tribes inhabited as early as the fifth century BC large areas in north Central Europe, which account for approximately one fifth of the entire territory of today's European Union of 28 members, third only to those inhabited by the Celts and the Thraco-Dacians.¹

Many of the character traits of the German speakers and Central Europeans of today, which decisively influence the **Social Market Economy** system and its implementation practices, can also be tracked to the ancient Germanic tribes. The contemporary systematisation of industrial production; the quality of the products of the economy; the continental mobility by means of road transport, as opposed, for example, to the British sea transport; the state and social insurance corporatism; and the loyalty towards the state are all reflections of the traits genetically inherited by the German people. Even German authors support similar statements about their own roots. They maintain that ever since ancient times “restlessness, passionate dedication to the purposes and tasks of the tribe, appetite to waging war, mobility and the appetite to conquer are undeniable common traits of our ancestors”.² The Germans, the Alemans, the Teutons and the Goths are described by some as being with “torn character. . . unfulfilled. . . insecure. . . (but with, o.n.). . . endowed with high intellectual abilities, with craftsmanship, innovative, attached to conscientiousness and exactitude, gifted with artistic virtues and cultural aspirations and

¹ See map in Kaser (2001) p. 56.

² See Margies et al. (2001), p. 28: “Unermüdlichkeit, leidenschaftliche Hingabe an Stammesziele und Stammesaufgaben, Lust am Kriegführen, Mobilität und Eroberungslust sind unbestreitbare gemeinsame Züge unserer Vorfahren”.

they value loyalty, dedication and honesty”.³ And further, the more or less self-description goes “Warriors and hunters, who have rolled their wars over entire other cultures and countries. . . are men of deep introversion and high devotion. IT was thus that, the theologians and writers of Italy eventually ridiculed the piety and dedication of the Germans and their deep and religious seriousness”.⁴

When analysing these elements as background roots for character traits and contemporary economic style, one must be cautious and moderate. The positive elements of this set of traits have been chosen for exaggeration by the National Socialists⁵ who have transformed them into the dogmatic and false view, according to which the Northern and German races would be genetically superior to others, especially to Southerners and darker skin peoples. Whatever this might be, critiques of the racial superiority theory stemming even from the contemporary native German school of thought assert (under the post-war influence of Anglo-Saxon and North-American schools of thought) that there are some inherent contradictions within German identity character and nature. On the one hand, there is the loyalty towards family, ethnic group and region they belong to, while on the other hand, there is the constant desire for mobility and militancy. The interior tensions between these two aspects, essentially good when regarded separately, would impose the showcase of strength and apparent impenetrability, with the aim of hiding the downside or reverse. Thus, the inward contradictions between these two tendencies in the German identity would not be noticeable at first sight by a superficial observer: what one could perceive would be tranquillity, introversion and impenetrability.⁶

³ See Margies et al. (2001) p. 29: “... der zerrissene Charakter [...] Nichterfüllung [...] Unsicherheit [...] (aber mit, o.n.) eine hohe intellektuelle Begabung, sie sind handwerklich geschickt, erfindungsreich, mit dem Hang zur Gewissenhaftigkeit und Genauigkeit ausgestattet, mit künstlerischer Begabung und kulturellen Streben versehen und schätzen Treue, Hingabe und Ehrlichkeit”.

⁴ See Margies et al. (2001) p. 28: “die Krieger und Jäger, die ganze Länder und Kulturen mit Krieg überzogen haben, sind Menschen von tiefer Innerlichkeit und religiöser Inbrunst. So haben sich die Theologen und Schriftsteller Italiens später lustig gemacht über die Andacht und die Hingabe der Deutschen und ihren tiefen und religiösen Ernst”.

⁵ Was it done deliberately or illusorily, by misperception? We should not forget that Adolf Hitler was dark haired as was a Southern German, born in today’s Austrian city of Braunau am Inn (nomen est omen, sic!).

⁶ Besides the traits of ancient Germans, preserved and validated over a long time, some authors assert that even more peculiar is the contradiction between natural “tendency towards inferiority and excellent gifts, combined with the political and military pressure from neighbouring countries, which have led to an unholy development in the German nature, to the formation of **the** national vice of Germans and Teutons, namely pride, independence and arrogance”. These beliefs encouraged further many Germans to believe in a genetic superiority of their race. These authors maintain that only after correcting these deficiencies will the Germans be able to fully benefit from their capacities and gifts, thus acquiring an eventual/alleged predestined role of a leading nation with extraordinary achievements. See Margies et al. (2001), p. 29: “Hang zur Minderwertigkeit und exzellenter Ausstattung hat zusammen mit politischen und militärischen Bedrängungen durch Nachbarvölker zu einer unheilvollen Entwicklung im deutschen Wesen geführt, zur Ausbildung

Moving from the pre-Roman to the Roman age, one can notice that from a geographical point of view, most of the territories inhabited by Germans then and now were not a part of the Roman Empire. Only about a tenth of the territory of today's Germany—the South-Western part, the Rhine valley and a part of Bavaria—were included in the empire.⁷ The interactions of the “outside” Germans with the Latin civilisation were chiefly military and less commercial. Nonetheless, they adopted many important elements of the Latin culture, including political, judicial and democratic values and also some pertaining to “*ars vivendi*”. One such example is winemaking, which was introduced in the Rhine valley under Emperor Marcus Aurelius Probus (276–282 AD) with the purpose of producing local wine for the legions stationed there and for saving transport costs from the south. As far as the post-Roman age is concerned, one can notice that there was a favourable context for the “transfer” of the traditional predisposition of Ancient Germans for order, systematisation, pride and loyalty from non-Roman Germany to Roman Germany and for its implementation as a set of norms relating to order and public security during the Middle Ages. So we can notice a transfer of values and skills in both directions between Franco–Italy on one side and Germany on the other side. It is the first historically traceable creation of “Central European identity”, which is now the basis for the values on which today's Social Market Economy systems are grounded.

After the fall of the structures of public order of the “Western Roman Empire” in 476 AD under the attacks of the barbarians, there appeared in German lands the need for a set of their own local norms meant to establish order and govern public life. It is thus understandable that since most Germans lived outside of the Roman Empire, public norms turned back to the roots. Therefore, on German territory, Germanic values outlived Roman norms and laid the ground for the feudal political system, not only in Germany but it also strongly influenced the neighbouring cultures in Central and Western Europe.

Then, for about another 600 years after AD 476, we have the age of what historians call the “Dark Ages”. As it is well known, primary literary and archaeological sources in Western and Central Europe are very scarce with respect to this age as compared to sources for any other historical age. Throughout this age, there was only the “Eastern Roman Empire”, also known as the Byzantine Empire, with the capital at Byzantium, former Constantinople and contemporary Istanbul,⁸ which, based on the classic Greek cultural heritage and oriental Christianity, kept the European civilisation alive. It is unfortunate for the advancement of European interests inside and outside Europe that too many Western historians do whatever

der nationalen Untugend der Germanen und der Deutschen, nämlich Stolz, Unabhängigkeit und Arroganz”.

⁷ See the relevant maps in Lexikon-Institut Bertelsmann (Hg.) (1981), p. 1026.

⁸ It appears that the Turkish name “Istanbul” originates from the Byzantine period. Thus, it is apparently the answer in Greek to a traveller's question “Where are you going?”, answering “It stin polin” (“I'm going to the city”). At the beginning of the first millennium, Constantinople was the only real big city one could go to, namely, *the city*.

they can to ignore and often deride Byzantine achievement. One single example of Byzantine creativity is that brought about under Emperor Julian I (527–565 AD) to whom the West owes the codification of ancient Roman law.

The Byzantine Empire, however, had the same fate as the Western Empire and would finally disappear in 1453 AD. Although its disintegration occurred slowly and was mainly caused by external factors, it lasted over 1100 years. The territory of Byzantium shrank due to the attacks by the Seljuk Muslim Turks, Tartars and Arab violent conquest. There were internal causes of decay as well, such as intrigue within the inner central power circles, the erosion of public credibility and the decline of virtues and ill conduct. We could remember the relationship between our common European heritage of East and West by keeping in mind the description: “ex Oriente lux, ex Occidente lex”.⁹

The tensions that exist to this date between the parts of Europe, Eastern and Western, can easily be explained if one takes into account the traditional rivalries between Athens and Rome, or the Sack of Constantinople by the Western Knights Crusaders in 1204 AD, an event which contributed to the decline of the Byzantine Empire. The decline of the empire coincided with the shaping of the new Christian bases of contemporary Western civilisation. The decline of Byzantium occurred simultaneously with the second rise of Rome.

The beginning of the Western Christian Middle Ages is marked by the historic event of the coronation in Rome by Pope Leon III on Christmas day of 800 AD of the first Christian emperor of the Western World, **Charlemagne (Karl der Große)**. Ever since, Christian emperors in the West wished to continue the ancient Greek and Roman tradition, but based on Christian values. Until 1530, by creating a tradition of the same sort like the crowning of Charlemagne, Western emperors were all crowned in Rome. But Byzantium considered this a provocation and contested from the beginning the crowning of Charlemagne. The reason invoked was that Christianity already had a Christian emperor at that time, namely, the Byzantine emperor in Constantinople. Consequently, there was no need for a second Christian emperor. These diverging positions of Constantinople and re-rising Rome induced the first short church schism at the beginning of the ninth century. It also rekindled the ancient rivalry between Greece and Rome by moving it into Christianity. Thus, the Orthodox–Catholic rivalry between the patriarch in Constantinople and the one in Rome (the future popes) eventually brought about the Great Schism of 1054 AD which even to our day has not been overcome.

The implications of the historic event of 800 AD and the duties of the emperors issued from the coronation at the hand of the church are complex. The most important ones could be briefly enumerated: restoration of state public order in Western Europe, the prominently Christian nature of the mission to govern and public recognition of the principle according to which secular power derives from eternal power and the principle of feudal nobility according to which one is in a position to rule “by God’s grace” (Gottesgnadentum). According to historians, the

⁹ See the logo of the Deutsch–Rumänische Akademie in Mainz, Germany.

event of 800 AD also marks the starting point of the struggle for power spanning across several centuries, between European emperors and kings of various nationalities (French, English, Spanish, Portuguese, German, Austrian, etc.) on the one hand and the Pope, on the other. It is also the starting point for the Roman papal absolutism, which lasted until 1871, when the Papal States were abolished by the secular Kingdom of Italy.¹⁰

Charlemagne (Karl der Große) was the first Western European emperor to be officially anointed by the Bishop of Rome. During the Dark Ages, in which the coronation of Charlemagne is considered in the West to be a “first” ray of light, all scholars in Western Europe belonged to monasteries and the church. The Benedictine order, with the motto “ora et labora” (“pray and work”); the Cistercian monasteries; the church through its bishops; and finally, the local nobility were the only institutions which still preserved Latin, written culture and a certain social order and public security. The integration process of the nomadic peoples in the former Western Roman Empire which started with the fall of Rome in 476 AD lasted for a couple of centuries and could be declared completed only towards the end of the eleventh century.

The revival of Western Europe can be seen as having been completed from that moment in history when its capacity to actively engage in other geographic areas¹¹ than its own became manifest. In other words, Western Europe had regained fame again with acquiring the capacity to export its cultural and spiritual values. As we mentioned earlier, this moment coincides with the initiation of the crusades in 1095 AD by Pope Urban II, who followed the advice of the French Cistercian monk of noble descent, Bernard de Clairvaux.

Germany, especially the Rhine valley and the northern sub-Alpine regions, was an integral part of Western Europe’s processes of collapse, integration–crystallisation, extension towards the East and finally of global extension with the dynamism brought by industrialisation. The German peoples knew how to use their identity advantages and built systematically throughout history a place among the most advanced European civilisations.¹²

Since then, to sum up, the historical stages undergone by the almost all Germanic tribes and by some other Central Europeans are the post-476 AD mediaeval age, during which Roman emperors were no longer of Roman origin but belonged to the

¹⁰ From 1871 and the First Vatican Council onwards until 1929, the Popes lived internationally isolated in the Vatican fortress. They had been expropriated of their former possessions in the Papal States of central Italy and thus left without revenue in the size the papacy had been used to. This had stripped them of the earthly power of monarchic character they possessed until then. It was only after the signing of the “Lateran Treaty” between Italy and the Pope in 1929 that the Vatican City State was established. Its first sovereign was Pope Achille Ratti, Pius XI, the first modern Sovereign Pontiff.

¹¹ An example is the case of the Italian/Venetian early explorers Odorico de Pordenone and Marco Polo in China, as well as a growing number of monks and missionaries in Palestine.

¹² Thus, for instance, one should not be surprised that for several decades of the fourth century, the capital of the Roman Empire was at Trevorum, today the German city of Trier.

new peoples of the empire until the first crusade campaign began in 1096 AD; the age of crusades and of scholastics until Luther's Reform, which began in 1517 AD; the Christian denominational age within the German confederation of the over three hundred religious principalities until the Napoleonic secularisation of 1801 and 1806; the German nationalist and imperialist age until 1945; and finally, the post-1945 democratic age.

Within this historical context, the religious, rational–philosophic, social and economic tradition of Germans is firmly rooted in the territories allocated to them by the division of the Western Christian Empire between the three heirs of Charlemagne at Verdun in 843 AD. Thus, according to this division, the Western part went to Charles II (France and Belgium), the Central part went to Lothar (Luxembourg, Switzerland and Italy) and the Eastern part went to Louis the German (Ludwig der Deutsche).¹³ The Eastern part formed the state which became known sometime after the fifteenth century as the Holy Roman Empire of the German Nation (Heiliges Römisches Reich Deutscher Nation).¹⁴

It can be asserted with little danger of erring that contemporary Germany is the continuator of some characteristics of the Christianised Roman Empire which came under the German rule. The Latin elements of the Holy Empire originate in Italy. They spread along the Rhine valley, from the South to the North during the last century BC. As opposed to France where the elements of Latin civilisation were dominant and stayed dominant even after Rome left, managing to integrate the local Celtic and nomadic cultures, such as the Franks, the Goths and the Avars, thus forming an “artistic and political nation”, in Germany it was the opposite: the Germans and the Goths integrated the Latins and elements of their civilisation.¹⁵ Throughout history, there has never been a separation between the church and the state in Germany, and probably this was more or less similar in France, Italy, Switzerland, Austria and the Netherlands, the other lands from which the Social Market Economy draws its roots from. From the very beginning, the organisation of the Holy Roman Empire of the German nation has been based on the clerical–monarchic model, as well as on federalism and subsidiarity, here unlike the French state which adopted an absolutist–centralised model. Throughout the ages, the

¹³ The last Holy Roman emperor crowned by a Pope in Rome was Charles V (1530–1553). Since then, German emperors have borne the title “Elected Roman Emperor” (Erwählter Römischer Kaiser). For further details, see the Kings' Hall (Kaiser Galerie) in the Church “Römer” in Frankfurt am Main. Here, one can see all German emperors since Charles V until Friedrich II, in 1806. The Vienna Peace Congress of 1815 ruled against the allowing for the continuation of the mediaeval tradition of the German emperors.

¹⁴ See the approximate territory of the Carolingian territory after its division in 843 in Lexikon-Institut Bertelsmann (Hg.) (1981) p. 382. See the Holy Roman Empire of the German Nation during the Staufer age in Lexikon-Institut Bertelsmann (Hg.) (1981), p. 255. The French name for it is with “*Saint Empire Romain Germanique*” somewhat different in its meaning.

¹⁵ At this point, it would not be unreasonable to ask ourselves to what extent the traditional French–German rivalry is, among others, the result of this historical fact as well.

prince-electors (Kurfürsten)¹⁶ who elected the Emperor of the Holy Roman Empire of the German Nation were more often than not as descendants of mediaeval nobles, bishops and spiritual leaders.¹⁷ Essential to note is that German Kaisertum was not based on the principles of monarchic inheritance (hereditas), like in England or

¹⁶ The name “Kurfürst” is derived from the words “Kurie” and “Fürst”. The second word means prince. The first word originates in the Latin word “Curia”. It was the institution through which, throughout the Middle Ages in the West, public, administrative and judicial tasks were carried out by any lord who had the right to exert public power. The Italian institutional connection to Germany is noticeable in this point, since in ancient Rome the Latin name “Curia” was used to designate an association of thirty Roman families, which formed the Roman Tribune and ultimately the concentration of power in the empire. Another meaning of the word was the building in which the meetings of the Senate were held in the Roman Forum in Rome (Comp. Lexikon-Institut Bertelsmann (Hg.) (1981), p. 688.).

The Roman emperor of the German nation was elected according to the election system which had crystallised by the beginning of the twelfth century. In Germany, the election procedure was exerted by corporate units, called “Curiae” (Kurien), which represent the bases for today’s Landtags and form the Bundesrat. Among the first elected princes or kings of the empire who were elected (more or less by a consensual and democratic vote) by nobles assembled on the Reichstag (The Day of the Empire) day to elect the emperor (Kaiser) was Heinrich V (1106–1125). At the beginning the nobles with a right to vote were representatives of essential public corporate entities, i.e. the Catholic Archbishops of Trier, Mainz and Cologne, the Count of Rhine-Palatinate, the Duke of Saxony, the Count of Brandenburg and, later, the King of Bohemia. Eventually, due to genealogical reasons, some princes lost their right to vote, while others gained this right despite living outside the initial borders, e.g. the House of Habsburg in Austria. Thus, and through property inheritance, the right to vote gradually extended to the cities and lands of Bavaria, Hanover, Regensburg, Württemberg, Baden, Hessen-Kassel and Salzburg in Austria. After the second half of the sixteenth century, apparently due to a series of coincidences, the crown of the empire went repeatedly and exclusively to the House of Habsburg. (Comp. Lexikon-Institut Bertelsmann (Hg.) (1981) p. 594.)

The system was abolished by Napoleonic France in 1806 with the secularisation process. Napoleon compelled the prince-electors of the Rhine Valley to form an alliance with France (Rheinbund). The rest of the German territory belonged to the Rhine Confederation, a state vassal to France. Secularisation at French initiative and pressure will possibly not be easily forgotten by German élites, especially by the nobility. Only Otto von Bismarck managed, after the defeat of France at Sedan in 1871, to re-establish the German Reich under the rule of Emperor William I. For details on the formation of the voting system, see Weinfurter (2008) pp. 96–112. For the modern period see map 25.2 in McKay et al. (1991), p. 799, showing which Germanic lands joined Prussia between 1864 and 1871.

¹⁷ For three centuries after Luther, Germany consisted of a confederation of over 300 tiny principalities. The governing rule was dominated by intra-Christian (denominational) struggles according to the principle “cujus regio, ejus religio”, i.e. “he who holds the (public) power imposes the denomination”. There is even nowadays a proverb running among Christian pastors and priests across Central Europe. Luther’s reform finally brought about that all the subjects of such a principality were compelled to adopt the denomination of its ruling prince (Comp. Lexikon-Institut Bertelsmann (Hg.) (1981) p. 740 (see Luther) and p. 997 (see Reform).).

For instance, the last prince of the Principality of Cologne (das Kurfürstentum zu Köln) was the Catholic Cardinal of Cologne, Max Franz, the youngest son of Empress Maria Theresa of Habsburg in Austria. He was overthrown from his principality by the French Revolutionary troops in 1794, with the conquest of the Rhine valley and the incorporation thereof in France. He took refuge northwards, in France. He took refuge northwards, in Münster.

France, but by more or less consensual vote by leading nobility (election spontanea), and he should not be limited in his reign to single Germanic lands (rex singulorum) but to all lands (rex universorum).¹⁸

The crises and struggles that characterised the age of religious wars in the West spanning from 1500 to 1650 came to an end with the Westphalian peace of Münster and Osnabrück, which ended the Thirty Years' War in 1648. Here, the reader must bear in mind the broader European context. In the same age, in England, the Civil War fought between 1642 and 1649 ended with the very first execution of a monarch in the West, namely, the English Charles I. From that moment on, Western Europe has evolved ceaselessly. Only 35 years after 1648, the Turkish siege of Vienna, as the outpost of Western Europe, was coming to an end. Then, industrialization made European Western states into global great powers. The process initiated at this point in history in 1648/1649 would be finalised in 1918, the year that marked the overthrowing of the Ottoman Empire outside continental Europe and the end of the security architecture of the second Christian millennium in Europe.

Returning now to the Middle Ages, but this time from a philosophical perspective, one can notice that ever since the thirteenth and fourteenth centuries, in Germany, as everywhere else in Western Europe, philosophy gradually acquired an autonomous status, releasing itself from the tutorship and dominance of theology. Nonetheless, it should be noted that from a scientific point of view, they have been interconnected up to the present. The emancipation of secular philosophy continued and reached its peak in the Renaissance, a time characterised by the spread of corruption and other immoral practices among the clergy of the Catholic Church, a phenomenon which nourished anarchists, protesters, church dissenters and atheists and which ultimately led to the Protestant Reform of Luther, Calvin and Zwingli. On the arena of science, the replacement of the ancient geocentric astronomic conception with the heliocentric conception, thanks to the contributions of the Polish scientist Nicolaus Copernicus, as well as the emergence of printed books after the invention of the moveable type-printing by Johannes Gutenberg from Mainz, marked the separation of natural sciences, metaphysics, jurisprudence and medicine from theology.

These evolutions led to progress in several areas. Up to this point, people had lived in rational and intellectual ignorance. For instance, during the centuries when the geocentric conception was seen as correct, there was confusion in place. The geocentric conception could be seen as correct by its intellectual defenders because it considered man to be the most important being, the ultimate purpose of the universe, always in the centre of historic events because it looked at man from the theological perspective. According to this, God created the universe for man and placed him at the centre of God's interest; therefore, Earth with the human species on it was at the centre of all events; therefore, geocentrism was seen as correct when thinking theologically. But as soon as scientists started thinking astronomically and

¹⁸ Comp. Weinfurter (2008) p. 99.

heeded to the facts of physics, heliocentrism challenged geocentrism: it placed instead the sun at the centre and the Earth with its human species at periphery. This was first a blasphemy and the inquisition condemned the challengers to death. But with this, the heliocentric perspective, astronomy diverged from theology and went its own ways. In fact, both theories, geocentrism and heliocentrism, were precise, but referred to different aspects. One focused on theology, whereas the other on astronomy.

The spread of nondogmatic thought trends spread to philosophy as well. It became visible with the English early Enlightenment thinker John Locke (1632–1704), with the establishment of freely debating freemason circles in England and France; with the French Revolution and its goals of liberty, equality, fraternity and nation; as well as with the scientific discoveries made by personalities such as Blaise Pascal, Isaac Newton and Gottfried Leibniz. All of these events are cornerstones of the beginning of the phenomena of secularisation, emancipation and modernisation of Western European societies. After the seventeenth and eighteenth centuries, one can assert the existence of new disciplines such as rationalist–secular philosophy, economy and scepticism on the British Isles and intellectualism and Enlightenment throughout Western continental Europe. These made way for political thought and for the quest of liberation from under political feudalism and the pursuit of democracy.

The struggle of new sciences for liberation from the dogmatic domination of the Christian Church doctrine was fierce and long and would end only in the twentieth century. Eventually, the conflict between theology and science turned out, but at most two decades ago, to have a positive effect: the liberation from the rudimentary interpretations by the church of the albeit correct doctrines of Christianity.

Germany too has undergone all these experiences of the Western and Central European societies. Subsequently, we can apply to Germany the conclusions drawn in other Western European countries with regard to the relationship between scientific and theological doctrines.

2.2 Christian and Secular Philosophy

2.2.1 Scholasticism and Catholic Social Teaching

The national economic systems of Central Western Europe are rooted in the works of ancient Greek thinkers and philosophers and in those of the Christian Church. This seems to be a somewhat abrupt claim, but it is true. In the West, as opposite to Byzantium, the link between ancient Greek culture of the sixth-third centuries BC and the Middle Ages is the Christian monks of the fifth-fourteenth centuries. Although dealing with political and economic systems is not the official mission of Christianity, the church has a twofold contribution to this process, an indirect and a direct one. The indirect contribution, which paradoxically is more important than

the direct one, consists in the moral education the church provides to the congregation in the weekly sermons and spiritual direction, influencing “the faithful” to implement moral principles in social life. The direct contribution, which has a less significant role, consists in the fact that the church itself addresses directly political, economic and social issues.

What is essential in the case of Germany, as the backbone of Central Western European identity, is that the indirect participation of the church is either of Catholic or Protestant style. If from the total of the population of currently 82 million we subtract the number of foreigners, half of the remaining 74 million ethnics German belong, even if only officially on paper, to the Catholic Church. It is this Catholic identity that mainly the Western and Southern Germans adopt voluntarily through conversion or involuntarily through baptism administered in childhood or via family roots.¹⁹ This fact has been like this ever since the colonisation of Western and Southern Germany by Romans and the advent of Jews in ancient times.

The direct participation in church life has been ensured by the clergymen of the church, some of which were even scientists, but also by means of its dogmas and the circular teaching letters from the Pope to bishops and clergy, called Papal encyclicals. The preaching and encyclicals are more or less binding in all Catholic communities, having a centralised character. Things are different in Protestant countries or lands, where, as we shall see later herein, the direct social preaching of the church either does not exist or is decentralised and local. The binding character of church teaching remains even in our contemporary world and in spite of the massive upsurge of anti-intellectual social communication platforms like “Facebook”, “Twitter”, etc. which are signs of acute and chronic secularisation processes among all Christian denominations whether Catholic, Protestant or Charismatic.

But in this subchapter we will deal mainly with Catholic teaching.

The first—again, in the West—Christians who were involved in delivering social, political and economic teaching and who are considered to be the main theologians of Western Catholicism, including German Catholicism, were St. Augustine of Hippo (354–430), bishop and Church Father, and Anicius Manlius Severinus Boëthius (480–524), Christian philosopher in Rome and counsellor of the Roman Byzantine Emperor Theodosius the Great. Other important Church Fathers, shared by the East and West, include Irenaeus, Ambrose, John Chrysostom and the more liberal thinker, Origen, who did not have as great influence as the former since he was considered to teach heresy in some aspects of church doctrine.

Augustine²⁰ used an interdisciplinary approach, combining the disciplines of theology, philosophy, public order, politics and economy. His most important work

¹⁹ It is important to note here that a difference exists between freedom of practising one’s own religion and freedom to choose another religion than the one given/offered/asserted to one through family links or at birth. Whereas before the law, both are equal, in fact social constraints make the first much more difficult to practise or implement than the second.

²⁰ Comp. Copleston (1962–1977) Vol. 2, Part I, pp. 55–105.

in this sense is *De civitate Dei*. Augustine is considered to be the reference figure per se of ancient Western Christianity, just like John Chrysostom who is the most emblematic thinker and Church Father of ancient Eastern Christianity in Constantinople.

Boëthius,²¹ as a lay Christian, before becoming a member of the clergy, had begun translating into Latin and interpreting the works of the Greek philosophers Plato and Aristotle. Unfortunately, he was apparently involved in a plot against the Roman emperor and was executed before being able to finish his work. Later on, in the geographic area dominated by the Catholic doctrine (or better said Christian Catholic style), including Germany, Boëthius' interpretation of ancient Greek philosophy was revisited. This rehabilitation is ascribed to the scholastic movement of the thirteenth to fifteenth centuries. The age of scholastics—i.e. the intellectual effort to comprehend Christian theology based on rational, natural and philosophic explanations, rather than on mystical ground as it was and still is in Orthodox Christianity—represents the root of modern secular thought. It is also during this age that the first (Western) European Universities are founded: Bologna, Paris and Oxford.

Besides the Scot **John Scotus Eriugena**, part of the Carolingian Renaissance (born ca. 810),²² then the Italian who became a Benedictine monk in France and in 1093 a bishop in England as **Anselm of Canterbury**²³ and the English Franciscan monk **William of Ockham**²⁴ (mid-thirteenth century) who studied at Oxford and whose French followers founded a sort of Ockhamist movement,²⁵ in Continental Europe the most important scholasticists are two Dominican monks. They are the German **Albert the Great** (Albertus Magnus, 1206–1280), professor at the University of Paris and founder of the Dominican College in Cologne (Köln),²⁶ and the Italian **Thomas Aquinas**, a student of Albertus Magnus and later the official doctor of the Catholic Church (1225–1274).²⁷

It is not on the agenda of Western apologetes to remind us that Thomas Aquinas had received his first intellectual contacts with Aristotle's philosophy through a South-East European and an Irish master, respectively. Thomas Aquinas began his university studies at the University of Napoli ("nea" and "polis" Greek, means "new city"), under the supervision of a professor of Dacian descent, or from Dacia. In the university, he benefited from "...the first direct initiation in Aristotelian Philosophy under the supervision of master **Martin of Dacia** (bold character added,

²¹ Comp. Copleston (1962–1977) Vol. 2 Part I, pp. 116–119.

²² Comp. Copleston (1962–1977) Vol. 2 Part I, pp. 129–153.

²³ Comp. Copleston (1962–1977) Vol. 2 Part I, pp. 177–186.

²⁴ Comp. Copleston (1962–1977) Vol. 3 Part I, pp. 56–133.

²⁵ For the Ockhamist movement, comp. Copleston (1962–1977) Vol. 3 Part I, pp. 134–164.

²⁶ Comp. Copleston (1962–1977) Vol. 2 Part II, pp. 11–19.

²⁷ Comp. Copleston (1962–1977) Vol. 2 Part II, pp. 20–155.

o.n.) for logics and Peter of Ireland for natural philosophy”.²⁸ It was later that this connection lays at the foundation of his intellectual formation, and to some extent, he could be said to embody a pan-European doctrinarian voice.

The works of **Thomas Aquinas** led to the development of the doctrine known as **Thomism**, a dominant doctrine within European Catholicism. In the nineteenth and twentieth centuries, this doctrine was renamed into “Neo-Thomism” or Christian natural philosophy. It has great importance, for it is at the basis of the contemporary Catholic philosophic doctrine, which, among others, comprises the **Catholic Social Teaching (katholische Soziallehre)**. Nonetheless, not all Catholic or German thinkers were followers of official Thomism. Among the “dissidents”, we may recall the two Germans **Meister Eckhart** (1260–1327),²⁹ Dominican mystic preacher, and **Nikolaus von Kues** (1401–1464),³⁰ a Catholic cardinal, who initiated research into natural sciences and had decisive contributions in ecclesiastical politics. Von Kues was a member of the Council of Florence of 1439 which, in a last ditch attempt to save Byzantium from falling into the hands of Turkish Islam, strove for the reunification with the Orthodox Church.

What is important for our sturdy here is that the two Dominican monks Albert the Great and Thomas Aquinas succeeded in continuing and finalising Boëthius’ idea, i.e. the translation into Latin, commenting and adapting the works of Greek philosophers **Aristotle**,³¹ Hippocrates, Plato and Socrates to the Christian doctrine. It was the direct contact with the Greek and Arab worlds during the crusades that triggered the process of importing to the West and translating these classical philosophical works from Greek and Arab into Latin. Thanks to this effort, learned Western Christians among whom the Germans had now direct access to these works. Although they regarded them reluctantly at first, little by little, starting with the thirteenth century, intense academic and research efforts were done to reconcile the two worldviews (Christian and classical antique and secular), namely, to explain them in relationship to the each other. “. . .So it came about that the classical heritage was captured and christened. Instead of providing a classical and critical approach to the theocentric culture of Christendom, it was incorporated with it. The classical world began to be seen as the forerunner of the Christian. . . If it could not make him a saint, the Church at least treated him (Aristotle, o.n.) as a kind of prophet”.³²

²⁸ See Enciclopedia Cattolica (1954), p. 254: “la prima diretta iniziazione alla filosofia aristotelica sotto il maestro Martino di Dacia per la logica, e Pietro d’Irlanda per la filosofia naturale”.

²⁹ Comp. Copleston (1962–1977) Vol. 3 Part I, pp. 196–207.

³⁰ Comp. Copleston (1962–1977) Vol. 3 Part I, pp. 37–54.

³¹ Important to recall here, from the point of view of the contemporary Arab–Jewish–Christian conflict, manifest especially after September 11, 2001, is that to a large extent it was from Arabs and Mediterraneans through whom ancient Greek–Roman thought became known in the West during the age of scholastics and Renaissance. Among them, the philosophers Ibn-Sina (Avicenna) and Ibn Roshd (Averroes) are worth mentioning.

³² See Roberts (1990), pp. 499–500.

This “Christianisation” takes shape in Saint Thomas Aquinas’ fundamental works³³ *Summa Theologiae* and *Summa Contra Gentiles*. The Dominican philosopher manages to achieve a self-standing theological–philosophical construct which offers practical answers to all the phenomena and questions of the physical and metaphysical worlds, including those pertaining to the economic field through Christian doctrines and dogmas. He quotes not only Aristotle and Cicero but also the Early Church Fathers Jerome, Augustine, John Chrysostom and Ambrose.

In his writings about economy, Thomas includes concepts from ethics and religion. It is the case of the biblical word **vocatio** (Lat.: *voco, vocare*) which signifies a calling, individually addressed by God to a man, or human being. Thomas uses this word to describe the “calling” that people have towards various jobs or activities meant to help them fulfil their roles within society: farmer, shepherd, bricklayer, doctor, cleric, etc. These are all “vocations”—i.e. callings—which means to say that people have the calling to practise them. Profession (Beruf) and religious calling (**Berufung**) overlap semantically and spiritually both in general and in the case of economic life. “This concept of profession based on the idea of vocation is an intimate overlapping between religion and economy, a reciprocal connection of economic and ethical evaluation. This (thesis, o.n.) may be rejected—and in fact, capitalism, with its main aim of achieving unlimited profits, represents the unconditional contrary—nonetheless, within this vision resides one of the most typical conception of scholasticism”.³⁴

By exploring this thread of thought towards its theological end, we discover that the centre of Albert’s and Thomas’s theological concepts—which are also the basis for the Catholic Social Teaching—is not the human being with his individual interests. Being firstly priests and friars, they start from the Christian commandment and the theological idea of loving “. . . everybody the same as ourselves, but since this is very difficult under conditions of original sin [which has deteriorated the nature of the originally good created man—a.n]. . . and since our resources of love or **caritas** are rather limited we must follow the <ordo caritatis> [. . .] the economy must give space to self-interest but [. . .] not imply that self-interest is dignified as the first-best solution. . .”.³⁵ We can thus note that ever since the thirteenth century, the Catholic vision upon profit has been different from the current vision (2011) widespread in the world economy according to which the

³³ Other works by Thomas Aquinas: “De regimine principum” (On Kingship), inspired from the work of Augustine “De civitate Dei”, then “In duo praecepta charitatis et in decem legis praecepta expositio”, “Expositio orationis Dominicae”, “Commentaries” on the first four books of Aristotle’s Politics and “Commentary on Aristotle’s Ethics”.

³⁴ See Schreyvogel (1923), p. 339: “Dieser auf den Gedanken der *v o c a t i o* gestützte Berufsbegriff bedeutet eine innige Durchdringung von Religion und Wirtschaft, eine wechselseitige Verknüpfung von wirtschaftlicher und ethischer Wertung. Man mag das ablehnen—und der Kapitalismus mit seiner uneingeschränkten Selbstsetzung des Gewinnstrebens bedeutet ja den unbedingten Gegensatz—jedenfalls liegt darin eine der charakteristischsten Auffassungen der Skolastik”.

³⁵ See Koslowski (1998), p. 9.

motivation of a company is not to “serve”, but to acquire as high a market share as possible in order to maximise its profit. On the contrary, **according to the Catholic vision, the individual interest in the profit of the company or of his activity should have a secondary role**; hence, the motivation of achieving profits by a “catholically” run enterprise will be limited by moral principles. This leads to a number of essential consequences upon the economic principles, manifest in the drafting of legislation and the establishment of institutions in an economic system governed by such beliefs. This is definitely true for all Western countries where the Catholic Church has a major role to play: from Portugal to Poland and from Italy to the Netherlands.

In the Catholic world and in the German world, the beliefs pertaining to profit and the motivation to work are also directly linked to the conception upon justice, community, trade, prices and state. Although austerity was considered a “saintly” virtue in the Middle Ages, a plentiful life was still desirable. “The main aim of the state is to ensure a plentiful life”,³⁶ and trade should be encouraged. Nonetheless, the free development of trade is limited by ethics in a Catholic system because of the question that arises: should trade be practised only by virtue of its utility, and if so, to what extent? According to Thomas Aquinas “. . . trade is allowed for example when somebody. . . (sees, o.n.) profit not as an end, but as payment for his labour”³⁷ in the sense that it should be the reward for a service provided to a client. This is the **servicing nature of the Catholic profit**.

From another perspective, the exchange of goods for other goods or of money for goods is praised by the scholastic thinkers because it serves the needs of people. The exchange of money for money or of goods for money (pawn) “is justly deserving of blame, because, considered in itself, it satisfies the greed for gain, which knows no limit and tends into infinity”.³⁸ Thus, once more, one can observe that according to the Catholic vision, profit is not a desirable rule, nor an acceptable ultimate goal.

Furthermore, property is not considered “absolute” either, as the scholastic thinkers support the communalisation of goods and economies in extreme social situations. “The temporal goods which are lent by God to man, belong to him as to the ownership, but as to their use, they are not his alone, but also to such others who can be supported with them inasmuch as man has them in abundance (above his needs, o.n.)”.³⁹ The scholastic thinkers go even further, stating that “in cases of

³⁶ See Rüter (1925), p. 9: “. . . das Gutleben, ist Hauptzweck des Staates. . .” from Comm. Aristot. Pol. III. L.5.

³⁷ See Rüter (1925), p. 34: “. . .so wird der Handel erlaubt z.B. wenn jemand [. . .] den Gewinn nicht als Zweck, sondern als eine Bezahlung für seine Arbeit (betrachtet, o.n.). . .”, from S. Theol. II. II a e 77, 4c.

³⁸ See Rüter (1925), p. 33: “. . . mit Recht getadelt, weil sie, an sich betrachtet, dem Verlangen nach Gewinn dient, das keine Grenze kennt, sondern ins Ungemessene strebt. . .”, S. Theol. II. II a e 77, 4 c.

³⁹ See Rüter (1925), p. 41: “. . .Die zeitlichen Güter, die dem Menschen von Gott verliehen werden, gehören ihm zwar hinsichtlich des Eigentums, aber hinsichtlich des Gebrauchs dürfen sie nicht nur ihm gehören, sondern auch anderen, die damit unterhalten werden können, insofern er daran Überfluß hat”, from S. Theol. II. II a e 32, 5 ad 2.

distress, all things are common property”.⁴⁰ Beyond a certain limit, according to the Catholic view, property could or should be socialised and at times could even be nationalised.

In national economies based to a larger extent on these rather than on other views, the role of the community is definitely more important than the role of the individual. The reason for this statement can once more be deduced from theology. Since it is individual development and not the achievement of profit which, according to Catholic Social Teaching, is the ultimate goal of man, each of these persons must let themselves be influenced by his fellows in society in order to be able to live according to moral principles. “The purpose of community is life according to virtues”.⁴¹ Thus, man is integrated as a part of the group. Subsequently, individual freedom is limited, because “every individual who lives in any community whatsoever is, in a way or the other, part and member of the whole community”.⁴²

Since, even according to the scholastic view, man needs an individual space in which he can act freely, it is necessary to keep a minimal distance, i.e. a balance between closeness and distance, between the members of such a community. This balance can be achieved through “the principle of social justice”, which has an essential role in the **Social Market Economy** of Germany. The activities of trade, of paying one’s taxes and of performing remunerated work are, according to the Catholic and German visions, means of achieving social justice. “There are two types of justice. One becomes visible in—giving and taking—mutually, for example in buying and selling. . . And this the Philosopher (Aristotle, o.n.) in his 5th Book of Ethics Chap. 4, calls Balancing justice (*ius commutativa*). . . The other is the one consisting in distribution and is called Distributive justice (*ius distributiva*) and appears then when somebody as leader or distributor, gives to each one according to his merit”.⁴³

Then, another of Thomas Aquinas’ teachings is that “it is altogether unjust and not allowed to sell or buy an object for more than it is worth”.⁴⁴ This point of view represents a paradigm opposite to the “Anglo-Saxon market economy”. It is not

⁴⁰ See Rütger (1925), p. 41: “. . .In der Not sind alle Dinge Gemeinbesitz” from S. Theol. II. II a e 66, 7 o.

⁴¹ See Rütger (1925), p. 13: “. . .ist das tugendhafte Leben das Ziel der Gemeinschaft” from De reg. princ. I. 14.

⁴² See Rütger (1925), p. 11: “jeder, der in irgendeiner Gemeinschaft lebt, in gewisser Hinsicht ein Teil und Glied der ganzen Gemeinschaft ist” from S. Theol. I. II a e 21, 3 c.

⁴³ See Rütger (1925), p. 16: “. . .Es gibt zwei Arten der Gerechtigkeit. Eine hat Platz beim wechselseitigen Geben und Nehmen, z.B. im Kauf und Verkauf [. . .] Und diese heißt beim Philosophen im 5. Buche der Ethik, Kap. 4, die ausgleichende Gerechtigkeit (*iustitia commutativa*) [. . .] Die andere ist die, welche besteht im Verteilen und die austeilende Gerechtigkeit (*i. distributiva*) heißt, indem jemand als Lenker oder Verteiler jedem nach seinem Verdienste gibt” from S. Theol. II. II a e 29, 3 ad 3 and Ebd. I 21, 1 c. The description of *iustitia distributiva* has here Communist undertones because it is assumed that the merit will be correctly interpreted.

⁴⁴ See Rütger (1925), pp. 34–35: “. . .ist es ungerecht und unerlaubt, eine Sache teurer zu verkaufen oder zu kaufen, als sie wert ist”, S. Theol. II. II a e 77 Art. 1.c.

aimed towards the free determination of prices according to the market, but towards providing justice. Remunerated work is treated similarly by Catholicism: “as it is an act of justice to pay a just price for anything received from another, so is the payment of salary for work or toil an act of justice”.⁴⁵ As a consequence, one should not be surprised by the fact that finance-banking systems of countries with economies highly influenced by scholastic thought are less dynamic than others. The beliefs of scholastics have discouraged and delayed from the very beginning the setup and development of banks and of financial systems in the states dominated by this paradigm. Thus, this approach has been transmitted down through the ages to the area of political regulation. The reason for this is the belief according to which there is a contradiction between social justice and money exchange (usury): “To charge interest for money lent is unjust in itself, because this is to sell what does not exist, what is not here. Thus, appears obviously an inequality which is contrary to justice”.⁴⁶ This statement of Aquinas taken from *Summa Theologiae* is definitely not thought out to the end. Since money is the material expression of confidence guaranteed by the Central Bank issuing the money, giving and taking interest for money is indeed a service of giving access to the borrower to this access.

With the arrival of the **Renaissance in the West**, the public acceptance rate of scholastic views started to decrease. The Papacy no longer wanted to be left too much behind the evolutions of science and society. Thus, it urged the church to provide answers for matters beyond the theological aspects of faith, since it started to believe that, in its holy mission to uplift man, although “the church is aware that her task is not to offer technical answers to all these problems (social, political, economic, etc.—o.n.), she still feels obliged to make her contribution to preserving peace and to building a society worthy of man”.⁴⁷ Subsequently, the Catholic Church began shaping a set of **concrete and practical teachings of its own distinct from the preaching of the Christian message in theology. This is the Social Teaching of the church.**

For this purpose, in 1603, the *Linceorum Academia* was established in Rome. It is a predecessor of our contemporary Pontifical Academy of Science. Later, in 1847, the Linceorum was renamed *Pontificia Accademia dei Nuovi Lincei* by Pope Pius IX and was later expanded by Pope Leon XIII in 1887. Its current name dates back to 1936 during the papacy of Pius XI. As the only supranational science academy in the world, its aim is to promote the progress of sciences. It was through

⁴⁵ See Rüter (1925), p. 30: “. . .wie die Zahlung des gerechten Preises für eine von jemand erhaltene Sache ein Akt der Gerechtigkeit ist, so auch die Zahlung des Lohnes für ein Werk, oder eine Arbeit ein Akt der Gerechtigkeit. . .” S. Theol. I. II a e 114, art. 1.c.

⁴⁶ See Rüter (1925), pp. 36–37: “Zinsnehmen für ausgeliehenes Geld ist an sich ungerecht, weil etwas verkauft wird, was nicht da ist. Dadurch entsteht offenbar eine Ungleichheit, die der Gerechtigkeit widerstreitet” from *Summa Theol. II. II a e 78. art. 1.c.*

⁴⁷ See Pope John Paul II (1994), p. 2. The speech was delivered under the name of “*Motu Proprio*” at the opening of “The Pontifical Academy of Social Sciences”, with its main office in the Vatican, on January 1, 1994. See <http://www.pass.va/content/scienzesociali/en/about/motuproprio.html> (accessed June 3, 2014).

the scientific activity under clerical leadership that scholastic Thomism became the basis for the official social teaching of the church. It was in this context that Thomism was updated and renamed Neothomism in the nineteenth century.

Most of the **Social Encyclicals**⁴⁸ of the church were drafted by the Pontifical Academies. Popes used encyclicals to address individually, out of the Vatican, the issues that according to each historic age were considered the most important for the pastoral activity of the church. It is mainly the case of the age starting with the second half of the nineteenth century, when the social effects of the industrialisation of France, Germany, Italy, Austria and Spain generated a number of issues—even problems I would say—which were unknown and harmful to those days' social structures. The church thus offered practical behavioural advice with strong recommendational character for both the clergy and the laymen. The practical advice had to be in compliance with the tradition of the church and the Bible, but in the meantime it additionally had to address issues of everyday life. In the twentieth century the number of social encyclicals increased substantially in number and in the variety of issues addressed.

As in the case of Thomas Aquinas' writings, the concepts of "common good" and "social justice" are at the heart of social teaching of the church itself. They are completed with the principles of solidarity and subsidiarity. These main principles of the general theological and pastoral framework can also be found in the **Social Market Economy** model in general and in the model of Germany as well, and they refer to the position of the family⁴⁹ as a "micro natural society"; the fundamental values of the state; the assurance of income for retirement; co-decision and co-decision within the company; the perception on property, labour, salaries and trade unions; and, finally, the perception upon entrepreneurs. The Catholic teaching on these issues is not much more than a modern reinterpretation and adaptation of the teachings of scholastic thinkers, in general, and of Thomas Aquinas in particular. Catholic Social Teaching is centred on the Pontifical Commissions in the Vatican and on the theological doctrines drafted by influent clergymen or Jesuits.

⁴⁸ Encyclicals are circular letters written by the Pope in Rome as Head of the Catholic Church to his delegates across the world, i.e. the bishops. The Social Encyclicals, considered to belong to the official main social teaching of the church, are "Rerum Novarum", 1891 of Pope Leon X, regarding the issue of labour; "Quadragesimo Anno", 1931 of Pope Pius XI, regarding the overcoming of the division according to social classes; and "Mater et Magistra" and "Pacem in Terris" of Pope John XXIII. These paved the road for the social reconstruction of Europe after the Second World War and for the consolidation of peace. In "Gaudium et Spes" of the Second Ecumenical Council of the Vatican (1962–1965), the relationship between the church and the world is placed in a theological context; "Populorum Rei Socialis" of Pope Paul VI elaborates a complete development programme for the nations. There are three encyclicals of Pope John Paul II: "Laborem exercens" about the dignity of human labour, "Sollicitudo Rei Socialis" meant to find a solution for the separation in economic and political blocs during the Cold War and, finally, "Centesimus Annus", 1991, about the construction of a new national and world order. "Caritas in Veritate" issued by Benedict XVI in 2009 touches on issues of establishing a new world order and asserts an alleged necessity of founding global supervisory financial and economic institutions.

⁴⁹ See von Nell-Breuning (1979), pp. 237–239.

Thus, referring to the **common good**, Catholicism expects politicians to ask their voters in constituencies to work and as far as themselves are concerned, for the sake of the common good, to set a moral example for their voters and fellow citizens by sacrificing themselves by working in the unproductive field of politics. The individual contribution of the common citizen to the common good is made through the collectivistic conception, according to which man belongs entirely to the community. One should note, however, that it is not man as an individual who is bound by society, but his activity, which becomes relevant only if it brings a contribution to the common good. We can thus conclude that the Catholic Social Teaching maintains that, with a view to bringing a contribution to the common good, man must belong entirely to society. Nonetheless, he still is in possession of a limited individual freedom of his own, in the sense that he belongs entirely to society, but not with all his personal attributes.⁵⁰

As for **social justice**, Catholic Social Teaching maintains that, since authority and order are ensured by God's Providence, it is the existing social order which should be preserved and treated with respect and consideration, and should there be need for adjustments to make it perfect, it is everyone's duty to make all efforts to enhance it,⁵¹ by ensuring justice in the interest of the common good. The missing point in the argumentation here of the Catholic Church is that not everybody has been totally interested in church life in the past and even less is interested in it now. Therefore, as there are no mechanisms to ensure that everybody makes all efforts indeed and does not just heed to individual self-interest neglecting the interests of the common good, the accomplishment of duty becomes an ideal but not a realistic purpose for assumption as a basis for the point where political regulations should start. Social justice brings us into the field of corporatism since it deals with the relationships between social groups and the right dimensioning of work relations in view of maintaining social peace. The most efficient method to achieve social justice and common good in practice, namely, in legislation and institutions according to Catholic Social Teaching, is the application of **the principles of solidarity and subsidiarity because they are a synthesis of the main issues pointed at above**. These are basic principles of social order in contemporary Germany and all over the single market economies in the European Union.

Although for a time, the church let herself be influenced by the French Revolution which promoted an individualistic conception upon property, the documents adopted by the Vatican II Council (1962–1965) re-enacted here the traditional Catholic view. According to these documents, the right to property is defined as a right which is relevant only if it has a social relevance. The right to property is,

⁵⁰ See von Nell-Breuning (1979), pp. 233–234.

⁵¹ The concept here derives from the Latin "Ordo socialis servandus": see von Nell-Breuning, 1979, p. 234. For contacts in Germany with those interested in regulating the social order from the point of view of the church and where clergy such as former Cologne cardinal Höffner and Prof. Lothar Roos are involved, see ORDO SOCIALIS (<http://ordosocialis.de/de>). This is an association established in 1985, is a branch of the Bund Katholischer Unternehmer www.bku.de and tries to bring academic solutions for a responsible involvement of the church in public social life.

according to the nature of the realities of creation, inferior to other human rights, such as nourishment, clothing, individual physical security and the right to participating in community life. Quoting the Council documents “*Gaudium et Spes*” dealing with the relationship between the church and the world, we can note that the church teaches that “The order of things (‘property!’) has to subordinate to the order of persons (‘work!’) and not the other way round”.⁵² In the view of the Jesuit von Nell-Breuning, this statement by the fathers of the Second Vatican Council opened the way for co-decision principles in labour and company legislation.

The role of property is thus not essential according to this conception, neither is that of the entrepreneur. Throughout time, within the Catholic environment, there was a “bad conscience” regarding the question on how to deal with the accumulation of wealth and the pursuit of profit. There has been confusion between the truth according to which the pursuit of profit just for the sake of profit has no sense and the perception that profit and the pursuit of profit are evil in themselves. This confusion was possible because the purpose of man—according to the Catholic vision—is to alleviate sufferings and to cater for the needy, by taking from the wealthy and giving to the poor (solidarity), and the purpose of man is not to pursue one’s selfish interests of becoming rich and famous. It is thus clear that due to the principle of solidarity, it is not mainly Catholic entrepreneurs who contributed as engines to the material progress of the Western world in the past two centuries. The key contributor to the current wealth of society in the West is the individualistic bourgeois entrepreneur and businessman. However, in the second half of the twentieth century, the cautious and reticent Catholic position towards entrepreneurs changed. Under the pressure of the ever-growing secularisation, there has been a mutation, a shift from the state of isolation, reticence and resignation which had lasted for centuries, at least since the Council of Trent in the 1570s. The mutation became manifest once with the “*Anno*” encyclical of 1931, issued at the initiative of Pope Pius XI. The latter was born into the family of Ratti, Northern-Italian entrepreneurs. “It is for the first time in a document issued by the Church that the function of the entrepreneur in its specificity and its independency vis-a-vis that of owner is defined and placed at the forefront”.⁵³ Never since has the Catholic Church opposed the dynamic development of the economy driven by private initiative of the entrepreneur. Furthermore, in 1994, the church inaugurated the **Pontifical Academy of Social Sciences**. Its aim is to promote the study and progress of social, economic, political and judicial studies in the light of the social doctrine of the

⁵² See an excerpt from the encyclical letter “*Gaudium et Spes*”, p. 26, quoted by von Nell-Breuning (1979), p. 247: “Die Ordnung der Sachen (‘Eigentum!’) hat sich der Ordnung der Personen (‘Arbeit!’) unterzuordnen und nicht umgekehrt”.

⁵³ See von Nell-Breuning (1979), p. 259: “erstmalig in einem kirchlichen Dokument erscheint hier die Unternehmerfunktion klar in ihrer Eigenart und ihrer Selbständigkeit gegenüber der Eigentümerfunktion herausgearbeitet und an den ersten Platz gestellt”. Wilhelm Röpke confirmed that at the basis of this encyclical lies the contribution of a competent national economist. As von Nell-Breuning asserts, the document had probably been drafted at the initiative of the Pope, probably by a wider association of Catholic economists.

church. This academy organises scientific sessions and promotes on a regular basis social teachings and doctrines within the context of globalisation. The church “has converted” in the meanwhile to the monetary and entrepreneurial doctrine, encouraging the presence of Catholics in the financial-banking sector and even the initiation of associations of Catholic businessmen. For instance, Hans Tietmeyer, the former president (1993–1999) of the German Central Bank (Deutsche Bundesbank) and a promoter of the European Monetary Union, was for many years a member of the Pontifical Academy of Social Sciences. Also, one of the members of the Managing Council of the Foundation which finances the Academy is the Honorary President of the Bund Katholischer Unternehmer (German Association of Catholic Entrepreneurs), Cornelius Fetsch.

We can thus note that the main topics of Catholicism, despite their shift in the last half of century towards individualism and privatisation, continue to be focused on providing justice to the needy in general and, in the context of globalisation, on the redistribution of incomes based on communitarian principles, in particular. It appears that the role of the Catholic Social Teaching will not be as relevant for the future development of Social Market Economy systems in Germany and in other Western European countries as it used to be before the 1990s and still is in some parts of the world, such as Latin America. This is due to the fact that as Cardinal Ratzinger put it in one of his books, the church will change fundamentally in the twenty-first century by drastically diminishing in numbers and being constituted mainly of small house church groups, rather than big parish communities as he saw in the second millennium in the West.

On the South American continent during the 1980s, “the social teaching of the Church in those parts is confronted with the same challenge as it was in our times during Bismarck’s Reich: in front of the task of achieving this consensus, which, fortunately, in our case (o.n. Germany and European countries)—is already achieved”.⁵⁴ Some of the South American political ideas stem not only from Spanish-oriented Catholic teaching but also from ethical ideas of corporatism and secular values. An example is that of the Romanian economist and foreign minister Mihail Manoilescu (1891–1950). His thought on economic and social organisation was of a corporatist nature and centred on values like “fatherland”, “nation”, “religious denominational community”, “professional community”, “family”, “metaphysic morals”, “political ethics”⁵⁵ and others. As a Ph.D. tutor to the Portuguese Prime Minister Salazar, Manoilescu’s publications on economics written in French during the interwar period became known in Lisbon to Brazilian academics. After 1931 they translated his publications on economics into Portuguese and published them in Brasil. There, they became an important source of

⁵⁴ See von Nell-Breuning (1979), p. 252: “steht die katholische Soziallehre heute da, wo sie bei uns zur Zeit des Bismarck-Reiches stand: vor der Aufgabe, diesen bei uns glücklicherweise weitgehend verwirklichten consensus erst zu *schaffen*”.

⁵⁵ See Manoilescu (2010), pp. 5–6 and 83–150.

inspiration for the setting up of the corporatist and protectionist system of the Brazilian economy during the Estado Novo regime.⁵⁶

Nonetheless, Catholic Social Teaching is still important, because the major part of what has been built up to the present, both in terms of legislation and in terms of institutions for the **Social Market Economy**, has been built on these bases. Moreover, with the globalisation we experienced in the second half of the twentieth century and with the collapse of totalitarian-driven pseudo-socialism and pseudo-communism in the Soviet bloc and their sphere of influence, the systems of political representative democracy backed by free market economy and the special model of the Social Market Economy have spread to every corner of the world; and now recently the spread can also be seen in the Arab world.

2.2.2 *Evangelical Protestant Social Ethics*

The views of the Lutheran religious Reform of the sixteenth century on societal organisation had a major impact on the development of the **Social Market Economy** in Germany and in other countries where Protestant Christians were involved in political and business life. Even though Germany is not the only country of Europe where Protestant Christians live, most of Europe's Protestants live in Germany. Half of the German people are presently Evangelical Protestants, members of the German Protestant Church (Evangelische Kirche Deutschlands, or Landeskirche) or adepts of the new "Free Churches" (Freikirchen) of US import origin with some sectarian traits. By virtue of the education they received in families and in private denominational schools, this largest national Protestant group of Europe belongs to the Lutheran Protestant and Protestant school of thought.

Following Luther's Reform initiated in 1517 in Wittenberg, a town in the former German Democratic Republic, a new school of thought took shape in Europe not many decades after the end of the religious wars in the seventeenth century: the **individualist** movement. According to Max Weber, there are four historic promoters of ascetic Protestantism which is the root of the individualist movement and which drove Christians towards the pursuit of accumulation of capital and of profit: **Calvinism**, the way it was shaped in the seventeenth century in the geographic areas in which it was dominant, namely, France, Switzerland and, following the forced emigration of the Huguenots, in Prussia as well; **Lutheran Protestantism and Pietism** in Germany and Northern Austria; **Methodism** in England; and the **Neo-Protestant Charismatic Churches** in America which originated in the Baptist or Baptist movement of the seventeenth century in Europe.⁵⁷

⁵⁶ Comp. Harre (2009), p. 96, and see Manoilescu (2010) p. 33 and his influence in Brazil and South America.

⁵⁷ See Weber (1905b), Vol. 21, p. 1.

The fundamental difference between the Protestant and Catholic models of work and ethics can be best noticed in the image conferred by the Lutheran, Calvinist and Anglican Reforms⁵⁸ to entrepreneurs. “It is Puritanism that conferred to the early capitalist entrepreneur his ‘clean conscience’. The religious and pious Puritan (the Calvinist, the Protestant) saw in his entrepreneurial success God’s blessing; this would mean God gives him to see His contentedness with his hard work, with his correct commercial practices and with his renunciation with which he denies to himself and to his family any unnecessary expenses (luxury), in order to invest all earned profit into his enterprise and use it in an entrepreneurial manner. . . (i.e. He is content). . . with all that which we call today the ascesis of his inner world”.⁵⁹

From a theological point of view, to connect as a rule economic and business success with God’s blessing is simply false. What we see is that by living out the Christian doctrine, one rather comes across the hindrance foretold by Jesus himself where he is quoted by the Gospels to have said that his kingdom is not from this world and that one should rather not expect a good life, but expect persecutions. This means that in order to obtain business orders or contracts, the company of a Christian owner needs to make specific compromises which many times are not consistent with the teaching of the founder. Difficult moral decisions, even dilemmas, also have to be made or solved by the Christian and especially Puritan who is working in the worldly political system.

But, in the sixteenth and seventeenth centuries, the development of Protestant views originated in the focusing or better said picking rather the **individualistic pragmatic economic aspects** of the Bible, than looking at the communitarian aspects as it remained within the Catholic camp. Job is given quite often as an example of wealth by the Bible. He is described in the Book of Job, probably the earliest book of the Bible: “Then the LORD said to Satan, <Have you considered my servant Job? There is no one on earth like him; he is blameless and upright, a man who fears God and shuns evil>. <Does Job fear God for nothing> Satan replied.

⁵⁸ Martin Luther, the former Augustinian professor monk, reformer of the Eastern and Northern German and of the Swedish churches, was not the only initiator of Protestant Reforms in Europe. The other reformers include, to recap, Jean Calvin, in the Swiss francophone area, Erasmus of Rotterdam in North-Western Europe and Henry VIII on the British Isles. One should not neglect the essential contribution of the reform to the development of humanism and to the emancipation of national languages, thanks to their promotion in the church. For instance, Luther translated the Bible into German for the first time. The timely coincidence with the invention of printing by Johannes Gutenberg in Mainz in late fifteenth century and the fall of Byzantium in 1453 contribute to entering into a new era in Europe, as pointed out above.

⁵⁹ See von Nell-Breuning (1979), p. 253: “Der *Puritanismus* habe dem frühkapitalistischen Unternehmer ‘*das gute Gewissen*’ gegeben. Der gläubige und fromme Puritaner (Kalviner, Reformierte) erblickte in seinem unternehmerischen Erfolg den Segen Gottes; Gott gebe ihm damit sein Wohlgefallen zu erkennen an seiner angestregten Arbeit, seiner kaufmännischen Korrektheit und seiner Entsagungsbereitschaft, mit der er sich und seiner Familie allen vermeidbaren Aufwand (Luxus) versagte, um allen erzielten Gewinn wieder dem Unternehmen zuzuführen und unternehmerisch zu nutzen, kurz an all dem, was wir heute kurz seine ‘innerweltliche Aszese’ nennen”.

<Have you not put a hedge around him and his household and everything he has? You have blessed the work of his hands, so that his flocks and herds are spread throughout the land. But now stretch out your hand and strike everything he has, and he will surely curse you to your face>”.⁶⁰ It is this ranking from the perspective of economic ideals and attained economic goals derived from a divine blessing which are specific to the Protestant world. Here, success is more important than the cross.

The English Protestant Puritans who emigrated to the New World in the sixteenth and seventeenth centuries are the ones who established the Thirteen Colonies, which would become with the support of France and the unfortunate Louis XVI independent from the British Crown on the glorious day of July 4, 1776. The subsequent economic and military development of the USA was based on three constructs: **free international trade** with the countries of the Old Continent, on the establishment of the **international payment system** and on the **accumulation of capital** resulted from the profit achieved by the colonists. In this economic lifestyle, as we shall see in the following chapter, the economic doctrines of the New Colonies were close to the economic values promoted by European Judaism. The process of creating the financial and monetary credit system as well as “savings–capitalism”—contrary to the “spending in deficit capitalism” which we see in place since the early 1970s—occurs in the context of the separation from continental Europe, where economic life was still mainly controlled by Catholicism.

In order to best illustrate that the economic model developed in the “new and free world” was a “savings–capitalism”, we quote the advice given by Benjamin Franklin to some of those who would like to become rich: “For six pounds a year you may have the use of one hundred pounds, provided you are a man of known prudence and honesty. He who spends idly a groat a day spends idly around six pounds a year, which is the price for the use of one hundred pounds. He who wastes idly a groat’s worth of his time per day (be it only a couple of minutes) one day with another, wastes the privilege of using yearly one hundred pounds. He who idly loses five shillings’ worth of time loses five shillings, and might as prudently throw five shillings into the sea. He who loses five shillings not only loses that sum, but all the advantage that might have been made by turning it in dealing, which by the time that a young man becomes old will amount to a considerable sum of money”.⁶¹

⁶⁰ See The Book of Job, 8–11 in Bible. New International Version.

⁶¹ See Benjamin Franklin, *Necessary hints to those who would be rich*, 1736, in Poor Richard’s Almanack (1737), and *Advice to a young tradesman*, 1748, quoted in Weber (1905a, b), Vol. 20, p. 14: “für 6 Pfund jährlich kannst Du den Gebrauch von 100 Pfund haben, vorausgesetzt daß Du ein Mann von bekannter Klugheit und Ehrlichkeit bist. Wer täglich einen Groschen nutzlos ausgibt, gibt an 6 Pfund jährlich nutzlos aus und das ist der Preis für den Gebrauch von 100 Pfund. Wer täglich einen Teil seiner Zeit zum Werte eines Groschen verschwendet (und das mögen nur ein Paar Minuten sein), verliert, einen Tag in den andern gerechnet, das Vorrecht 100 Pfund jährlich zu gebrauchen. Wer nutzlos Zeit im Wert von 5 Schillingen vergeudet, verliert 5 Schillinge und könnte ebenso gut 5 Schillinge ins Meer werfen. Wer 5 schillinge verliert, verliert nicht nur die Summe, sondern alles was damit bei Verwendung im Gewerbe hätte verdient werden können—was, wenn ein jünger Mann ein höheres Alter erreicht, zu einer ganz bedeutenden Summe aufläuft”.

The economic dynamics resulting from this mentality is impressive and the American capitalist model is rooted in this mentality.

The denominational reform started in Northern and Western Europe reached quite far eastwards in Europe, i.e. as far as Transylvania in Romania. Protestants succeeded in imposing themselves there quite deeply if we consider that, officially, in Transylvania Catholicism was outlawed between 1526 and 1697. Only Orthodoxy and Protestantism coexisted.

The reform freed the common European of the dogmatic and corporatist approach of the then Catholicism and introduced a new orientation in society towards individualism. Thus, in the Holy Roman Empire of the German Nation, Lutheranism became institutionalised first in the Protestant Church of Augsburg Denomination.⁶² This church was moderate, its dose of individualism being lower than in the UK and the Netherlands.

It was not by accident that the Lutheran Reform could be successfully initiated in Germany and not elsewhere. There are two main reasons for that. Due to the traditional German conscientiousness, religion was taken more seriously than in the South, where people tend to be *à l'aise* and where *non si preoccupa tanto*. The second reason is that, especially in the North-Eastern regions of Europe, namely, in the Teutonic state, **the Christianisation process occurred only after the thirteenth century and to a large extent it was carried out by means of military coercion rather than through Christian gentleness as it normally should have been.** These methods have never been forgotten by the native pagan civilisations, i.e. the Saxons, the Prussians and the Baltics. The adoption by the Catholic Teutonic state of the Protestant Reform, under the reign of Albert von Brandenburg in 1525, represented a reaction based on their wish to interpret religion—from their point of view—correctly and to disavow the brutality of the Christianisation process. Adopting Protestantism was less the interest in developing a particular new denomination or religion. The example of the Teutonic state was then followed by all Eastern and Northern German principalities, which decided to adhere to Protestantism, thus embracing this new doctrinal trend. This new trend referred not only to theology, philosophy and natural sciences but also to economic and social life.

Moving now on to analysing to what extent the argumentation in favour of the national economy by the German Protestant Evangelical economists and sociologists is based on Christian teaching, we can see that this argumentation is based directly and almost exclusively on the Bible. In the opinion of Protestant economists, just like in that of the original Protestant theologians of the early times of Protestantism, the Bible has the sole authority as it is the only source of divine origin and inspiration. “To a work such as that of the Protestant theologian W. Bienert “Die Arbeit nach der Lehre der Bibel (Work according to the teachings of the Bible)”, we,

⁶² “Evangelische Kirche Augsburgers Bekenntnisses” is the church to which the Transylvanian Germans (wrongly known as Saxons) adhered already in the first half of the sixteenth century.

on the Catholic side, have no equivalent, or even similar, work to put along”.⁶³ In the case of Catholicism, as opposed to Protestantism, the scientific argument is a philosophical construct mostly based on reason, which includes, among others, a substantial amount of biblical assertions. Catholic teachings are founded equally on the Bible but also on the millenary tradition of the church. Protestants, on the other hand, **focus exclusively on the study of the Bible and dismiss tradition as a divine source**. Due to the dismissal of tradition, both the official doctrine of the Protestant Churches and the secular humanist thought—including economics—that originated in the mainly Protestant countries had a different development than the development of Social Teaching in the mainly Catholic countries. The economic and social teachings of Catholicism were only partially adopted by the Protestants and only those which had already been in place by when the Protestant reform took hold in the respective countries. This resulted in the development of a new economic, political and social doctrine within Protestantism.

Furthermore, the economic, political and social doctrine of the Protestants developed separately from the official religious doctrine of the Protestant Churches. Until as late as the 1930s, Protestants hadn't promoted any type of social ethics in their official documents. There has never been any Protestant social ethics, as in the case of Catholicism. “There are no compulsory encyclicals such as “*Rerum Novarum*” and “*Quadragesimo Anno*”. What misses is first of all the foundation of Catholic social teaching, namely the teaching about ‘natural rights’. The centuries long dealing with these matters is missing”.⁶⁴ The members of the Protestant clergy considered that their main concerns should pertain exclusively to the spiritual dimension of the soul. There was a fear that the church will slide away from its main task, namely, to promote theological values and spiritual life. They feared that the core message would be altered if the church addressed its followers' secular concerns regarding economic and political life. It is for this reason that one can only speak of social ethics of Evangelical Protestants—created by the Protestant scientists, as individuals—and not of an official “Protestant” social ethics of the churches themselves.

Another reason for the separate existence of a Protestants' ethics besides the ethics of the Protestant Churches is that the position of Protestant Churches is neither unitary nor centralised; they have a federal or even confederal organisation with a high degree of local autonomy. Decentralisation applies not only to churches of different countries—which came to be similar at least in this aspect—with the model of the Orthodox Churches, but it also applies to the churches within the German state. Thus, the “policy” of the *Evangelische Kirche im Rheinland* is quite

⁶³ See von Nell-Breuning (1967b), p. 64: “Einem Werk wie demjenigen des evangelischen Theologen W. Bienert über «Die Arbeit nach der Lehre der Bibel» haben wir auf katholischer Seite nichts Gleichwertiges oder auch nur Gleichartiges an die Seite zu stellen”.

⁶⁴ See Lutz (1967), p. 49: “Verbindliche Enzykliken wie «*Rerum Novarum*» und «*Quadragesimo Anno*» fehlen. Es fehlt vor allem auch das Fundament der katholischen Soziallehre, die Lehre vom Naturrecht. Es fehlt die jahrhundertlange Beschäftigung mit diesen Dingen”.

different in many aspects of social life to that of the Evangelisch Lutherische Kirche in Brandenburg, for example.

As far as Germany is concerned, it was only in the decades following the National Protestant Congresses of Barmen in 1934⁶⁵ and of Darmstadt in 1948 that there emerged a relatively unitary official position of the German Churches regarding secular matters in relation with spirituality. The documents were adopted only following long and exhausting internal debates and conflicts. They are known as the “Darmstadt Theses” and raise for the first time the question whether the Protestant Churches should deal indeed with issues regarding the *political path of our nation*.⁶⁶ Once the road was open, at least in Germany, things evolved relatively quickly as compared to the evolutions during the previous centuries. Thus, after 1945, we can talk about the existence of “Protestant social ethics”, even if its profile is much less defined and prominent than the Catholic one.

Looking at its contents we note that Protestant–Evangelical thought “opposes any absolutisation of earthly issues. According to it, there is no holy state, no holy economy, no holy property, because God alone is holy”.⁶⁷ Nonetheless, man’s dignity is of utmost importance in this model of ethics, because “the honour of God and the dignity of man are inextricably connected”.⁶⁸ From the point of view of the Protestants, it is the state and the economy which must serve man and not vice versa. Man must however defend himself against any type of terrestrial autocracy, be it the public power of the state or the power of the private economy. This illustrates the **principle of limitation of private power** in the economy done through competition and **the limitation of the power of the state** in the public field done through the alternation to government via free elections. We shall see further, in the chapters on the fathers of the **Social Market Economy**, details of these policies.

Social Protestant teaching preaches a social type of humanism, disavowing any social order which degrades man to an object in the service of mundane realities, such as companies. It is interesting how **freedom is being linked to responsibility by applying community interests**. Both those endowed with personal freedom, like those in public positions of authority and power, “are bound to the common good. Genuine freedom, genuine authority and power exist only within this bond (o.n. to the common good). . . This bound freedom is the mark of Protestant social teaching”.⁶⁹ As it can be seen above, the view on the common good is very similar

⁶⁵ See Lutz (1967), p. 37.

⁶⁶ See Lutz (1967), p. 43: “politischen Weg unseres Volkes”.

⁶⁷ See Lutz (1967), pp. 40–41: “wehrt jeder Absolutsetzung irdischer Dinge. Es gibt für sie keinen heiligen Staat, keine heilige Wirtschaft, kein heiliges Eigentum, weil Gott allein heilig ist”.

⁶⁸ See Lutz (1967), p. 41: “Die Ehre Gottes und die Würde des Menschen sind untrennbar miteinander verknüpft”.

⁶⁹ See Lutz (1967), pp. 46 and 50: “sind an das Gemeinwohl Gebundene. Echte Freiheit, echte Autorität und Macht gibt es nur in Gebundenheit[...] Diese gebundene Freiheit ist das Kennzeichen evangelischer Soziallehre”.

to Catholicism, where it is placed at the highest level. Protestants, however, are more concerned with and focused on the “link” than with the “common good”.

With the advent of globalisation, Protestants’ social doctrine became more and more important in social life. The teachings adopted by the International Church Congresses of Amsterdam in 1948 and Evanston in 1954, which according to the Protestant tradition are not binding but have only the character of recommendation, have nonetheless been included in the official documents of the German Protestant Church (Evangelische Kirche Deutschlands). Thus, the Congress of Evanston pointed out that “aspiring towards a society without personal freedom is dismissed in the same way in which the aspiration towards personal freedom detached from the community is dismissed”.⁷⁰ Accordingly, an ideal society incorporates simultaneously the values of personal freedom and those of responsibility for the community. This type of society was named by the Evanston Congress “responsible society” (“verantwortliche Gesellschaft”). However, the Protestant point of view is quite strong in its pronouncement here when it claims that this type of “responsible society is not an alternative social or political system, but a model according to which we interpret all existing social orders”.⁷¹

In other words, Protestantism claims that its responsible society is regarded as a self-sufficient answer to questions regarding the organisation of society and economy. This is where the Protestant Evangelical model meets the practice of the German Social Market Economy. It is exactly what Ludwig Erhard did, as we shall see later on: he defined that the concept which has been baptised in economic terms as **formed society** (formierte Gesellschaft) and which is similar to the concept of **responsible society**, be the aim of the **Social Market Economy** in Germany. Therefore, former Chancellor and Minister of the Economy did more than just take the responsible society as a model; he made it a purpose of the economic system which was put in place in Germany after 1945.

It is subsequently very important to keep in mind the principles of Protestant and Catholic social ethics for a correct understanding of the German economic system and of the Social Market Economy.

2.2.3 Jewish Contributions

Even though from an ethnical point of view, Jews are not considered to belong to the ethnic German population, we believe that their presence in German culture and

⁷⁰ See Lutz (1967), p. 46: “Eine Gemeinschaft ohne persönliche Freiheit zu erstreben, wird ebenso abgelehnt wie das Trachten nach persönlicher Freiheit, losglöst von der Gemeinschaft”.

⁷¹ See the documents of the Church World Congress of Evanston quoted in Lutz (1967), p. 47: “Verantwortliche Gesellschaft ist kein soziales oder politisches Alternativsystem, sondern ein Maßstab, nach dem wir alle bestehenden sozialen Ordnungen beurteilen”. For more details on a larger number of Protestant sociology and economic terms from a Protestant view, it might be useful to refer to Evangelisches Soziallexikon edited by Friedrich Karrenberg.

in the German and North-Eastern European territories had a major positive impact upon the region. This should not be neglected in this study especially since with the advent of modernity they became citizens of the country.

Jewish populations living in the German territories had a major contribution to the Social Market Economy through several personalities which sprang up in the milieu and social climate. As the first example to introducing the assertions in this chapter, we should just think of Albert Einstein.

Due to the mutations which occurred in the German–Jewish relationship, the contributions of the latter to the economic system are more visible for what was before 1933 and after 1945. When discussing the Jewish contributions before 1933 and after 1945, it should be mentioned that there were fewer Jews in interwar Germany than one might think. For instance, in Romania, the inheritor of extended former Habsburg territories after the Treaty of Versailles, there lived almost 800,000 Jews⁷² in 1938, whereas in 1933 Germany these counted just under 500,000 Jews.⁷³ It is important to note that before 1918 the territory of the German state was larger and more extended towards the East than it is now after the reunification of 1990.⁷⁴ Following the two world wars, the Eastern borders of Germany, where large Jewish populations lived, have been pushed twice with tens of kilometres towards the West. For this reason, the direct contribution of Jews in the German territory must be analysed from a historic and dynamic perspective, starting with the Middle Ages and in the entire Eastern part of Europe and not only for the status quo of borders of the beginning of the twenty-first century. Hence, the analysis of their contribution should be done more flexibly, taking into account the variable area inhabited by the Jewish communities in Central and Eastern Europe.

The German–Jewish relations—nowadays the German–Israeli relations—are important for the way the Social Market Economy is built. Here, we refer to the personal relationships that both the fathers of the Social Market Economy, namely, the socio-economists, and top German politicians had and have with personalities of the state of Israel and the Jewish people living, and Franz Böhm himself, the defender of the competition principle in the German economic system, was “a man with good relations to Israel”⁷⁵ and the Freiburg Circle, which shall be presented

⁷² See Palmor (2002), p. 101. Jews contributed to the advancement of many societies they lived in. These are related to the business, political or academic fields. For outstanding academic contributions, I can give the example of Academician Solomon Marcus to the advancement of mathematics in Romania. The country’s youth are winning a lot of international contests in mathematics, including Olympic contests. Further, his dynamic contribution to public debate in science and interdisciplinary issues in Romania is of value to the country where the systematic intimidation policy during the Cold War had deprived the country of the much needed open debate for the formation of healthy public consensus. The high number of publications by Solomon Marcus going as far back as the 1950s is published in Marcus (2013).

⁷³ See Deutschkron (1991), p. 16.

⁷⁴ See maps 25.2, p. 799, and 27.4, p. 886 in McKay et al. (1991).

⁷⁵ See Deutschkron (1991), p. 282: “ein Mann mit guten Beziehungen zu Israel”.

later on, was located in Freiburg, a city heavily populated by Jews. Furthermore, many leaders of the state and economy of Germany, who opposed Hitler and who contributed to the opening in 1965 of bilateral diplomatic relations to Israel, had strong relationships with both German Churches, Catholic and Protestant. “Adenauer was also a devout Catholic. . . who showed throughout his entire life an impeccable moral conduct. . . (but, o.n.). . . the Catholic Church withdrew the accusations towards Jews in her liturgies only as late as 1967. . .”.⁷⁶ Chancellor Adenauer had relationships based on mutual respect with the most important Israeli leaders, as pictured in the Rohwohlt volume, depicting the meeting with Prime Minister David Ben Gurion.

The German–Jewish relations are also reflected in the German–Israeli bilateral relations which have represented a challenge in the relations of both German states (Eastern and Western) with Arab states during the Cold War,⁷⁷ but also in Germany’s relations with the USA, as the Israel-friendly superpower. The refusal of Germany to join the USA in an attack against Iraq in the winter of 2002–2003 is an example in this sense. The German–Israeli relations continue to be somewhat emotional, and in any study of the German national economy, the foreign policy of this country with an export-dependent economy must not be neglected.

But which are their contributions? First of all, we are dealing with **direct contributions**. Ever since the Middle Ages, Jews have contributed to the extension of the domestic and international trade of Germany, making use of their strong relationships with the Jews of the international Diaspora. The motivation of their contribution, influence and commitment to the internationalisation of trade stems from the fact that this activity was their only means of overcoming the professional embargo and restrictions, as well as their servitude and social exclusion in Christian Europe.

Later on, they contributed to the development of the German banking system. The scission of the state following the Westphalian peace of Münster and Osnabrück of 1648 into the many principality states (Kleinstaaterei) led in each principality to the need for a main inspector for the financial transactions of the principality with all the other principalities. More often than not, these positions of early “finance ministers” were held mainly by Jews. Finance was a new profession; therefore, there hadn’t been enough time to include it in the Catholic-based

⁷⁶ See Deutschkron (1991), pp. 23–24: “Adenauer war auch ein gläubiger Katholik[. . .] der sein ganzes Leben lang eine untadelige moralische Haltung gezeigt hat[. . .] Die katholische Kirche aber hat erst 1967 die Anklagen gegen die Juden aus ihrer Liturgie entfernt”.

⁷⁷ See Deutschkron (1991) p. 473 saying that a large number of German multinationals involved in defence and other business with both Arabs and Israelis. The author asserts that German companies have delivered conventional and nonconventional weapons to Israel uninterruptedly since 1965. But Germany also sold to Arab countries, including Saudi Arabia and Iraq, highly modern Leopard Panzer and technology for chemical military equipment. Ferrostaal, ThyssenKrupp, KraussMaffei, Daimler-Benz, Klockner Moeller/Eaton, Gildemeister, etc. are only a few examples of such companies.

legislation which during the Middle Ages forbade Jews to practise the same professions (Berufe) as the rest of the citizens.

With the unification and secularisation of Germany in the nineteenth century, the state-employed financial experts joined the private sector, becoming Europe's independent bankers. It is the case of the founder of the Rothschild Bank. Mayer Amschel Rothschild (1743–1812) was the financial inspector of the principality of Hessen. He founded the **Rothschild Bank (Bankhaus Rothschild)**⁷⁸ in the capital of the principality, contemporary Frankfurt am Main. One of his five sons, Nathan, took over one of the five Western European branches of the bank, i.e. the London branches. The way to political influence was now clear, and it came about on an impressive scale with the purchase of most listings on the London stock exchange after the defeat of Napoleon Bonaparte at Waterloo in 1815.

Later, the famous “Balfour Declaration” of 1917, which eventually led to the birth of the Israeli state and whereupon the British Empire conferred the right of residence to ethnic Jews in the newly conquered territory of Palestine, was handed over to the Zionist Federation, following approval by Lord Rothschild, one of Nathan Rothschild's heirs.⁷⁹ Another example of successful Jewish finance in Germany is the famous Oppenheimer family, founders of the “Salon Oppenheim” private bank, which continues to exist up to this date in Germany. The intersection of Jews with the post-war Social Market Economy is made again through Ludwig Erhard. At the beginning of the twentieth century, Erhard attended, as we shall see later on, the lectures on economics of one of the Oppenheimer family members in Berlin, Franz Oppenheimer.

Another sample of direct contribution to the development of the German economy is the appointment as the German foreign minister during the First World War of Walther Rathenau, a member of a famous industrialist Jewish family. His father was the founder of the German washing machine manufacturer AEG (Allgemeine Elektrizitätsgesellschaft), as famous in those days as today. Rathenau was responsible for the organisation of raw material supply for the economy during the war and

⁷⁸ See Kahler (1989), p. 106.

⁷⁹ After the adoption of the declaration by the British government, the then Minister of Foreign Affairs, Lord Balfour, informed Lord Rothschild about the adoption thereof and asked him to forward the following letter to the Zionist Federation: “Foreign Office November 2nd, 1917. Dear Lord Rothschild, I have much pleasure in conveying to you, on behalf of His Majesty's Government, the following declaration of sympathy with Jewish Zionist aspirations which has been submitted to, and approved by, the Cabinet. “His Majesty's Government view with favour the establishment in Palestine of a national home for the Jewish people, and will use their best endeavours to facilitate the achievement of this object, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine, or the rights and political status enjoyed by Jews in any other country.” I should be grateful if you would bring this declaration to the knowledge of the Zionist Federation. Yours sincerely, Arthur James Balfour”. See its reproduction in <http://www.mfa.gov.il/MFA/Peace%20Process/Guide%20to%20the%20Peace%20Process/The%20Balfour%20Declaration> (last accessed July 27, 2012).

contributed to the invention of the centralised command economy system as wartime economy.⁸⁰

Regarding the post-war Social Market Economy, it is important to mention also non-German direct contributions. Here I mean that of US Air Force lieutenant, Edward A. Tenenbaum, born in New York to a family of Polish Jewish immigrants. It was probably his graduation thesis entitled *National-Socialism against International Capitalism* in 1942 that contributed to his appointment, after the capitulation of Germany, in the Department of Finance of the US Army. He was the personal assistant of Joseph Dodge, financial counsellor of General Lucius Clay, Chief of the General Staff and of the US military government for Germany. In a twist of fate, Tenenbaum became the main person responsible for the coordination and launching of the economic and monetary reform of Germany. Presently, it is considered even by German authors that “it is he who can be called the father of the German Mark”.⁸¹

On a political level, it can be asserted that Germans of Jewish origin had been, from the very beginning, in the first line of the struggle for democracy, liberalism and constitutional government, as opposed to the absolutist–religious government system of the small principalities ruled by bishops, cardinals or protestant princes. Just like in the case of other countries, the emancipation of Jews in Germany occurred in the wake of the French Revolution, thanks to Napoleon Bonaparte. Until then, most European guilds had forbidden Jews to work in each of these fields. Thus, many resorted to the rather unregulated field of finance. Later, European Jews had a highly acknowledged input in the social crystallisation of intellectuals in the discussion and debate circles which appeared in the eighteenth century. Subsequently, Jews contributed significantly to the shaping of the main political movements in Germany: **liberalism**, through Eduard von Simson, President of the All-German National Assembly of Frankfurt in 1848, and through Ludwig Bamberger, von Bismarck’s and Emperor William II’s counsellor; **socialism**, through Ferdinand Lassalle and Karl Marx; and **conservatism**, through Friedrich Julius Stahl and William Neander. Moreover, these personalities of the German public life of the nineteenth century were also the champions of the first German unification in 1871, supporting the colonial and even imperial ambitions of the Reich as they saw themselves as fully German, even though they had a different ethnic identity. In other words, German Jews fully participated in the emancipation of Germany.

Another but less direct contribution brought by the Jews occurred in the cultural and scientific fields. They felt very much at home in the Reich and had great achievements, among which we mention a few: the Yiddish language (Jüdisch) is inspired by mediaeval German, global contemporary physics is definingly influenced by the works of Albert Einstein, whereas German literature can no longer be imagined without German authors of Jewish origin such as Heinrich Heine, Bertolt Brecht, Franz Kafka and Thomas Mann.

⁸⁰ See Kahler (1989), pp. 106–107.

⁸¹ See Wandel (1980), p. 95: “Ihn kann man eigentlich als Vater der «DM» bezeichnen”.

The most important contribution brought by the Jews as a nation and ethnicity to the Social Market Economy is an indirect one, which is linked to the philosophy and natural instinct of the Germans to “believe”, namely, to the state Christian denominations. **Christianity**, as a main source of inspiration for the institutionalised value systems of the European and German institutions and legislation, **is rooted in Judaism**. It is well known that thirty-nine of the proto-canonical (not deuterocanonical) books of the Bible belong to the Jewish Old Testament and only 27 belong to the Christian New Testament. In terms of quantity, the Jewish books of the Old Testament account for 75 % of the entire Bible text. Furthermore, the authors of these books, including the ones belonging to the New Testament, were exclusively Jewish. The first Christians were themselves in fact Jews, and as we know, the openness of Christians towards pagans (hebr. goyim) led around the year 50 AD to the scission from Judaism and to the ethnical assimilation of the first Jewish–Christians in the Christian communities. Due to the close connection between Germans and Christianity, in order to understand the dimensions of this indirect contribution, we have to take a short look at the Jewish–Christian relations.

According to Kahler, a friend and contemporary of Albert Einstein, the main reason for the transfer and survival of anti-Judaism in Christian Europe since ancient times is the often hostile position of the Christian Church. This attitude, resulted from theological constructs, had made possible the revival during the Middle Ages of the ancient anti-Jewish pogroms. The first pogroms which have a direct meaning to European identity took place in the Greek world in the second century BC in Alexandria, Egypt, at the initiative of King Ptolemaeus VII. Later on, the anti-Roman revolt of 64–70 AD led to the deportation of all Jews from Palestine under the supervision of Emperors Vespasian and Titus. The Jewish war had as a result, among others, the destruction of the second Jewish temple, the core of Jewish identity and proof of legitimacy on the Eastern Mediterranean coastal territory. With the assets taken from it by Rome, the Colosseum could be expanded to the height of its splendour. It is in this moment that the European history of this people begins, namely, the deportation to territories across the Roman Empire and into the Caucasus and northern shores of the Black Sea.

Unfortunately, both in the East and West, the Christian Church positioned herself relatively early on a false theological position towards Jews. Augustine decreed the role of Jews in the Christian world: “like Cain, the Jews must not be destroyed, they must be preserved, forever to serve as witnesses of the Christian truth; they must live on as perpetual servants to the Christian peoples («Ecce Judaeus servus est Christiani»)”.⁸² These assertions are based on a certain interpretation given to the New Testament in the first millennium and called *Ersatztheologie* (replacement theology).

The somewhat anti-Jewish character of these ancient and late mediaeval theological interpretations was based on the assertions of certain early church theologians like Augustine in the West and John Chrysostom in the East. In this sense, for later times we mention Thomas Aquinas’ recommendations which appear incredible

⁸² See Kahler (1989), p. 98.

today “according to the law, by reason of their guilt the Jews are or were in servitude and thus, the lords of the lands in which they dwell may take their property away from them as if it was their own. Nonetheless, the restraint is thereby to be observed that the necessary provisions of survival are in no way to be taken away from them”.⁸³ This harsh judgement destituted automatically Jews to the status of “tolerated” population exposed to the random will of the Christian lords. This “destitution” stems from the thesis of the fault of the Jews, which is based on the false allegation that with the murder of the Son of God, they lost their status of “chosen people”. This belief was very popular in the Catholic, Orthodox and even Protestant Churches. Nevertheless, we should not forget to say that early post-Christ Jewry in the Euro-Mediterranean also had some guilt of its own. There was a century-long process during which early Christian synagogues excluded Christians from among their members who were ethnically non-Jews. Thus, by the edict of Constantine in 313 AD, almost all Christian Churches had no Jews among their members and virtually all synagogues had no Christians among their members. By John Chrysostom, the reciprocal exclusion of Jews and European Christian had become systemic.

A correction in this state of affairs was started by Christians, in the twentieth century. The dogmatic validity of Ersatztheologie has been challenged by theologians, even from the leadership of the Catholic Church itself. In this respect we draw attention to the Second Vatican Council (1962–1965). In 1993, the Vatican recognised the State of Israel. Then, signals from the executive leadership of the Catholic Church strengthened the signals that a change of direction is taking place. In his second volume of the book “Jesus of Nazareth” the German Pope (Joseph Ratzinger) Benedict XVI states that the Jews are in fact not fallen down from the status of “God’s chosen people”.⁸⁴ Further, Pope Francis I the Argentinian Jesuit, former Archbishop of Buenos Aires, Jorge Bergoglio states it clearly that “the Jewish people’s alliance with God has never been repealed”.⁸⁵ In other words, a new era of relationship with the Jews has been called out loudly by the Catholic Church which thus implicitly contradicts at least partially, if not wholly, its own earlier replacement theology.

Previously, in the thirteenth century, however, the clash between Christians and Jews was transferred from the theological–spiritual field to the economic field. The interdiction to practise professions indicates that they were affected directly by the consequences of these Christian theological dogmas. Again, Thomas Aquinas is

⁸³ See the letter to the dutchess of Brabant in Flanders, known as “On the Government over the Jews” reproduced in Schreyvogel (1923), pp. 115–116: “. . . wie das Gesetz sagt, die Juden auf Grund ihrer Schuld in Knechtschaft sind oder waren und so die Landesherren ihr Eigentum wie ihr eigenes in Besitz nehmen können. Freilich ist dabei die Einschränkung zu beobachten, daß ihnen in keiner Weise der notwendige Lebensunterhalt entzogen wird. . .”. Fortunately, in the meanwhile things evolved away from such doctrinarian legitimization of abuse.

⁸⁴ Benedikt XVI Papst (2012). Lacking space in this book, I would not enter deeper into this debate whether they are a people chosen by God from among others, or a people created and raised by God for Himself.

⁸⁵ See the statements of Pope Francis I published in Sekretariat der Deutschen Bischofskonferenz (2013), p. 167: “. . . jüdisches Volk[. . .] dessen Bund mit Gott niemals aufgehoben wurde”.

trenchant in this matter: “it would be better if you (the duchess of Brabant, o.n.) compelled Jews to earn their own living, as they do in parts of Italy, instead of enriching themselves through futile usury, cheating thus on their rulers by defrauding them of their revenue. . . (probably to the budget—o.n.)”.⁸⁶

The practical consequences of applying these principles throughout Central and Western Europe, including the German Rhine valley, were the legitimization of the notorious mediaeval pogroms and the setting up of ghettos. Sometimes, things went even farther. Asked whether the Jews residing in her duchy should be compelled to wear distinctive signs, Thomas Aquinas replied to the duchess of Brabant: “The reply to this is plain, including according to the decision of the Council: Jews of both sexes must in each Christian land and at all times, distinguish themselves from the other people through something in their clothing. This is also mandated to them as a commandment by their own law—through the provision that they each make fringes on the four corners of their cloaks, through which he distinguishes himself from the others”.⁸⁷

Besides these official church teachings, Jews were envied by Christian traders who were not allowed to apply commercial techniques which breached the teachings about economy of the church. Within this context, Jews had repeatedly been accused of getting excessively rich by taking advantage of the market background and of the unwritten law of competition, such as selling goods at an overprice or lending money with an interest, i.e. usury.

But it is not only the Catholic Church which in the Middle Ages and even up to the mid-20th century taught against the Jews. The Lutheran Church did too. While Luther himself was at the beginning pro-Jewish and supported good relationships between Protestant Christians and Jews, later he changed to the opposite. He wrote several sermons and texts in which he incited Christians to violence against Jews in Europe and against their symbols, synagogues and establishments. One such suggestive writing is called “On the Jews and their Lies”. The question to be asked here is of a political nature and is whether the reason for the Reichskristallnacht of November 9/10, 1938, is connected in any way to Martin Luther’s birthday which is November 10. Critics of Luther’s antisemitism state that the attacks, destructions and burning of Jewish shops and synagogues by the Nazis were seen as an opportunity to honour Luther on his anniversary by doing what he had said in his teachings on Jews: destroy their shops, burn their synagogues, etc.⁸⁸ The difference to the Catholic Church is that the Lutheran and Protestant Churches do not have a centralised

⁸⁶ Schreyvogel (1923), p. 118: “. . . Es wäre nämlich besser, wenn sie die Juden dazu anhalten wollten, sich durch Arbeit ihren eigenen Lebensunterhalt zu verdienen, wie sie es in einzelnen Teilen Italiens tun, statt sich in müßigem Leben durch Wucher zu bereichern und so ihre Herren um ihre Einkünfte zu betrügen. . .”.

⁸⁷ Schreyvogel (1923), p. 125: “Darauf ist die Antwort, auch nach dem Beschluß des Konzils klar: Die Juden beiderlei Geschlechts müssen in jedem christlichen Land und zu jeder Zeit sich durch irgend etwas in Ihrer Kleidung von den andern Völkern unterscheiden. Das wird auch in ihrem Gesetze—durch die Bestimmung, daß sich jeder an den vier Ecken seines Kleides Franzen anfertigen soll, durch die er sich von den andern unterscheidet—als Gebot ausgesprochen”.

⁸⁸ For this idea I acknowledge Mr. Eric Martiensen from Cologne.

Magisterium (teaching authority) like the Catholic Church does. Therefore, until today no corrective doctrine on the teaching concerning Jews has been issued yet by the Protestant Churches and which should be binding like the Catholics did.

Given the above beliefs we should not wonder if the Sephardic Jews (Spain) have been repeatedly banished from England (thirteenth century) and Spain (sixteenth century). It appears, however, that Jews succeeded to best integrate in the German world, where they managed to achieve a social status equal to the other ethnic groups: “To no other people have the Jews grown so close (orig. haben sich so zusammengelebt) as they have to the Germans. They are Germanized not only on German soil, but far beyond the German boundaries. . . There must be correspondences in the basic disposition (of the two peoples) which made Germany and all things German, particularly attractive for the Jews, and the Jews an especially useful complement to the German character”.⁸⁹

Thus, Kahler thinks that the German–Jewish relations should be regarded as complementary. He asserts that “While the Jews had made their way from an ancient tribal kingdom towards an intangible universal community, from particularity to universality, the Germans had started from a universal framework, the Holy Roman Empire, and their repeated, ever abortive efforts, were directed toward the achievement of a concrete, homogenous national community. They were moving from universality towards particularity”.⁹⁰ Kahler’s statement seems accurate, since it is confirmed in the Social Market Economy: German society has indeed covered the road from universal to particular. **Social Market Economy** is defined by its “forefathers” as a means oriented towards the goal, namely, the accomplishment of the “formed society” (formierte Gesellschaft) in Ludwig Erhard’s sense and the building of the nation in the sense of Alfred Müller-Armack’s “social irenic” (Soziale Irenik) of national maturation, as we shall see later on. In other words, the Social Market Economy would be the way of achieving that particular goal. The importance of indirect Jewish contributions to the German economic–social system is connected to “lending” the beliefs of Judaism (Old Testament) to Christianity (New Testament). And it is more than obvious that Christianity, at least until the second decade of the twenty-first century when we experience an increased secularisation, is the basis for social consensus, legislation and institutions in Germany, as we have already noted at von Nell-Breuning.

For the sake of the future European–Jewish relations, it is essential to remind that especially with the pontificate of Francis I, we can observe what clear turn the Catholic Church has taken away from positions of scholastics and towards favourable attitudes for the Jews. As soon as in one of the first Apostolic exhortations after beginning his pontificate, Pope Bergoglio speaks very clear words: “249. God continues to work among the people of the Old Covenant and to bring forth treasures of wisdom which flow from their encounter with his word. For this reason, the Church

⁸⁹ See the book of Ludwig Bamberger of 1880 with the title <Deutschtum und Judentum> which is quoted in Kahler (1989), p. 100.

⁹⁰ See Kahler (1989), p. 114.

also is enriched when she receives the values of Judaism. . .”, and also “248. Dialogue and friendship with the children of Israel are part of the life of Jesus’ disciples. The friendship which has grown between us makes us bitterly and sincerely regret the terrible persecutions which they have endured, and continue to endure, especially those that have involved Christians. . .”⁹¹

2.2.4 *Secularisation, Nation and Economy*

Contemporary secular philosophy is also among the roots of Social Market Economy. It is the result of the reform in the church, of Enlightenment, of humanism, of the discovery of new ideas through books and of new geographical horizons in the new post-Columbus continents. From the very beginning, secularisation in Germany was of nationalist and religious nature rather than of liberal one. Both secularisation and nationalism had major contributions to the German model of Social Market Economy.

The contribution of national secularism may be retrieved from the national and patriotic philosophical works of **Johann Gottlieb Fichte (1762–1814)**⁹² and in the national economic doctrine of Friedrich List (1789–1846).

Due to the historic context characterised by the ideas of freedom, equality, fraternity and republicanism, which had just been spread across Europe by the French revolutionary armies and which opposed the principles of monarchism, Fichte didn’t have difficulties being a republican. Republicanism, bourgeoisie and freedom were considered elitist beliefs among the educated social categories of Germany at the beginning of the nineteenth century. Fichte opposed the mini-state organisation model of Germany. He developed the patriotic ideas of Immanuel Kant, born in Königsberg/Kaliningrad, placing them on an idealist ethical basis. Fichte was rather a **nationalist and religious philosopher** than an economist. He dealt with the awakening of the national German consciousness in his work *Address to the German Nation*. Nonetheless, he also brought contributions to the field of economy. In 1800, he published *The Closed Commercial State (Der geschlossene Handelsstaat)*, in which he promoted, the same as his follower List did, the closed and protected commercial state model, as the only way of progress for the German indigenous industries. This might have been true

⁹¹ The English translation is taken from the original English version to be seen at http://w2.vatican.va/content/francesco/en/apost_exhortations/documents/papa-francesco_esortazione-ap_20131124_evangelii-gaudium.html.

For the German version, see Sekretariat der Deutschen Bischofskonferenz (Hg.) (2013), p. 168, Art. 249 and 248: “249. Gott wirkt weiterhin im Volk des Alten Bundes und lässt einen Weisheitsschatz entstehen, der aus der Begegnung mit dem göttlichen Wort entspringt. Darum ist es auch für die Kirche eine Bereicherung, wenn sie die Werte des Judentums aufnimmt” and also “248. Der Dialog und die Freundschaft mit den Kindern Israels gehören zum Leben der Jünger Jesu. Die Zuneigung, die sich entwickelt hat, lässt uns die schrecklichen Verfolgungen, denen die Juden ausgesetzt waren und sind, aufrichtig und bitter bedauern, besonders, wenn Christen darin verwickelt waren und sind”.

⁹² Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2006\)](#) Vol. 3, pp. 300–302.

at that time of early industrialization, but it certainly cannot be true now in agriculture, as German climate and soil conditions require free international trade simply because food self-sufficiency in Germany reaches only ca. 80 %. One of the outcomes of Fichte's ideas is the **German Customs Union (the so-called Zollverein)**, accomplished in 1834. It was the first step to the reconstruction of the German Reich. Fichte approached the issue of the German nation from the new revolutionary French bourgeoisie perspective, which still is Europe's modern political conception up to this day. In his argumentation, he manages to achieve a connection which has been specific to Germany, that between the nation and the economy. Fichte is a road opener for nationalist German economists.

Friedrich List (1789–1846)⁹³ is the first important economist of the time preceding the proclamation of the Second German Reich in 1871. List is a precursor of the German Historical School and supporter of German national interests, sometimes tantamount to the white-racist conceptions decreed by his English nationalist contemporary, Rudyard Kipling. These men were perhaps influenced by the ideas of “nation” spread by the French Revolution and the subsequent Napoleonic campaigns.

In List's view, the economy must be used as a means for the civilising and evolution of the nation, in his case, of the German nation, in the competition with other civilised Western European countries and chiefly with England. List claimed that Germany must continue the policy of the **closed trading state** and to achieve the “Zollverein” (customs union), in order to maintain its prosperity level in the same relation as that of German lands compared to that of England and the German–French Trade Treaty during the eighteenth century. Arrested for his excessive support of the implementation of the “Zollverein”, he emigrated to the USA in 1825. There, as a researcher and journalist, he supported the isolationist and protectionist policy adopted by the USA. In the meanwhile, back in the German lands, the German Customs Union was to be achieved without the presence of List, in 1834, and be the first step towards the unification a generation later under the leadership of Otto von Bismarck.

With respect to economic doctrines and the explanation of the national economic system, List is the supporter of the **theory of productive forces**. In his view, this theory is capable of explaining the accomplishment of any other progress of the economy and nation. Thus, physical work is not the only work capable of creating values; it is moreover the coherent functioning of professional relations between people that create values. Through nonconflictive coordination, efforts are automatically put together to converge and create a simultaneous effect, people being able to use together efficiently the resources offered by nature and by their colleagues. Subsequently, various goods and technical progress can be created and achieved. Technical progress can only be achieved through technical, economic and social education of the labour force. For an efficient education, social relations need

⁹³ Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2006\)](#) Vol. 6, p. 487. List was both an admirer and a great critic of England and its imperialism after the defeat of Napoleon. He wrote that at that time England had extended its domination over the other European states to immense proportions. List was a protectionist in trade policy with England and for a reciprocal trade policy with other European countries and had a pro-Continental position.

to be carried out peacefully. Therefore, a society which desires to do progress needs stability and social peace.

For these reasons, but also for reasons pertaining to the age in which he lived, List mentions Christian religion and individual freedom of thought and consciousness, besides transport systems and free property of lands, for instance, as important sources of the productive force of the economy.⁹⁴ According to him, productivity is possible if each generation of a nation succeeds to take over the know-how (i.e. know-how transfer in all aspects of life, like morals, intellectual achievements, technological innovation, etc.) from its previous generation, incorporate it into daily life and add its own new contribution. Further, in List's view, the political power thus created from this national productivity should enable this nation to extend its own system on other less developed nations.⁹⁵ Only thus progress and productivity increase can be made.

List is representative for his age and for the entire economic thought and practice of the nineteenth century in Europe. He represents an important reference for the construction of the contemporary Social Market Economy system in Germany.

Another especially important representative of the German social-economic school of thought is **Max Weber (1864–1920)**.⁹⁶ He lived later than List, belonged to the third generation of the German Historical School and was a precursor of the scholars of the Freiburg School. He was a professor of sociology of religion and of socio-economics in Berlin, Freiburg and Heidelberg. He also had a political career as a liberal, contributing, alongside Friedrich Naumann, founder of the homonymous liberal political foundation, to the empirical clarification of the way in which a monocausal historic construction can be explained through the concrete relationship between the spiritual and material parts of social-historic processes.⁹⁷

Max Weber approaches and explains the economic concepts from a theological, logical and historical perspective. The classifications according to denominational principles—Catholic and Protestant—are less significant now in the early twenty-first century, but the bases of the contemporary Social Market Economy in Germany originate from such polarisations. In fact, it is wiser to assert that these polarisations have not ceased to exist, but due to the dynamics of globalisation, they are no longer as noticeable as they were at the beginning of the twentieth century when Max Weber published his books. Studying statistical data relative to the denominational ratio of the German population at the beginning of the twentieth century, Max Weber believes to

⁹⁴ Comp. List (1877), p. 12. The original text is written with Gothic characters.

⁹⁵ Comp. List (1877), p. 13. The original text is written with Gothic characters. From here, we can infer that, at least up to that point, a country's foreign policy was essential to ensuring internal peace, as it helped extend national systems over to neighbouring countries, or at least to influence these countries. At the beginning of the third millennium, the domestic economy is increasingly influenced, not as much by its own foreign policy but by environmental and international sustainable development policies.

⁹⁶ Comp. biographical data in *Deutsche Biographische Enzyklopädie* (2008) Vol. 10, pp. 443–444, written by Wolfgang Mommsen and *Brockhaus Enzyklopädie* in 30 Bänden (2006) Vol. 29, p. 523.

⁹⁷ See *Brockhaus Enzyklopädie* in 30 Bänden (2006) Vol. 29, p. 523.

discover that “business leaders and owners of capital, as well as the higher grades of skilled workers and namely the higher technically and commercially trained personnel of modern enterprises, are overwhelmingly Protestant”.⁹⁸ Unlike colonial North-American Protestantism in which the accumulation of wealth tends to become the ultimate goal of one’s life, European and German Protestantism have a milder perspective on this issue. “Human beings are not dependent any longer on earning as purpose of their lives, but related to earning as means of fulfilling their material needs”.⁹⁹ Thus, in Europe and in Germany, the profit represents a “means and a way” and not a goal. Weber’s views on this aspect coincide with the views of the Catholic Jesuit von Nell-Breuning.

We can see that the Protestant and Catholic conceptions agree that the main goal is the **fulfilment of duty**. Hence, the interior asceticism of the Protestant and the Puritan and the methodical discipline of the Catholics educated by Benedictines, Franciscans or Jesuits are denominational means of motivating people to work and to the fulfilment of duties. “The fulfilment of the duties of the inner worlds is in any case the only way to please God and that it, and only it (o.n. the fulfilment) is God’s will and, therefore each of the allowed professions is absolutely of equal worth in front of God”.¹⁰⁰ From the need for fulfilment of duty, Weber shifts immediately and swiftly to profession. German thought emphasises the concept of profession. In his works, Max Weber dedicates whole pages to the definition of profession (Beruf): “Now it is unmistakable that already in the German word “Beruf”, as well as perhaps in still an even more clear way in the English “calling”, there is a religious idea behind it—that of a task set by God—which at least resonates along. The more emphasis we put upon the word in a concrete case, the more evident it becomes that the Latin—Catholic peoples do not have for that what we call “Beruf” (in the sense of a life-task, a definite field in which to work) an expression of similar colouring, just as classical antiquity does not have, while it exists for all predominantly Protestant peoples”.¹⁰¹ Even though Weber claims that the concept of “Beruf” is specific only to Protestant states, this is not

⁹⁸ See Weber (1905a), vol. 20, pp. 1–2: “den ganz vorwiegend protestantischen Charakter des Kapitalbesitzes und Unternehmertums, sowohl, wie der oberen gelehrten Schichten der Arbeiterschaft und namentlich des höheren technisch oder aufmännisch vorgebildeten Personals der modernen Unternehmungen”.

⁹⁹ See Weber (1905a), vol. 20, pp. 16–17: “Der Mensch ist auf das Erwerben als Zweck seines Lebens, nicht mehr das Erwerben auf den Menschen als Mittel zum Zweck der Befriedigung seiner materiellen Bedürfnisse bezogen”.

¹⁰⁰ See Weber (1905a), p. 43: “daß die Erfüllung der innerweltlichen Pflichten unter allen Umständen der einzige Weg sei, Gott wohlzugefallen, daß sie und n u r sie Gottes Wille sei und daß deshalb jeder erlaubte Beruf vor Gott schlechterdings gleich viel gelte”.

¹⁰¹ See Weber (1905a), pp. 35–36: “Nun ist unverkennbar, daß schon in dem deutschen Worte “Beruf” ebenso wie in vielleicht noch deutlicherer Weise in dem Englischen “calling”, eine religiöse Vorstellung—die einer von Gott gestellten Aufgabe—wenigstens mitklingt und, je nachdrücklicher wir auf das Wort im konkreten Fall den Ton legen, desto fühlbarer wird[. . .] daß die lateinisch—katholischen Völker für das, was wir “Beruf” (im Sinne von Lebensstellung, umgrenztes Arbeitsgebiet) nennen, einen Ausdruck ähnlicher Färbung ebensowenig kennen, wie das klassische Altertum, während es bei allen protestantischen Völkern existiert”.

exact. As we could see earlier with Thomas Aquinas, the importance of the concept was highlighted in the thirteenth century by a Latin Catholic from the South of Europe. Studying Weber, one can easily distinguish the relationship between denomination, the concept of fulfilment of duty, profession and economic life.

Like the other German socio-economists, Weber lived in an age in which not even academics could belong only to a purely philosophical and theological environment. He was probably the last representative of the German Historical School. Once with Napoleon's expeditions in North Africa around the turn of the nineteenth century, archaeology and history had begun to impose themselves as subject matters critical of the narrower-minded mediaeval theological dogmatism which had largely dominated academic thought until then. In Germany, secular economic thought was dominated, until the end of the First World War, by the so-called German Historical School,¹⁰² which was not only historical but also national in its character. Thus, this growing influence of history and nation on the economy of that time should not surprise anyone, because Christianity itself is a doctrine and a philosophy based on the group, community, meditation and interpretation of past events meant to avoid the repetition of certain mistakes in the future.

The thought of the German Historical School is based on that of the secular national philosophers.¹⁰³ The international relations of this school in that age are important for the understanding of the influences exerted by the European and especially German economists on the economy and the economic thought of the Anglo-Saxon world, i.e. the USA, Canada, the UK and, indirectly, the Netherlands and later Australia and New Zealand. The intersection between national secularism and American sectarian individualism, with European influences over America until 1945 and with American influences over Europe after 1945, becomes manifest for the first time in the international relations of this school.

As usual, there have been a number of important figures who played a key role in the exertion of European influences over North America. The British **William James Ashley**, an Oxford graduate, the first professor of political economy at the University of Toronto (1888–1892) and the first professor of Economic History at Harvard

¹⁰² The German Historical School (Deutsche Historische Schule) is an economic school of thought which appeared in nineteenth-century Germany, along with a substantial change in economic structure due to industrialisation. Its core premise was that economic phenomena are dependent not only on space but also on time and on fulfilment of processes. It is therefore impossible to ever build universally valid abstract theories, disconnected to practice. The representatives of this school thought that all national economies are, at the same point in time, at different stages of economic evolution (economic stages). Furthermore, the evolutions to be performed are the same for every country. National economies go through the same stages at different points in their history and do so in their own particular way (economic style). The followers of the German Historical School believed that comprehensive and detailed studies needed to be undertaken through the historical method in order to establish the specific traits of each stage in the evolution of a particular national economy. Comp. Brockhaus Enzyklopädie in 30 Bänden (2006) in the section "Deutsche Historische Schule".

¹⁰³ A schematic and relevant illustration of reciprocal influences among schools of thought and their representatives can be found in Grossekkettler (1999), p. 56.

(1892–1901), was a proficient German speaker and a connoisseur of the German culture. These competencies were very important capabilities at that time as there were not many German speakers outside Europe. He was the main initiator of the academic curriculum on economics. The separation of economics from moral philosophy and history was an evolution which occurred in the Anglo-Saxon world, an evolution which transformed it into an autonomous subject matter of study in universities.¹⁰⁴

In the last couple of decades of the nineteenth century, it is less known among experts that “the United States and Canada had little in the way of domestic intellectual traditions in political economy and were dependent on Europe for ideas (. . .) the model of German scholarship, which proved so generally influential in American graduate education (. . .) <it might be said that a university had a responsibility in the first instance to knowledge rather than to the students>”. It was also a secular model—important in the North American context where much of higher education has sectarian roots”.¹⁰⁵ We should not wonder about the assertions here, because one of the ways in which North-American colonists initially wanted to de-couple from their European roots was to deny culture, considered by them to be a source of wars in Europe, and to deny the teachings of traditional European Churches, Catholic, Protestant and Orthodox. Hence, the contemporary inclination in North-America to adopt “no culture” attitudes and embrace Neo-Protestant Christian movements has become visible.

The transfer of ideas from Germany, or better the German-speaking hard core of Central Europe, towards North America can be tracked down to Fichte, who laid the grounds for the national economy in Germany. List developed it further and took it from Germany to the USA. Weber and the influence of the German Historical School on the Anglo-Saxon academic training of Economics in the late nineteenth century and up to the year 1920 led to the training of Anglo-Saxon students in the German academic style in the 1900s. Once active in professional life, these thinkers founded North-American institutionalism¹⁰⁶ and neo-institutionalism.

The emergence of economics as an independent discipline is, as we saw above, rooted in the German model of academic training of that age. The German Historical School contributed through Ashley to the creation of the history of economy as part of the study of history in England and of economics in the USA. Ashley also contributed to the setting up of professional corporate associations in the USA, based on the German model. A couple of examples are the **American Economic Association** and the **British Economic Association** based on the model of the exclusivist German **Association for Social Policy (Verein für Socialpolitik)**. The import to the American continent was based on the suggestions of Johannes Conrad von Halle and given to his American students such as Richard T. Ely, doctor of the University of Heidelberg.¹⁰⁷ Not to be overseen is the relationship between Ely and

¹⁰⁴ Comp. Moggridge (1997), including the notes on William James Ashley pp. 91–ff.

¹⁰⁵ See Moggridge (1997), pp. 93–94, which includes a quotation from William James Ashley.

¹⁰⁶ See Moggridge (1997), p. 96.

¹⁰⁷ See Moggridge (1997), p. 97. There, series of relationships of reciprocal influencing between scientists in Europe and across the Atlantic are schematically reproduced in Grosseckettler (1999).

the later German economists Schmoller and Müller-Armack. We can thus see that the national, economic and secular German model is at the heart of the American economic institutionalism and neo-institutionalism both in the academic world and in professional practice.

2.2.5 *Liberalism in Germany*

German liberalism and neoliberalism also had some contribution to the development of the Social Market Economy. Despite its reduced dimension and intensity in Germany, liberalism is an integral part of the main evolutions of European liberal thought.

By now it is widely known that the sources of liberalism in its contemporary meaning can be traced back to the eighteenth century in the British Isles. The first form of liberalism is known as **classical Anglo-Saxon liberalism**, with scepticist influences, and was represented by the Scots David Hume and Adam Smith and later, in the nineteenth century, by the English John Stuart Mill.¹⁰⁸ The conceptual bases that revolutionised the beliefs of those times promoted ideas such as the right to freedom of opinion and expression, the equality of all individuals in front of the law and the right to private property, including the right to own means of production.

The second form of Anglo-Saxon liberalism is Manchester liberalism. Also known as **“laissez-faire” liberalism**, this type of liberalism supports a noninterventionist type of economy. In a laissez-faire system, the state neither limits the accumulation of private economic power nor stops the emergence of monopolies. It does not become involved in the correction of difficult social situations resulting from the free market economy, but promotes a so-called “natural” development or self-correction of the society. The economic and financial crisis in 2007–2009 was a blow to the credibility of this type of liberalism promoted also by the Federal Reserve at the hand of Governor Alan Greenspan: the “self-correcting” market forces had to be saved from drifting into chaos by the intervention of public budgets, i.e. the taxpayer, thus allowing for the privatisation of profits and debt and the socialisation of losses.¹⁰⁹

But the British are not the only liberals. As it emerged at the beginning of the nineteenth century, **French liberalism** began to make waves and was represented by A. R. Turgot, A. de Condorcet and E. J. Sièyes. As opposed to their British counterparts, who supported the equality of individuals in front of the law, the French liberal thinkers promoted the achievement of equality of life conditions and the material–economic equality of individuals, namely, a type of social, egalitarian liberalism. Since the individual circumstances as well as the personal traits of individuals are not alike, according to the French liberal thinkers, the only way for their model to succeed was to impose a de jure unequal treatment of individuals by the law in order to ensure a de facto equality of living conditions for everyone.

¹⁰⁸ Copleston (1962–1977) Vol. 8, Part 1, pp. 42–110.

¹⁰⁹ Comp. Beattie and Politi (2008).

The contemporary **neoliberal doctrine** is a late, an improved and evolved form of classical liberalism. Shaped in the context of the late nineteenth-century and early twentieth-century industrialisation in Victorian Britain, it is based on the classic Anglo-Saxon liberalism, which it enhances with the practical experiences of the “laissez-faire” liberalism. Neoliberalism is also shaped by the belief in the correctness of discretionary interventionism in economy, in the way it was experienced by the Western European nations at war during the First World War and also with the experiences of the post-war centralised socialist economies in Eastern Europe. Subsequently, **neoliberalism can be considered a liberal system enhanced with practical governing experiences.**¹¹⁰

In the German lands, just like in the other Western big countries, a bourgeoisie class emerged during the Industrial Revolution. This class developed liberalism¹¹¹ as its political doctrine and was designed to be an answer to the political power of the still ruling nobility and the church. For about 150 years, up to more or less the establishment of the Second German Reich under Emperor Wilhelm I and Chancellor Bismarck following the 1870–1871 war with France, classical liberalism held some sway among German élites and was acknowledged as such by European peers. Goethe, Schiller, Lessing, Kant, von Humboldt and others certainly had a liberally centred worldview. Nevertheless something happened in German society after the 1871 moment and German liberalism slid on a downward spiral. Whether it is or not as Raico believes that German liberalism was marginalised by Socialism, by authoritarians and especially by Nazi doctrinarians, the fact is that by the end of the nineteenth century they were defeated politically in elections. Liberals experienced the domination of the Prussian spirit in post-1871 Germany which was of primarily non-liberal character. The authoritarian style of Chancellor von Bismarck marginalised and persecuted not only liberals but also social democrats. The first paradox of the Social Market Economy comes to light at this point. While the market economy is primarily based on the concept of order with the idea of liberty contained within,¹¹² the social dimension of the system was created by none other than by somebody who did not support individual liberty, namely, von Bismarck when he presided over the adoption of the Social Code (Sozialgesetzbuch SGB) in the early 1880s.

Thus, being politically marginalised, the contributions of the thinkers of the German-speaking lands to universal liberalism and its fruits are unclear. Röpke dealt with issue, not to be forgotten, in 1946, at a time when under US post-war influence, liberalism emerged as a victorious as a political doctrine. In the article written in 1946, Röpke asked rhetorically whether the German lands were indeed especially unwelcoming to the idea of liberalism. He puts this into the context of the authoritarian age under Bismarck and Emperor Wilhelm II. He seems to draw the conclusion that it is because Germany had a not so rosy relationship with liberalism

¹¹⁰ Comp. Brockhaus Enzyklopädie in 30 Bänden (2006), the sections of “liberalism” and “neoliberalism”.

¹¹¹ See Raico (1999), p. 1.

¹¹² See Raico (1999), p. 4.

that a certain rejection of the Germanic identity appeared among some other Europeans.¹¹³

Even though there have been some indigenous German contributions to liberalism, the international liberal community questions them. This may be because, as we mentioned before, the majority of the contributions to German liberalism were rather Jewish German than ethnic German. Since Germany evolved from a universal to a national and ethnic state and not vice versa as we saw with Kahler, a liberal system applied to politics in Germany would have as result an evolution in an opposite sense, i.e. from an ethnic state to a universal state. Thus, it is somewhat natural that these Jewish and liberal contributions be questioned.

Presently, the FDP (Freiheitliche Partei Deutschlands), as a party, is the political organisation which claims to follow the liberal tradition in Germany. Things do not seem to have changed too much in the favour of liberalism, not even with the advent of the French–English–American post-war influences. Although the FDP is a consecrated political party, having its own foundation “The Friedrich Naumann Stiftung”, mainly financed by the federal state with the aim of educating the people in a liberal manner, and despite their uninterrupted membership in the government from 1969 to 1998 and again from 2005 to 2013, the German liberals have managed to obtain not much more than 10 % in the elections. Sadly for the political spectrum in Germany during the elections of 2013, they had such a decline that the threshold of five percent required to get seats in the Bundestag was not attained. In the context of the erosion of the two main political doctrines, the Christian democrats and the social democrats, contemporary German voters (including the non-European immigrants who have voting rights) prefer ecologist and leftist doctrines to liberalism. Thus, ecologism is in fact the German liberalism but with an ethical touch.

Ecologism is oriented towards the protection of the environment, be it natural or human, and is incorporated by the Green Party. The ecologist movement, which seems to have become the authentic German liberal doctrine, acceded to the German Federal Parliament (Deutscher Bundestag) in 1983, once with the commencement of the slow decline of the FDP liberals. Thus, it appears that ecologism is the actual German liberalism.

To sum up, from the point of view of the analysis of its philosophical roots, one can note that the **Social Market Economy** of Germany is based on a blend of ancient Greek philosophical doctrines of political democracy, on Christian ethical doctrines and national–secularist–economic doctrines. These are refined by the traditional debates of the intellectual circles receptive to Jewish influences and refined by the sporadic influences of German classical liberalism, amended with the effects in legislation and spirit brought by the advent of the allied forces in 1945. This blend, combined with the German character and tendency towards order, analytical reasoning, discipline, loyalty and systematisation, is at the heart of the

¹¹³ See Federici (1946). This book is about the relationship between Germany and classical liberalism and was recommended by Röpke in the article *Der Deutsche Liberalismus*, published in the *Frankfurter Rundschau* daily newspaper in 1946.

economic philosophy of the **Social Market Economy**. This philosophy can be called an “all-European German philosophy” often named “ordoliberalism”. It was developed during the interwar period by the economists, sociologists and the advocates of the ordoliberal school of Freiburg and of the socio-liberal school of Cologne.

2.3 The Socio-Economists, Forefathers of the Social Market Economy

2.3.1 The Political and Economic Context of Germany Between 1918 and 1945

After almost 3 years of balance in the First World War between the two warring parties, the military intervention of the USA on the European continent combined with the joint efforts of other interested ethnic groups such as European Jewry¹¹⁴ in favour of the Entente starting in 1917 led to the defeat of the Axis and the signing of the “Versailles Peace Treaty” in 1919–1920.

Acclaimed by the wide public of Europe of those times, this Peace Treaty was intended to lay the foundations for a sustainable peace on the old continent and implement a new system of social and political justice, by using the economic structures already established following the industrialisation process. Europe had managed to eliminate the old feudal political system from the economy and society only three generations before the First World War. However, the Peace Treaty failed to restore justice in society and the peace established at Versailles lasted no more than two decades. Very soon after 1920, the main countries of Europe were conducting military campaigns against each other. Politicians of all times have been wondering how could this very Treaty, which was conceived and signed with the aim of avoiding other future military conflicts, become obsolete in such a short time span.

One of the most interesting answers to this question is that the core principle of the Treaty, despite the noble declarations of reconciliation made by the American President Woodrow Wilson before and during the negotiations, was that of punishing the defeated countries and imposing upon them the compensation for all the losses suffered by the victorious countries in spite of the sheer fragility of the economy and infrastructure of the defeated at that time.

¹¹⁴ See the Balfour declaration of November 1917 by which the British Government promised to Zionist European Jewry its support in favour of the establishment of a national home for Jews in the Palestinian territories, in exchange for their manifold support of the Entente, including help for convincing the USA to relinquish its isolationist foreign policy and get involved into the Great War.

The former representative of the British Treasury and Government of His Majesty to the peace talks of Versailles, John Maynard Keynes, made already at that time controversial predictions only a couple of months after the signing of the Treaty in his work *The Economic Consequences of the Peace*, published in 1920. His predictions soon became true, namely, less than two decades after the completion of the war. According to him, the reason which pushed Germany to stop the First World War reparation payments, to adopt a planned economy in 1936 (after the victory of NSDAP in January 1933 in the parliamentary elections), to begin re-arming and bring it to initiating the Second World War was the fact that the Treaty did not really take into account the economic structure of Europe and its countries. It forced Germany to give up, despite its poor condition at the end of 1918, all of the properties it held all over the globe, especially in its colonies and to pay up all the war damages required by the victorious countries, especially by France, through Prime Minister Georges Clemenceau.

In his book, Keynes explains that France's wish at the end of the First World War to decrease for as long as possible the economic power of Germany left the Reich with no option but to choose the extremist alternative of arming and triggering a new world war with the aim of amending the Treaty by force. The desperate need to free itself from the constraints of the financial debt provided in the Treaty of Versailles was also due to the fact that Germany of those times was in the middle of the process of consolidating its national state. According to Keynes, neither British Prime Minister Lloyd George nor American President Wilson had understood during the negotiations for the Treaty and for the management of claims that the fundamental problems, even then, were not those pertaining to politics and territorial influences, but those pertaining to the economy and finances. The victor had neglected the fact and that "perils of the future lay not in frontiers or sovereignties, but with food, coal and transport".¹¹⁵ This was especially the case of Germany, which is primarily a rational, economical, technical and ethical nation.

The spirit of punishment of the central powers by the Triple Entente is considered by Keynes, alongside other aspects of the Treaty, one of the most irresponsible political and economic acts of the representatives of the victorious powers, which indirectly dragged Europe into a new catastrophe. The loss of territories by the Second German Reich, the proclamation of the first German Republic and the sudden and substantial change of frontiers, especially in Central Europe, were big and sudden.¹¹⁶ The obligation imposed upon Germany to pay huge damages and the situation of payment incapacity that the country was in led to the breakdown of the society. German society was already mature at that time and could not be imposed upon to assimilate so many radical changes in such a short time span. The effects of the new international political framework imposed upon the economy of Germany created in fact the economic, social and political context in which the German socio-economists and the School of Freiburg appeared.

¹¹⁵ See Keynes (1920), p. 134.

¹¹⁶ For relevant maps see map 27.4, p. 886 in McKay et al. (1991).

If we take a closer look at the structure of its economy on the side where GDP is generated prior to 1914, the German GDP was based on three main factors: first, **foreign trade** with the South-Western and South-Eastern African colonies, carried out by means of the commercial fleet¹¹⁷; second on **its investment** there and abroad; and third on its **exports of industrial** products. These three pillars became possible due to the personal relationships of the German business people abroad and due to **the exploitation of coal and steel** from the basins of the rivers Rhine, Ruhr, Saar and Upper Silesia. These natural resources led to the creation of Germany's main industrial sectors: steel, electricity and chemistry. Due to these, by 1914 Germany had become the third industrial power of the then developed world. List's dream of becoming the second world power, second only to England, had almost become true.

But after the end of the First World War, Germany soon became a poor country. The Peace Treaty of Versailles foresaw the loss of the Upper Silesian, the Saar coal basins and of other territories of Germany who was forced to concede to Poland, France and the USSR. The Ruhr valley was occupied by the French army. Moreover, the German state and its citizens suffered expropriations of goods, lands and territories not only in Continental Europe but overseas as well, including foreign and colonial financial-banking means, the latter being automatically incorporated in the patrimony of the winning countries. Additionally, Germany had to pay 15 billion pounds to the victorious countries, at the exchange rate of September 1919, including interest from that on. In his speech in the Chamber of Deputies in Paris, the French Minister of Finance, M. Klotz, indicated that this amount would be paid starting in 1921, in 34 annual rates of one billion pounds each, of which France alone would receive yearly 550 million pounds.¹¹⁸ Had the provisions of the Treaty been respected, Germany would possibly have managed to pay up its war debts at earliest in 1955. However, Hitler stopped the repayments in 1936.

As a consequence of these financial provisions, in 1922, almost 70 % of the expenditure side of Germany's national budget was allotted to the direct payment of debts and over 20 % to related indirect payments (interests). Germany would only dispose of 10.9 % of its national budget for domestic purposes, while the budgetary incomes only covered 37.5 % of the national budget. The total expenditure in 1922 was almost 330 bn Reichsmark but revenue was just above 96 bn¹¹⁹ Reichsmark.

¹¹⁷ See McKay et al. (1991), map. 26.1 on p. 828. As reported by this book, in 1913, the top three global investors, according to the amounts invested in 1913, expressed in millions of US dollars (1913 value), were in the range of Great Britain, with ca. USD 9,000 mn, France with ca. USD 6,000 mn and Germany with ca. USD 3,000 mn. At that time, the USA was still at the stage where, from their international isolationism, it was in the process of lessening the economic development gap between it and these three European countries. In 1913, yearly income per capita was just over USD 1,050 in Great Britain (at 1960 value). British income then was over twice the average of the per capita income calculated in the developed world by taking into account European countries, plus Canada, the USA and Japan, which average was then ca. USD 500 (at 1960 value) per capita.

¹¹⁸ See Keynes (1920), p. 148.

¹¹⁹ The figures can be found in the Reich's Statistics Office for the year 1921/1922.

Thus, the only solution Germany had in order to pay up its debt was to resort to inflation. The devaluation rate of the Reichsmark reached unimaginable levels. Thus, if in January 1923 the exchange rate was above 10,000 Reichsmarks for a US dollar, by December 1923 the exchange rate reached the level of over 4,200 billion (4,200,000 million) Reichsmarks for a US dollar, which represented a devaluation with an incredible factor (!).¹²⁰ The huge hyperinflation continued through the 1920s. In addition to these almost impossible business conditions, the international global crisis of 1929–1933 concurred in its bad effects and led in 1932 to an unemployment rate in Germany of over 40 % of the active population, affecting more than six million people. Moreover, the monopoly on several industrial sectors as well as the arrogance of the managers and owners of the big German companies and economic cartels had become unbearable for the common citizen. The political instability of the 20 governments which led Germany from 1919 to 1933 could not ensure a normal economic activity. Due to its weakness, the state indulged in allowing natural and production monopolies, but also intervened arbitrarily in the economic processes. The emigration of a great part of Germany's élite to the USA and the loss of qualified labour force to other Central and Eastern European countries led to the failure of the economy in 1932. This triggered the failure of the democratic political system of the First German Republic (The Republic of Weimar) and its replacement following free elections (sic!) and political manoeuvres with the National Socialist dictatorship. The frail market economy which had existed before 1933 was soon after January 1933 replaced by the centralised and planned economic system, with the aim of arming and preparing the war which was meant to revise the Peace Treaty of Versailles.

The motto of the British foreign policy regarding continental Europe “Keep the Americans in, the Germans down and the Russians out” seems to have been repeatedly pursued ever since the Peace Congress of Vienna in 1815. At the peace talks in Versailles, the French–British collaboration managed to reach this goal. But the economic hit against Germany in 1919 was in fact, given the size and structure of the German economy compared to the other European economies, an economic hit against most of Europe. Quoting Walther Rathenau, we can see that in a way, following the Versailles Treaty, politics succumbed in Germany since it was not able to solve the economic problems. Therefore, Germany lost its **political *raison d'être***: “politics is no longer the fate of Germany, economics is”.¹²¹

Luckily, the Western European winners and the USA did not repeat this mistake after the Second War World. The peace conference of London—February 27, 1953—never required Germany to pay major war reparations¹²² before actually

¹²⁰ For exact figures and more details on this, see Bracher et al. (1998), p. 640.

¹²¹ See Walther Rathenau quoted in Nörr (1999), p. 23: “nicht mehr die Politik, sondern die Wirtschaft unser Schicksal ist”. This quotation shows the intense preoccupation of those times to solve economic problems before the political or social ones.

¹²² See Bundesministerium der Justiz (Hg.) (2002a, b) Fundstellennachweis B, p. 341, on the Accords of German foreign debt and the Federal Securities Management Office (Bundeswertpapierverwaltung renamed into <http://www.deutsche-finanzagentur.de/en/startpage/>).

being able to afford it. On the contrary, the victorious countries helped Germany establish itself as the major economic power of its region. Never in history had Germany been so economically powerful than after 1945. Eventually, it was required to pay symbolical damages to Israel as inheritor of Jewish property in Germany.¹²³

It was in this restless context that the élites of the interwar age¹²⁴ understood the necessity of building a market economy which besides bringing prosperity should also be free from governmental interference and be aware of its corporate social responsibility. The intellectual élites of Germany, such as the School of Freiburg and several other dissident groups, acted already before and during the National Socialist dictatorship in order to make the post-war national economic system compatible with the German identity, with its national development stage and with the geopolitical context of the continent in the twentieth century.

2.3.2 The Freiburg Circles. Other Groups of Dissident Intellectuals

After 1918–1920, in the above illustrated political, economic and social context and in the age in which radio and television had not yet left their print on social relations, there appear various groups of intellectuals, theoreticians, professors and publicists throughout Germany who research, write and organise scientific debates on important daily issues. They try a new type of approach to public issues. Thus, the classic subject matters, including economics, are approached from new perspectives, especially from a liberal perspective, aiming to find solutions for the national problems arisen from the Great War and which posed threats to public stability.

The most active group of intellectuals with liberal and neoliberal views in the field of economics with an essential contribution in the shaping of the **Social Market Economy** in Germany was the group formed around Professor Walter Eucken, at the beginning of the 1930s at the Albert-Ludwig University of Freiburg.

¹²³ Between 1953 and 1965, Germany paid to the state of Israel, as recognised descendant of Jewish communities in Germany, in monthly instalments of 100 Million Deutsche Mark, compensations worth at least 14.4 billion Deutsche Marks. In later years, further aid followed, in the form of civil and military industrial technology. See Deutschkron (1991), pp. 41–55. For compensation to the victims of forced labour camps, see the negotiations and the 1999/2000 agreement between the large companies and the federal government, led by Otto Graff Lambsdorf, MdB. This was signed with the surviving victims and Jewish communities in order to offer them compensation from the over 10 billion German Mark fund dedicated to this cause.

¹²⁴ This is in reference to the founders of the theory for the Social Market Economy system. According to a majority consensus existing currently in Germany they are: Eucken, Böhm, Röpke, Rüstow, Müller-Armack, Erhard and their tutors, for example, Dr. Franz Oppenheimer, and several other intellectuals around them.

This is a city in the Breisgau region, on the Upper Rhine valley and at the foot of the Alps. This group of intellectuals has become known as Freiburger Kreis (**The Freiburg Circle**).¹²⁵ Together with other groups of intellectuals, they conducted theoretical analyses and methodological research in the fields of politics, economics, jurisprudence and sociology. Step by step, the theoretical activities of these groups became more practical as they got involved in the opposition and protest against Hitler's National Socialism which was beginning to get a comprehensive grip on Germany.

The political catalyst of the establishment within the university of intellectual groups showing an interest in economic theory was the election campaign of 1932, when a manifesto signed by over 300 professors from all over Germany supporting the NSDAP was issued.¹²⁶ At the University of Freiburg however, the manifesto was signed only by an insignificant part of the professorial staff. Due to the victory of Hitler and to the subsequent high political pressure on the academic staff, the Chancellor of the University resigned from his position in April 1933. His decision did not surprise the professorial staff, since it was well known back then that the university had been on the black list of the NSDAP for a long time. On April 20, the Great Senate of the University (excepting the Jewish members who had previously been excluded) elected Martin Heidegger, the famous philosopher in the position of University Chancellor. Soon afterwards, Heidegger enrolled in the NSDAP. Walter Eucken, who had been a professor of National Economy at this university since 1927, soon slid into a conflict with the new Chancellor. The conflict aggravates when in July 1933, Eucken accuses him of "making the impression that he wishes to proceed by applying entirely the principles of the Führer's system. It is obvious that Heidegger might feel himself as being the innate philosopher as spiritual leader of the new movement. . . as the only great and pondering thinker since Heraclites".¹²⁷

In the context of the polarisation within the professorial staff, given his audacity, Eucken becomes known as an opponent of the new political regime of the country and soon acquires the position of "speaker" of the latent opposition from within the Senate of the University. He preserved this image until the end of the regime in 1945. The resistance and opposition within the university against the dictatorial regime were however carried out through debates and scientific means, rather than through polemics and formal ones.¹²⁸ This results also from the participation of Eucken in the **Diehl Seminar** which was an academic debating club **between 1934 and 1943** formed around the national economist Prof. Karl Diehl in Freiburg.

¹²⁵ The contributions of Böhm (1957), Gräfin von Klinckowstroem (2000) and Goldschmidt (1997) are at the core of historical or biographical data on the dissident groups in Freiburg and presented in this subchapter.

¹²⁶ Comp. Goldschmidt (1997), p. 2.

¹²⁷ See Goldschmidt (1997), p. 4: "den Eindruck macht, als ob er (Heidegger, d. Verf.) ganz nach dem Prinzip des Führersystems fuhrwerken wolle. Heidegger fühle sich offenbar als der geborene Philosoph und geistige Führer der neuen Bewegung, als der einzige und überlegende Denker seit Heraklit".

¹²⁸ Comp. Goldschmidt (1997), pp. 4–6.

Participants at the meetings of “each Wednesday evening in the study office (of Prof. Diehl, o.n.) were the couples Eucken, Lampe, Bauer, Ritter and after 1937 von Dietze”.¹²⁹

In Freiburg there were also others who supported resistance. Law professors and economics professor, Catholics and Protestants participated in these circles. It is the case of Franz Böhm, Hans Grossmann-Doerth,¹³⁰ Karl Diehl and others who participate simultaneously in several of these circles. Some of them had multiple roles. Constantin von Dietze,¹³¹ for example, was a theologian, economist and political activist (he apparently had a more direct contribution in the assassination attempt against Hitler in 1944) and was de facto a link between Protestant theology and Economics.

These men together with their families, started soon after 1933 several **circles of critical reflection** on the situation of Germany in general and of the University in particular. These semiconspirative circles are also attended by students and other professors. The atmosphere of the discussions, which took place at the professors’ homes, was described as follows: “This is where trustworthy colleagues and assistants of all faculties met, to work in a professional way in scientific truth and openness. Each seminar was followed by free debates”.¹³² The debates were free and interdisciplinary. During Diehl’s seminars, held in the parish house and

¹²⁹ See Gräfin von Klinckowstroem (2000), p. 90.

¹³⁰ Hans Grossmann-Doerth (1894–1944) was born in Hamburg and died in Königsberg, currently Kaliningrad. As a law major, he specialised in civil and commercial criminal law and achieved his habilitation in Hamburg in 1928 on the basis of a thesis on *Das Recht der Überseekaufs*. Until 1933, he was a professor at the German University of Prague. After 1933, he was a professor of civil and commercial law and, at the same time, a member of staff at the Faculty of Law and Political Studies of the University of Freiburg. Soon after arriving in Freiburg, he began tutoring, together with Eucken, the seminar on law and economics where they approached matters regarding the organisational framework and legal grounds of the economy. Self-perception (*Wahrnehmung*) was important to Grossmann-Doerth’s thought. He believed that such perception is formed as a consequence of applying criteria regarding individual economic rights, which are, in turn, a result of social pressure. Among his writings, we can mention: *Selbstgeschaffenes Recht der Wirtschaft und staatliches Recht* (1933) and *Die Rechtsfolgen vertragswidriger Andienung* (1934). Comp. publications and biographical details in *Deutsche Biographische Enzyklopädie* (2006) Vol. 4, p. 186.

¹³¹ Constantin von Dietze (1891–1973), economist and agronomist, studied at Cambridge, Tübingen, Halle and Breslau. He taught at the Universities of Berlin (1922), Göttingen (1924), Rostock (1926), Jena (1927) and again Berlin, starting in 1933. Because of his participation in resistance movements, he was arrested in 1944 and brought to the same concentration camp as Carl Goerdeler, in Ravensbrück. After his release in 1945, he became a professor at the University of Freiburg. In 1947, he published his work *Theology and National Economy* for which he received an honorary doctorate in theology from the Faculty of Protestant Theology in Heidelberg. Between 1955 and 1961, he held the high office of President of the Synod of Protestant Churches in Germany. See von Nell-Breuning (1967a, b), p. 62, expressing his opinion on the power of biblical quotations in Protestant theology by commenting one of Dietze’s works. Comp. biographical details in *Deutsche Biographische Enzyklopädie* (2005) Vol. 2, p. 623.

¹³² See Constantin von Dietze quoted in Goldschmidt (1997), p. 7: “Hier fanden sich vertrauenswürdige Kollegen und Assistenten aus allen Fakultäten zu fachlicher, in

attended by the vicar himself, people often joked about the political events of those times, which was a very rare habit then.

Even though this environment was favourable for the initiation of actions of practical resistance, until 1938 the debates were mainly of theoretical nature. During these 5 years, the discussions concerned politics and economics; the debates, analyses and projections sought viable solutions for the economy of Germany after the fall of Hitler's regime. Possibly most of those who participated more or less believed in this scenario, although no one could have known when this event would occur.¹³³

Luckily for today's democracy of Germany, such reflection groups existed not only in Freiburg but in other cities too. A couple of examples of such circles were the circle formed around the mayor of Leipzig, Carl Goerdeler, and around Ludwig Erhard, who at that time was only an economist and researcher in Munich. These circles of resistance influenced a number of students opposing the system to choose these cities for their studies. Following graduation, thanks to the more or less influential positions they received, many were actively involved in defending their professors, who had been included on black lists of the Gestapo.

One can thus talk of a gradual crystallisation of an academic environment, although quite frail in comparison with the size of German society, of people who opposed both the political system and the economic policy of the Third Reich. These groups represented a starting point for the post-war democratic regime of Germany.

With the Nazi regime growing more and more radical and the war approaching at a fast pace, the tension within the reflection groups increased. After the Kristallnacht (The Night of the Broken Glass) on November 9–10, 1938, when, as a reaction to the assassination of a German diplomat in Paris, SS troops, among others, burned down hundreds of synagogues and shops owned by German Jews over all Germany, including that of Freiburg, the first primarily political resistance group took shape. It was entitled **Freiburger Konzil** (The Council of Freiburg).¹³⁴ The initiators of this group were Adolf Lampe¹³⁵ professor of national economy in Freiburg and Constantin von Dietze.

While some researchers like Gräfin von Klinckowstroem ask themselves "... whether it was out of the **Diehl Seminar** that impulses came forth for the formation

wissenschaftlicher Wahrhaftigkeit und Offenheit getriebener Arbeit zusammen. Der eigentlichen Seminarsitzung folgte jedesmal eine ungezwungene Unterhaltung".

¹³³ For other economists and law professors participants in the Freiburger circles, see also the names enumerated in Böhm (1957) pp. 99–100. Comp. Goldschmidt (1997), p. 5.

¹³⁴ Comp. Goldschmidt (1997), pp. 8–10, and Gräfin von Klinckowstroem (2000) pp. 91–93.

¹³⁵ Adolf Lampe (1897–1948), economist, was also arrested several times during the Nazi regime. He was known for his strictly liberal stance and his research in the field of financial policies. He stood for limited government intervention in tax policies. Comp. biographical data in [Deutsche Biographische Enzyklopädie](#) (2006) Vol. 6, p 207.

of the later Freiburger Konzil. . . (and conclude that this, o.n.) is controversial”,¹³⁶ it seems to be a common agreement within researchers that the Freiburger circles were a spot of resistance within a Germany of which the Nazis took increasingly hold of.

For many of these intellectuals and professors and academic élites of the then establishment, the Nazis and their party were to a large extent a bunch of irate primitives posing a serious danger for the long-term future of the country. Imposing a *German new world order* first in Europe and later across the planet, while a south German (rather Austrian) dark-haired Führer promoted Nordic Scandinavian blue-eyed blonds as the human super race, appeared highly dangerous to many of the established German intellectuals. The Council had its first gathering in December 1938. Initial participants were several professors, law experts, von Dietze, Eucken and some of their closer families. Franz Böhm occasionally attended too. The discussions, which lasted until Hitler’s assassination attempt of July 1944, focused on issues such as “authority, the right to resistance, the obligation to resistance and the killing of tyrants”.¹³⁷ We can thus see how the theoretical debates of earlier led to the shaping of concrete goals and action implemented by more militarily focused personalities like Graf von Stauffenberg.

Another local circle of resistance was the **Bonhoeffer Circle of Freiburg (Der Bonhoeffer Freiburger Kreis)** established in 1942.¹³⁸ The Berlin-born Lutheran vicar, Dietrich Bonhoeffer, a member of the pre-1933 high society, returned home from his exile in New York in order to, among other things, oppose Hitler’s regime from within Germany.¹³⁹ He had been informed that the Anglican bishops had decided to organise, shortly after the cease of military hostilities, a World Council of Churches with the attendance of the German Protestant Church (EKD) too. In order for the leaders of the two main German Churches to be able to present a joint position regarding the philosophical principles for a domestic and foreign policy of post-war Germany based on Christian principles, the joint drafting of a **manifesto** on this had become necessary. In 1942 at the height of German expansionist military campaign to the west, east, south and north, however, of course that such a manifest could be drafted only in conspiracy. Given the existence of the Freiburg nuclei, as well as possibly the academic competences of the professors of its university, Bonhoeffer resorted for the drafting of this manifest to the “Council of Freiburg”. The group in charge of the drafting was formed by von Dietze and consisted of a small group of professors chosen from among the members of the Council of Freiburg.¹⁴⁰ They drafted the manifest but it was discovered by the

¹³⁶ See Gräfin von Klinckowstroem (2000), p. 90: “Ob von dem Diehl-Seminar Anstöße zur Bildung des späteren Freiburger Konzils ausgegangen sind [...] wird kontrovers beurteilt”.

¹³⁷ See Goldschmidt (1997), pp. 9–10: “die Probleme der Obrigkeit, des Widerstandsrechts, der Widerstandspflicht und der Tyrannentötung”.

¹³⁸ Comp. Goldschmidt (1997) pp. 10–14 and Gräfin von Klinckowstroem (2000) pp. 93–95.

¹³⁹ Comp. also Bethge, Gremmels (eds.) (2005) for details on Dietrich Bonhoeffer.

¹⁴⁰ Com. Goldschmidt (1997), p. 13.

Gestapo ensuing its enquiries after the assassination attempt on Hitler. Von Dietze, Lampe and later Ritter were arrested. Eucken himself was submitted to harsh interrogation. They were all released by the Allies in 1945.¹⁴¹ Nevertheless, the manifesto drafted by them was included in the documents of the World Council of Churches of Amsterdam in 1948.

The third circle of reflection and resistance from within the borders of Germany was the **Work Community of Erwin von Beckerath (Arbeitsgemeinschaft Erwin von Beckerath)**.¹⁴² Similarly to the other groups, this group also included experts in national economy, not only from the University of Freiburg but also from some other German cities. They were all sceptical regarding the brutal simplicity of National Socialism. The circle was formed in Munich, in late November 1940, under the leadership of Erwin von Beckerath, a native of Bonn. Eucken, von Dietze, Lampe, Bauer and Preiser were members of the economic section. Group gatherings were held in Freiburg, Wiesbaden, Jena and Bad Godesberg. The group met ten times and it was dissolved by September 1944 after the arrest of von Dietze and Lampe ensuing the bombing of Freiburg on September 8, 1944.¹⁴³

Due to the dictatorship implemented fanatically with quasi-religious zeal by the National Socialists, the liberal ideas promoted by these professors (not a large number though: only around a hundred, if we compare it with the number of three hundred who signed the pro-Nazi manifest in 1932), who opposed the system, had failed to offer Germany a comprehensive theoretical political and economic framework before the end of the Second World War. What they had managed to attain at that time, however, was to attract the adversity of the Nazi leaders, to get to know each other and, most essentially, to establish a set of economic ideas which could one day, when the political conditions would allow it, be implemented as a national strategy.

It was no sooner than the liberation of Germany by the Allies that they managed to make the ideas for establishing a new political and economic system known to the greater public. These ideas, shaped clearly and organised systematically, had been conceived not only for integrating a post-war Germany in the new world of the Allies but also for offering a match between the psychological profile and the traditions of the German nation with the new economic and social system. The shaping of ideas during the war contributed to a set of texts, publications and books, which, once published and assembled, would contribute to the development of the contemporary more or less self-sufficient Social Market Economy system. Since they had been crystallised already by the end of the war, their ideas could be implemented immediately after the war, avoiding another delay of 10 or 20 years for drafting such texts.

¹⁴¹ Comp. Goldschmidt (1997), p. 13.

¹⁴² Comp. Goldschmidt (1997) pp. 14–16 and Gräfin von Klinckowstroem (2000) pp. 95–97.

¹⁴³ See Gräfin von Klinckowstroem (2000) p. 95 and p. 97.

The essential thing with the circles in Freiburg, located in a region very close to the border of France and Switzerland, is that from a political point of view there are similarities in the role they played for post-war Germany with the role the enlightened elites around Humboldt, Goethe and Schiller played in the age of Frederick the Great for the period after the Napoleonic times. Humboldt, Goethe and Schiller who “translated” ancient Greek and Roman classicism thinking patterns and ideals for use by everyday post-Napoleonic German intellectuals made it possible for Germany to draw enough inspiration for assuming a leadership role in Europe throughout the nineteenth century until 1918. Similarly, after 1945 it was around these intellectual groups in Freiburg, with connections to the political elites, that the core economic ideas and doctrines were generated locally in Germany. Thus, these economic ideas and doctrines, as defined by these groups, were used as “national German products” to legitimate politically the post-war participation of Germany in a sovereign manner at its own economic reconstruction. The result was the new economic system of social market economy, a local product, but embedded into the Western economic system under US neoliberal leadership.

Even if the activities of these groups were not simultaneous and did not occur in the same universities and cities, these intellectuals all belonged more or less to a liberal community, as we shall see further on in this chapter. Their liberal orientation and affinities matched the principles at the heart of the national economic systems of the Anglo-Saxon countries—the liberators of 1945. In a way, Stalin’s declaration and proposal during the war to British Prime Minister Churchill, according to which following the liberation of each European country from Nazi occupation, the liberating countries should have the right to impose their own political and economic system,¹⁴⁴ were in fact convenient to the Allies. The difference between the East and West at that time was that in the Western countries the implementation of the new system was made “for the people”,¹⁴⁵ whereas in the Eastern countries, the implantation was made “against the people”.¹⁴⁶ The implementation of the new system in West Germany seemed somehow incompatible with

¹⁴⁴ Comp. Ambrose (1991) and Mureşan (2005).

¹⁴⁵ The treatment applied to Germany by the allied states was nonetheless somewhat brutal, pushing many economic sectors back in time. Prime Minister Churchill had proposed at the Yalta talks on post-Second World War security arrangements the interdiction for Germany to own a merchant fleet. “Marshall Stalin agreed and said that a merchant fleet provided manpower for the navy. The absence of a merchant fleet prevented the creation of a navy [...] The Prime Minister thought there was very little divergence of opinion between them”. See Mureşan (2005), p. 60, excerpt from the Archives of the British Foreign Office, Kew-London, file FO181-990/2.

¹⁴⁶ Another difference between the system implantations made by the Anglo-Saxons and the French and that made by the USSR was that while the former applied the ancient Roman model, i.e. trying in principle to maintain and develop the local traditions so that the population would benevolently accept the new system and perceive it as a better system than the previous one, the latter implemented a system which was inferior to the previous one and was done by means of coercion and disregards human dignity. Human rights in Russia are not considered by a lot of doctrinarian political (and sometimes theological) experts a value which is more worth than the interests of the state—defined by whomsoever is in power.

the national spirit at first, but, eventually, due to the intelligent and somewhat humble policy of Chancellor Adenauer, of Minister Erhard and of other politicians, the German reconstruction led to the inclusion of West Germany into the Euro-Atlantic community.

Briefly said, it was German intellectual groups who, due to the post-war favourable geostrategic environment, gave birth to a new economic ideology, named **ordoliberalism**. This ideology is a German innovation, being specific to the country and highlighting the German predisposition towards “order” (“Ordnung”) and aspiration towards “liberty”. In order to properly understand the key concepts of the area covered by the representatives of the German liberalism and of the School of Freiburg, we believe that it is important to present the individual contributions of each main representative.

Members of these Freiburger and other groups participated as scientific advisers to the political and economic reform activities run by the Allies in Germany. They delivered scientific reports to serve as basis for the reforms to be enacted by the Allies. For example, some of these scientists, like those who participated in the Erwin von Beckerath circle, delivered in the autumn of 1945 and in April 1946 to the American Military Government two reports on currency reform for post-war Germany. Other ca. 20 reports in various issues pertaining to national economy were delivered until mid-1947 to the Comité d’Études Economiques set up by French Military Government.¹⁴⁷

The extent to which the Allies adopted indeed the ideas and proposals from these reports can be the matter of another research.

2.3.3 Individual Contributions of the “Forefathers”

Since every practical activity, including the economy, is based on a theory, which is none other than the result of the individual theoretical beliefs of its active adherents, we shall begin our analysis with the personalities considered to be the founders of the Social Market Economy in Germany. In the conscience of the Germans, the ordoliberal professors from the interwar period have acquired the status of “forefathers of the Social Market Economy” (Väter der Sozialen Marktwirtschaft). In the German academic world, the person who is almost unanimously considered as the founder of the theoretical basis of the post-war economic system and who never left Germany throughout the dictatorial regime is Walter Eucken. We shall start with him and end our analysis with the person who coordinated the practical implementation of the system, who led and impregnated with his personal style the German

¹⁴⁷ See Gräfin von Klinckowstroem (2000) pp. 98–100.

model of Social Market Economy, Ludwig Erhard; just like Walter Eucken, Erhard also never fled the country throughout the Nazi regime.

2.3.3.1 Walter Eucken (1891–1950)

Walter Eucken (1891–1950) was born on January 17, 1891, in Jena, which was back then situated in the centre of Germany. His father was Rudolf Eucken, a professor of philosophy and winner of the Nobel Prize for literature. Walter studied national economics, history and philosophy at the Universities of Kiel, Jena and Bonn. In 1914, he achieved his Ph.D. in Economics at the University of Bonn with his thesis *The Formation of Associations in Maritime Transport (Verbandsbildung in der Seeschifffahrt)*. He completed his military service in 1918. He attained his habilitation¹⁴⁸ at the University of Berlin, after defending his thesis *The world supply of carbon dioxide (Die Stickstoffversorgung der Welt)* in 1921. He was initially interested in community studies and in environmental issues, the latter being considered, at that time, almost as surreal as Jules Verne’s stories. Nevertheless, this field has become topical today.¹⁴⁹

Eucken taught as a private lecturer in Berlin, being the teaching assistant of Hermann Schumacher up until 1925. Apart from his didactic activities, he was also deputy general executive manager of the Textile Industry Department within the “Reich’s Association of the German Industry” (Reichsverband der Deutschen Industrie). By 1925 he had already been appointed professor of economics at the University of Tübingen. Two years later, he became professor of national economics at the University of Freiburg, maintaining this position until the end of his career and life.¹⁵⁰

Walter Eucken died on March 20, 1950, in London where he had held a series of five lectures at the London School of Economics following arrangements of his friends Friedrich August von Hayek¹⁵¹ and Lord Lionel Robbins.

¹⁴⁸ Habilitation, in the German higher education system (“Habilitation” in German), is the official authorization granted by a university to the holder of a Ph.D. to lecture in German universities. Nowadays with the reform of higher education in the European Union under the Bologna process started in 1999, the habilitation is no longer legally necessary in order for the holder of a Ph.D. to get the position of a university professor.

¹⁴⁹ Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2006\)](#) Vol. 3, pp. 172–173, and Gräfin von Klinckowstroem (2000).

¹⁵⁰ Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2006\)](#) Vol. 3, pp. 172–173. Additional biographical information on Walter Eucken can be obtained from the “Walter Eucken Institute” in Freiburg and from the “Personal Archive of Walter Eucken” in Frankfurt, overseen by his nephew, Walter Oswald.

¹⁵¹ Friedrich August von Hayek (May 8, 1899, Viena–March 23, 1992, Freiburg) was the well-known Austrian economist defending the theories of neoliberalism. Born as Austro-Hungarian citizen, he was a professor of economics at the University of Chicago, at the London School of Economics and at the University of Freiburg.

In Freiburg, Eucken had some brilliant professors like himself as well as colleagues. The well-known philosopher Edmund Husserl (1859–1938), of Jewish origin, the founder of phenomenology and Pope John Paul II’s favourite philosopher, held a teaching position at the university starting in 1916. He was Eucken’s and Heidegger’s colleague. Walter Eucken’s innovative personality can be observed in an engraving, where he is presented as trying to imitate the central figure student from the wall painting called “The Setout of the Jena Students”, which refers to the beginning in Jena of the Prussian uprising from under Napoleon’s dominance, in 1813 (see Photo 1). According to many authors, this image reflects Walter Eucken’s personality, the Prussian-style patriotism in which he perceived himself, as ready to work and fight.

Eucken’s constant concerns for Germany’s recovery after the Second World War, as well as for identifying the causes that triggered the deep torments at European level during the first half of the twentieth century, can be inferred from the very title of lectures held in London in 1950: “This Unsuccessful Age”.¹⁵² In these lectures, he looked at the serious errors and omissions done in the economic policy—mainly in Germany—during the twentieth and nineteenth centuries. He wanted to cut the evil from the root¹⁵³ and had a comprehensive, systemic way of thinking, in best German style. The solution proposed for building a new economic and social order was visibly influenced by previous economic writings, in which the ideology of the German Historical School still held an important role. In the wake of the First World War, a new theoretical opening in favour of neoliberalism, as seen by the Anglo-Saxons, appeared in Germany. Eucken was influenced by this new opening as well.

In his philosophies about economics, Eucken starts from the general truth that man is, naturally and spontaneously, free. This initial freedom represents the basis for human reasoning. Man’s freedom is threatened by entities (persons or groups) that manage to accumulate power, thus imposing their wish on other entities, dominating them and limiting their possibilities of acting at their own will—limiting their freedom, more precisely. According to Eucken, the accumulation of power can be both public and private. It appears at a state level, at an individual level and at a corporate company and associations between individual levels as well. His concern with defending individual liberties appeared within the age mentioned above, an age marked by political and economic dictatorship, when most individuals were economically crushed by industrial giant companies and politically by the Nazi regime.

Another concern widely shared not only by Eucken but also by other researchers in the field of national economics from the interwar age was related to the way in which individuals and authorities should or shouldn’t have gotten involved in securing a functional, human economic order. Eucken searched for the optimal

¹⁵² Gräfin von Klinckowstroem (1992?), p. 125.

¹⁵³ The German adjective used to express this approach “from the root” of any issue demanding solving is “gründlich” (from the basis, the foundation).

way to size the national and international economy, out of which there are consequences for economic policy, commercial policy, credits, monopoly or taxes, as well as for the legislation on business entities and bankruptcy. Eucken had an overall integrative view, trying to approach all the aspects of economic life in the context of social and political interdependencies, searching for a solution to the German systemic crisis. He tried to solve the need of his time by applying the liberal economic doctrines of the past, doctrines which he didn't really seem to share when he wrote: "This was the error of the Laissez-Faire reasoning and policy, or of the free economy of the old style: it left to the individual both the struggle for the rules of the game and for the framework within which economic activities took place, as well as for the daily struggle for quantities and prices . . . (the authors conclude thus that, o.n.) . . . This led to a monopolisation in the economy and consequently, to an influence over the political sphere by interest groups, i.e. to an excessive concentration of power at the level of companies and the state".¹⁵⁴ This statement proves Eucken's own contribution to the improvement of the economic doctrine. He introduced the notion of "stable framework" or "order" that the state needed to provide. "The State has to impact on the forms, the institutional framework, the order in which economic activities take place and has to set the conditions in which a functional economic order evolves which is compatible with human dignity. But it . . . (the State) . . . should not run the economic processes itself".¹⁵⁵ The concept of human dignity used here by Eucken appears both in the Social Catholic teachings and in the current German Federal Constitution. Therefore, we can see that, intentionally or not, Eucken's reasoning is founded on philosophic roots of an ethical nature like "human dignity" which also constitute the basis for the Catholic Social Teaching.

Eucken believed that an economic system aimed at defending the individual and his freedom could function efficiently, offering him individual prosperity, only if based on a functional mechanism of free price formation that took into account demand and supply. This mechanism should however have in view the competition principle.

Eucken's reasoning¹⁵⁶ about the way in which a system of market economy appropriate for Germany should be structured, which was later going to be referred

¹⁵⁴ He is quoted in Lange-von Kulesa and Renner (1998), p. 92: "Das war der Fehler des Gedankens und der Politik des Laissez-Faire oder der freien Wirtschaft des alten Stils: sie überliess sowohl den Kampf um die Spielregeln, um das Rahmenwerk, oder die Formen, in denen gewirtschaftet wurde, als auch den alltäglichen Kampf um Menge und Preis dem Einzelnen. . . (The authors interpret that) . . . Dies habe zu einer Monopolisierung der Wirtschaft und—in Folge—zu einer Einflussnahme von Interessenverbänden auf die Politik, d.h. zu einer übermässigen Machtansammlung bei den Unternehmen und beim Staat, geführt".

¹⁵⁵ See Eucken (1949), p. 93: ". . . Der Staat hat die Formen, das institutionelle Rahmenwerk, die Ordnung in der gewirtschaftet wird, zu beeinflussen und er hat die Bedingungen zu setzen, unter denen sich eine funktionsfähige und menschenwürdige Wirtschaftsordnung entwickelt. Aber er hat nicht den Wirtschaftsprozess selbst zu führen. . .".

¹⁵⁶ We will see, further on, that Eucken's ordoliberal economy differs a lot from Alfred Müller-Armack's "Social" Market Economy.

to as Ordoliberalism, goes as follows: in order to have a market economy that functions properly, it is necessary that “the creation of a functional price system of complete competition is made to the essential criteria for any act of economic policy. . . This is the basic principle of the economic constitution. . . (and o.n.). . . The main thing is to make the price system functional. . . This is the strategic point from where everything can be mastered and therefore, it is on it that all powers should be concentrated on”.¹⁵⁷

On the issue of competition, like Franz Böhm but sooner than him, Eucken stated that it was necessary and even indispensable to prevent accumulations of power. Competition should apply between individuals and between business entities as well. The state should have the necessary authority to maintain a framework (order) that is generally accepted in society,¹⁵⁸ so that none of the individuals or business entities obtains advantages that might damage others.¹⁵⁹ Business entities accumulate power by increasing their turnover and profits and by cornering different segments of the market. If the market segment where they operate is not limited by the state, these entities can impose a “dictatorship”, being the ones that establish rules and prices and thus force all the rest of economic participants to obey their rules.

The practical measures of economic policy that Eucken took into account for his ordoliberal market economy were organised as follows: “The fundamental principle demands not only that certain economic policy decisions are avoided, such as subsidies, the creation of compulsory state monopolies, general price freezes, import bans etc. but it is also not enough a ban on cartels, for example. Much more is necessary a positive policy of ‘Economic Policy Constitution’, which aspires to bring into development that form of a market economy characterised by unrestricted competition, and thus to fulfil the fundamental principle. Here

¹⁵⁷ See Eucken (1952), p. 144: “. . . die Herstellung eines funktionsfähigen Preissystems vollständiger Konkurrenz zum wesentlichen Kriterium jeder wirtschaftspolitischen Massnahme gemacht wird. Dies ist das wirtschaftsverfassungsrechtliche Grundprinzip [. . .] Die Hauptsache ist es, den Preismechanismus funktionsfähig zu machen [. . .] Das ist der strategische Punkt, von dem aus man das Ganze beherrscht und auf den deshalb alle Kräfte zu konzentrieren sind. . .”.

¹⁵⁸ N.B.: In democratic and developed societies, these fundamental values are accepted voluntarily by a majority of their individuals. Once convinced by their usefulness, these individuals consciously defend the respect of this set of common assumptions, thus becoming active citizens. In fact, they lead society through a participative attitude shown on a daily basis, without waiting for impulses via a coercive implication of the state. Man is free only when his participation is spontaneous, determined by his own belief and not imposed by the state (ungezwungen). Freedom is, thus, a maturity issue, and the only consensus that has got chances to survive is the free consensus.

¹⁵⁹ Here, Eucken’s way of thinking about the freedom of the individual is very close with Friedrich A. von Hayek’s. Twelve years after Eucken’s death, in 1962, his friend von Hayek gave up his academic position in Chicago in order to move to Freiburg. He often perceived himself as Eucken’s successor, although they had had recurring diverging opinions on a series of fundamental questions. One of the known differences was related to the role of the man-made laws as compared to the role of spontaneous order. Another difference was related to the link between the collective action taken at a state level and the defence of individual freedom.

again, the policy of competition regulation differs completely from the ‘Laissez-Faire’ policy, the latter which, according to its fundamental principle, did not know any positive policy of economic regulation”.¹⁶⁰ Therefore, we are able to see that for Eucken, as well as for Ludwig Erhard, the notion of Economic Constitution is a corporatist one, closer to the public sphere and designed to achieve the common good. In the future the price system characterised by unrestricted competition could work even better than in the past, for the well-being of everybody, due to the role played by the Internet in informing comprehensively about supply and demand. It is not surprising that only the informatisation of the world and the widespread use of the Internet will allow the market economy system to use its full potential in easing the performing commercial transactions and creating welfare. However, this is in an ideal case in which we have left aside the issue of accumulated debt. The latter has significantly burdened the effects of price formation mechanisms on the completion of transactions due to the more unforeseeable availability of money in the post-crisis 2007–2009 era of the global financial and monetary system.

Eucken also introduced in economic theory a new concept: “the Interdependence of Orders” (**Interdependenz der Ordnungen**). It refers to the impact that a measure taken in one part of a closed system can have on the other parts of the same system. For instance, the impact of the measures taken at a political and juridical level on the economy and the social sphere: every action taken within the borders of a state has a direct or indirect influence on all the other spheres. Eucken believed that, in a functional market economy, the interdependence among the economic order and the social order entailed the natural and spontaneous reflection of economic benefits in the social sphere, a social policy for the redistribution of wealth being unnecessary. When a market economy functions properly, social problems such as unemployment or social alienation that would require state aids disappear. Eucken thus supported the complete withdrawal of the state from the social processes, a functional and efficient market economy being in itself a solution to all social problems.¹⁶¹

“Eucken’s conception of an *Ordo* for the economy, a competitive order (*Wettbewerbsordnung*) constituted and regulated by a policy of order (*Ordnungspolitik*) compatible with the *Rechtsstaat* (o.n. rule of law)”¹⁶² is today

¹⁶⁰ See Eucken (1952), p. 144: “. . . Das Grundprinzip verlangt nicht nur, daß gewisse wirtschaftspolitische Akte vermieden werden: so etwa staatliche Subventionen, Herstellung staatlicher Zwangsmonopole, allgemeiner Preisstopp, Einfuhrverbote usw. Es genügt auch nicht etwa, Kartelle zu verbieten [. . .] Vielmehr ist eine positive Wirtschaftsverfassungspolitik notwendig, die darauf abzielt, die Marktform der vollständigen Konkurrenz zur Entwicklung zu bringen und so das Grundprinzip zu erfüllen. Auch hierhin unterscheidet sich die Politik der Wettbewerbsordnung vollständig von der Politik der Laissez-Faire, die nach ihrem Grundgedanken eine positive wirtschaftliche Ordnungspolitik nicht kannte. . .”.

¹⁶¹ See the speech of Lüder Gerken, then director of the Walter Eucken Institute, held during the event that took place at the Colombi Hotel in Freiburg, on March 17, 2000—the main event organised to commemorate 50 years since the death of Walter Eucken.

¹⁶² See Sally (1998), p. 111.

less implementable than during his time in the early twentieth century. The reason for this is related to the indisputable fact that European (Germany included) countries have weaker politicians due to increasing corrupt practices and decreased pursuit of values, rules, principles and order in everyday life given the more informal style adopted for work. It is also less implementable given the fact that he wrote at a time when international borders were by far less open than now for letting the free movement of goods, services, capital and labour make their direct impact on the economic and social domestic order of an economy. Moreover, the rising costs of health insurance schemes and of the ageing process in Germany and Europe as well will continue to require health and pension funds as well as labour to come in from abroad, thus creating the need of continuing capital and labour inflow to cater to it.

At that time Eucken suggested that the state should only focus on getting the economy to work properly, which is still true now. According to him, at a social level, the sole role of the state was to secure the respect of a general legal framework, through which each individual had to be obliged to get social insurance. But the social insurance programme should not be state-run, which it still partly is with respect to health, pension and unemployment insurance. The state should only issue social legislation and make sure that this legislation is being respected. Individuals must face up to their responsibility for the type of insurance and the insurance provider they choose. These should cover their needs. For instance, the only way to financially support the unemployed should be, according to Eucken, through trade unions—private associations of employees and unemployed people—at the most. It shouldn't be, under any circumstance, through a fund created, managed and run by the state. As we are about to see, the current German system of unemployment insurance is not managed by trade unions, but by the state.

Eucken's theoretical activity was vast, which is why we will have to limit ourselves to the presentation made above, which we enrich by enumerating some of his publications. Because of his sudden death, he did not get the chance to fully publish all his works. After his death, this became the job of his wife and some close friends. Nevertheless, this theoretical work also found expression in scientific reports which he delivered to the American and French Military Governments between 1945 and 1947 and later in 1948–1950 to the *Wissenschaftlicher Beirat* (Economic Council of the United Economic Zones—later transformed into the Federal Ministry of Economics).¹⁶³ His three main works are *Basic Principles of National Economy* (*Die Grundlagen der Nationalökonomie*), Jena, 1940; *Basic Principles of Political Economy* (*Grundsätze der Wirtschaftspolitik*), Tübingen, 1952; and *Competition, Monopoly and Entrepreneurs* (*Wettbewerb, Monopol und Unternehmer*), Vita Verlag, 1953. The last two were published by his wife.¹⁶⁴

¹⁶³ See Gräfin von Klinckowstroem (2000) pp. 98–100.

¹⁶⁴ A substantial and possibly complete bibliography of Walter Eucken's works can be found in Gräfin von Klinckowstroem (1992) pp. 125–137.

2.3.3.2 Franz Böhm (1895–1977)

Franz Böhm (1895–1977) was born on February, 16, 1895, in the city of Konstanz, on the coast of the Bodensee lake, located near the German–Swiss–Austrian border. His father was minister of religious cults in the state of Baden. During the First World War, Franz enrolled in the German Africa Corps, taking part in the military operations in Palestine.¹⁶⁵ It is possibly his first direct contact with the lands where the State of Israel was established after 1948. He negotiated with the Israelis after 1952 on behalf of the Federal Republic of Germany.

Böhm began his academic studies only after having returned from war in 1918, but quickly achieved university qualifications in Juridical Sciences at the University of Freiburg in 1922 and 1924.

After graduating, he was appointed public prosecutor at the Freiburg Regional Court. However, after only 1 year, he took an extended leave of absence and transferred to the Cartel Section of the Reich's Ministry of Economic Affairs in Berlin. He worked there until 1932, when he returned to Freiburg, continuing his research and writings. He achieved his Ph.D. during the same year. In 1933 he attained habilitation with his thesis "Competition and the Monopoly" *Struggle (Wettbewerb und Monopolkampf)*. Walter Eucken and Hans Grossmann-Doerth were among the members of his examination board, and thus, we can understand at least one of the reasons for Böhm being perceived as part of the group of the "fathers of the Social Market Economy".

Böhm taught as a private lecturer (*Privatdozent*) at the University of Freiburg until 1936, when he was granted a teaching position in Civil and Commercial Law at the University of Jena. As a result of his liberal way of thinking (he publicly criticised the policy of the National Socialist Regime concerning the Jews), he could only hold this position until 1938, when he was removed from office and forbidden from working and teaching in any academic environment. After appealing against the initial decision of the court, he regained the right to work, but not the right to teach.

After the arrival of the French and Anglo-Saxons in Germany in 1945, he was reinstated to his teaching position at the University of Freiburg, being promoted to professor and simultaneously holding the positions of deputy Chief Education Officer and Minister of religious cults in the state of Hessen, during the Geiler Government. He kept his position within the government for only 1 year, until 1946, when he was appointed professor at the University of Frankfurt am Main.¹⁶⁶ Already a member of the CDU as early as 1945, he served, from 1948 onwards, as an adviser to Ludwig Erhard, the Federal Minister of Economics, thus starting his political career. Following the general elections of September 6, 1953, he became a member of the Bundestag, representing the CDU. He held this position during three consecutive terms, until 1965.

¹⁶⁵ Comp. biographical data in *Deutsche Biographische Enzyklopädie* (2005) Vol. 1, p. 769.

¹⁶⁶ Comp. biographical data in *Deutsche Biographische Enzyklopädie* (2005) Vol. 1, p. 769.

In 1952, Böhm accomplished a task of high international and national importance for Germany. He led the first governmental negotiations between Germany and the Israeli¹⁶⁷ delegation and the representatives of the Jewish Claims Conference in Wassenaar, near the Hague. The resumption of the official dialogue through the new state of Israel, which had been recognised by Germany as the legitimate successor of the persecuted Jewish communities in Europe, started with the Federal Republic of Germany's acceptance to grant financial compensations to Israel. Although Böhm shared these views on the Jews, he remained a self-declared Christian, which strictly speaking was at that time a conflicting position with that of the then pre-Vatican II Council Catholic Church.

Böhm's academic activity after his departure from Freiburg in 1936 coincided with Eucken's, with whom he maintained contact. In 1948 they both founded the "ORDO Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft", a yearbook journal providing a forum of debate in the field of national economics. Constantin von Dietze, Friedrich August von Hayek, Friedrich A. Lutz, Wilhelm Röpke, Alexander Rüstow, Fritz W. Meyer and Hans Otto Lenel were co-authors for the first edition of the journal.¹⁶⁸ The *Ordo Jahrbuch*, published in German, is considered, even today by economists as "one of the main European forums of discussion about research papers on questions of economic regulation and the institutional frameworks of a free society".¹⁶⁹

Many considered Böhm to be not only a true scientist but also a true politician, a combination that would have a positive influence today if encountered more often in many countries across the world. Böhm wanted to implement in day-to-day life every scientific belief he had acquired, a noble task. Like other thinkers, scholars and researchers that have contributed to the revival of German economic life, Böhm tried to create a different system, based on democratic principles, the effectiveness of which he had long weighed up in his mind.¹⁷⁰

Practically, Böhm began thinking on his proposal for a system from a healthy and honest point which normally is a common ground for all: the universal interests of welfare. Analysing the works of the classics in national economics, he quoted them: "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer".¹⁷¹ Apparently Böhm forgets to say that only consumer-driven economies run the danger of spiralling down into sacrificing everything, including the environment and other foreign societies with whom the

¹⁶⁷ See Deutschkron (1991), p. 36.

¹⁶⁸ The cover of the first edition of this yearbook can be seen on paper format at the library of the Bundestag.

¹⁶⁹ See Streit and Kasper (1992), p. 111: "eines der zentralen europäischen Diskussionsforen für Forschungsarbeiten zu Fragen der Wirtschaftsordnung und der institutionellen Rahmenbedingungen einer freiheitlichen Gesellschaft".

¹⁷⁰ Comp. Böhm (1933) and Eucken (1952).

¹⁷¹ See Böhm (1933), p. 135.

consumer envisaged here would come into contact. Nevertheless, when reading this quotation we should not get the impression that in Böhm's view consumption is the only purpose in life. But probably he had chosen those parts of neoliberal economic theory which were fitting for moving Germany on into the Western free market economy direction.

For Böhm, as well as for Eucken, the individual interests were nevertheless what mattered most. They were probably influenced at least to some extent by the tendentially individualistic Protestantism to which they belonged. Böhm believed that these interests were natural rights that could come before community rights. However, freedom and responsibility were two faces of the same reality, individual freedom becoming an incongruity if interfering with the freedom of others. But, according to Böhm, economic rights were not included in freedom rights. Economic rights existed only in and through the community and the state—an evangelical—protestant view, as seen above. The state receives the right to coordinate economic agents and to cooperate with them, given the task entrusted to it by the community. In other words, because individual freedom, even if backed by individual responsibility, cannot enable a single human being to produce all the goods it needs for survival on its own, he has to associate himself with others. Hence, the appearance of group activities and subsequently of issues of economic rights of individuals from within groups can be explained and motivated. The need to define economic rights appears as a way to regulate predictable and peaceful exchanges within these groups. And economic rights become meaningful only once there is an arbiter who can set competition rules between the individual economic rights from within the group.

From the beginning of his academic and political career, Böhm was interested in the **competition issue**, which became the central element of his research. As soon as 1948, he started criticising pieces of legislation issued by the Court of the former German Reich, many of which were still in force at that time. Among these pieces of regulation was a judicial decision of the Supreme Court of the Reich in February 4, 1897, which stated that contracts to form cartels had juridical validity and are compatible with the principle of contractual freedom.¹⁷² Böhm, who had learned from the lessons of Bismarckian Germany and also from the post-First World War republican Germany, warned about the paradox that it was precisely this accumulation of economic power by cartels that could ultimately destroy the institution of private property and freedom of decision itself and thus of creativity. In Böhm's (a lawyer) view the individual freedom to enter into contracts can be salutary for competition, just as competition can be advantageous for contractual freedom. Probably he was aware of the power abuses against those companies and individual who did not always want to participate in the **cooperative market economy**, as it existed before 1933. A number as big as possible of potential contractual partners must exist simultaneously in order to maintain great contractual freedom. Freedom

¹⁷² See Watrin (1998) p. 18. and Schlecht (1995), p. 9. In 1948, this decision was still in force. The reason for which Böhm, as Erhard's adviser, had to propose its repeal was the introduction of the competition-based market economy.

is based on as many options as possible. The more options, the higher the freedom. Thus, at high levels of competition, there will also be high levels of contractual freedom. The highest level of freedom will be achieved with an infinity of options. This becomes more possible with the advent of the Internet where markets are global. His concern regarding the contradiction between individual freedom and the accumulation of power by the individual was stated in 1961. The following statement made Böhm famous: “Competition is the most extraordinary and ingenious disempowerment instrument in history”.¹⁷³

This conception of Böhm is not being shared by all German economists. There is at least one group of economic historians, centred to some extent on the ideas of the historical school and on professors like Abelshausen who state that the pro-cartel and pro-oligopoly model of organisation was a more fitting economic system for Germany. The reasons invoked here rely on the assumption that an economic model of cartels does not only increase prices but increase the degree of participation of all companies into an economic process. Be they implicit or explicit, cartels¹⁷⁴ allow companies to share their work with other companies from the national economy, be it with horizontally (competitors) or vertically (suppliers/ customers) connected companies. Thus, in this alternative view on competition, the economy is more productive in the case of Germany, as it would be more adapted to the national German identity and its style of doing business. This rather small and marginal group of economists holds that post-1945 de-cartellization was the priority in political economy for the USA for dismembering the **cooperative market economy** existing in Germany between the 1860s and 1945.¹⁷⁵

From Böhm’s point of view, competition in a new market order had at least two tasks, more precisely contributing to the progress of economic activity and limiting the economic power resulting from economic success. As Gräfin von Klinckowstroem points out, Böhm was an enemy of the German Historical School, which apparently to some extent had a closer tendency towards legitimising the NSDAP doctrine than other groups of doctrinarian academics.

Another of Böhm’s interests was related to **private property** and to the way in which this basic principle of today’s Social Market Economy could be transposed into legislation at that time. The stenographic protocols available for the debates of the Bundestag’s Juridical Committee from May 1957 illustrate the way in which

¹⁷³ See Böhm quoted in Schlecht (1995), p. 9, “Der Wettbewerb ist das großartigste und genialste Entmachtungsinstrument der Geschichte”, and also in Nörr (1995), p. 66.

¹⁷⁴ See Prof. Justus Haucap, Düsseldorf. Prof. Haucap is specialised in competition economics. One example here for an unquestioned cartel in a market economy is LIBOR. In Haucap’s view this is an implicit cartel. All commercial banks have to obey the LIBOR rates, whether they want to or not. But this implicit cartel is not sanctioned by any competition supervisory body.

¹⁷⁵ See Prof. Werner Abelshausen, Bielefeld. He is an economic historian. See the papers of the conference “Kartellverbot in der Sozialen Marktwirtschaft” organised on April 8, 2014, by EU Trust Institute Düsseldorf, the Katholische Sozialwissenschaftliche Zentralstelle and the University of Düsseldorf. The materials can be accessed at <http://www.eu-trust.org/veranstaltungen.htm>, accessed May 24, 2014.

Böhm saw the link among competition, property and juridical categories. “The whole Private Law dispatches its unmeasurable fullness of liberties only under the hypothesis that private individuals generally have no power, that the freedom of everyone ends at the border of the same freedom of all the others, namely that each private individual is being checked and controlled in his private actions by the same freedom of all the others”.¹⁷⁶

This was certainly possible for a society of not very large numbers and within overseable national borders as was the case of mid-twentieth-century Germany. But the difficult task will be to adapt this idea of individual freedom to a globalised world. The idea of hedging and checking the freedom of everyone with the freedom of others is based on at least two postulates or assumptions: the first is the philosophical postulate that human nature is the same across all individuals and cultures (is it?) and thus produces the same need for individual freedom. The second postulate is that the self-perception about one’s own freedom needs is the same with the freedom needs of all the others across all cultures around the globe. These postulates become visible in the context of globalisation where we have, via the Internet, the technological capability to come into transactions with individuals of all and quite different kinds to ours.

Knut Wolfgang Nörr was one of the specialists who studied Böhm’s economic reasoning and his scientific and political contributions. He claimed that for Böhm, private law was the juridical form of expressing the idea of freedom. Nevertheless, in order not to cause collateral damages to its implementation, private law had to be controlled by imposing competition constraints strictly implemented by state institutions designed specifically for such purposes.¹⁷⁷ Freedom, power and competition are thus closely linked in Böhm’s thought. In other words, natural individual rights only acquire a meaning if exerted within the community. Hence, we have a philosophical argument for acknowledging the eventual need for a communitarian, corporatist approach to economic and social life which finally took expression in the Social Market Economy system.

In his economic reasoning, Böhm postulated the existence of a pre-established harmony of the universe. This stems probably from his Christian worldview (*Weltanschauung*). This postulate is the reason why the economic model of free competition, which might at first seem chaotic, does not have to scare us, because due to it, the final result of competition can only be a peaceful one, the competitors

¹⁷⁶ See Böhm statements during the parliamentary consultations for the adoption of the law against the limitations of competition (GWB) in the Bundestag, second legislature 1953, 16th Committee, stenographic protocols no. 211 of May 16, 1957, quoted in Nörr (1995), p. 54: “Das ganze Privatrecht verteilt seine unermeßliche Fülle von Freiheiten nur unter der Vorraussetzung, daß Privatpersonen im allgemeinen keine Macht haben, daß die Freiheit eines jeden ihre Grenze an der gleichen Freiheit aller anderen hat, daß also jede Privatperson in ihrem privaten Handeln durch die gleiche Freiheit aller anderen kontrolliert wird”.

¹⁷⁷ See Nörr (1995), p. 53.

forming sediments (similar to the ones involved in wine fermentation¹⁷⁸) within that pre-established order. But who is the politician who has the courage to govern based on such an assumption of the existence of a pre-established harmony? At that time, some Christian politicians might have had the courage. Today, given the decline of lived traditional ethical values and principles, some of the governing politicians might have to make use of some sense of irresponsibility in order to go on governing without really understanding the meaning of what they are doing. But for Böhm there were two states (similar to the states of matter, in physics) that he considered identical: the state of **unrestricted competition** and the **state of complete lack of economic power**; in other words, when competition within a national economy is at 100 %, the degree of power held by business entities is of 0 %. Reversely, when no competition exists, the power will be entirely held by a single business entity, which will thus hold 100 % power, equalling to a private dictatorship. But will this work at a global level? We are in a dilemma: on the one hand we need a globally coordinated competition policy (among many other policies), and on the other hand if we have only a single coordinating agency, it will automatically be a dictatorship since it has a monopoly on coordinating.

Furthermore, Böhm proved to those who were pleading as early as 1945 for a socialist economic system in the recently defeated Germany (even politicians from his own party—CDU) and who were opposed to the introduction of the free market economy that **competition was** not an anarchical and chaotic maze but, on the contrary, **a somewhat weird order**. Even if it wasn't very clear, this weird order was in fact well established. It was not anarchical, and it can appear only within the limits set by the state, in that specific order. Böhm thus believed that an ordering of the framework within which the economic processes within a state should take place was necessary and that this could be done through the implementation of an **Economic Constitution (Wirtschaftsverfassung)**.¹⁷⁹ Even though this concept had been previously used by other German legal experts such as Hugo Sinzheimer, or even by economists across the Atlantic, Böhm's personal merit was that he applied it to the free market economy system of the new Federal Republic of Germany. The creating point in Böhm's economic thought which was relevant for a self-recreative Economic Constitution regards the individuals when looking at them as entrepreneurs. He "tells individuals what not to do and otherwise leaving them free to pursue their own interests and discover new actions. Only in this manner is the system open-ended to future evolution".¹⁸⁰

Böhm did not remain a philosopher, but worked for institutionalising his theories. After becoming a member of the Bundestag, he actively supported Erhard with the adoption of the 1957 "Act against the limiting of competition" (Gesetz gegen

¹⁷⁸ Probably it is not by coincidence that Böhm chooses wine in order to illustrate his theory: he stems from the region of Baden, in South-West Germany, one of the six major wine producing areas of Germany. The others are Mittelrhein, Pfalz, Rhein-Hessen, Mosel and Ahr.

¹⁷⁹ See Nörr (1995), pp. 61–62.

¹⁸⁰ See Sally (1998), p. 116.

Wettbewerbsbeschränkung), being deeply criticised for it by the social-democratic opposition. Otto Schlecht, one of his contemporaries and President of the Ludwig Erhard Foundation in Bonn, described Böhm's realism, his clear-headedness. Böhm was not a naive politician: he knew that markets characterised by unrestricted competition existed only in theory, never in reality. Still, he believed the effects of pursuing the ideal state of unrestricted competition will have good results in practice: it achieves a high level of competition even though it does not achieve the total or unrestricted competition. Practically, this meant that in implementation, the authorities should pursue a policy of the following type: "small fish should be left to swim freely, although they might do it in swarms, and catch only the big predator fish".¹⁸¹ This way of thinking determined the creation of a competition regulator: the "Federal Cartel Office" (Bundeskartellamt). Unfortunately, in practice nowadays, and especially since the monetary, financial and economic crisis in 2007–2009, the governments did not manage to catch the big banks and big companies that were the sinners. Contrary to the principle of competition of letting the sick of a free market die, they had to be bailed out at taxpayer's expense. Saving them with public money from the well-deserved failure creates a feeling of injustice and frustration among common citizens and economic actors.

Unlike the reasoning prevailing in systems of a socialist-oppressive type, which existed as leftist in Central and Eastern Europe starting in 1945 and in Latin America as rightist somewhat later, Böhm had always claimed that the implementation by the state of the Economic Constitution should have the role of coordinating, not subordinating business entities. Voluntary cooperation among individuals, business entities and the state must not be coerced. The power of the state should be limited to the decision of whether or not and to what extent a "Wirtschaftsverfassung" order, regulating competition and the free market, should be implemented. The implementation of this type of economic order doesn't necessarily have to imply the adoption of these principles in the constitution. The implementation can be done through the gradual adoption of the necessary legislative pieces, as individual laws, thus building a system of laws and a system of institutions and entities that supervise the observance of these laws.

Böhm and the socialists had diverging points of view not necessarily in what human aspirations in general were concerned, such as equality and well-being, but more about the ways through which a society could provide equality and welfare for all its members, a status quo that some referred to as socialism. Böhm criticised Marx's reasoning for his proposal of reaching socialism through means that were not compatible with human nature, such as coercion. As a legal expert, Böhm believed that an ideal type of socialist society could be attained only through the implementation of a market economy first. As a result of its proper functioning, it will unavoidably produce the effects of equality and well-being. In this sense, a

¹⁸¹ See Böhm's style in the meetings of the Sachverständigenrat, quoted in Schlecht (1995) p. 11: "Die kleinen Fische frei schwimmen lassen, auch wenn sie es partiell in Schwärmen tun, und nur die großen Raubfische fangen".

market economy has to be steerable either to the left or the right, because to a practical “market economy there is attached a very specific way of revenue distribution which includes only those people who participate directly with inputs into the production process”.¹⁸² But do not overlook that to the social environment of directly producing people belong other categories of persons such as household partners, children, civil servants, etc. Thus, he saw that “the task of providing those persons who are not remunerated directly by the market economy with revenue becomes more and more the task of community and state”.¹⁸³ He thus accepted a minimum amount of socialisation of revenue needed to be done by the state and not by the market economy as such. By considering that the distribution of revenues to the advantage of the social actors who did not actively take part in the production process (teachers, civil servants, army etc.) was precisely what offered the real market economy the capacity to exist and improve, Böhm continued the reasoning of Friedrich List. “At the same time, the wide distribution of revenues, through which also the general participation to education and political life of a free state is made possible, creates a standard of education and self-awareness for the large social classes, goal which could never be ensured by a revenue distribution made in accordance with the market economy only”.¹⁸⁴ He made his reasoning even clearer by writing that, “Market economy lived precisely out of the fact that it is complemented by a domain of revenue which is not a component of the market economy”,¹⁸⁵ the reason for which he was not only an economist but a sociologist as well. Therefore, the argument here goes that a minimum of voluntarism is the basis for a free running market economy.

Franz Böhm died on September, 26, 1977. His activity in politics was similar to Ludwig Erhard’s. They both aspired to implement in politics the theoretical results of their research. As for the theoretical dimension of Böhm’s activity, this was similar to Walter Eucken’s, who was passionate about science and was active almost exclusively in the academic sphere, being mainly a theoretician, with the exception of course of their academic circles of political resistance. Apart from their theoretical and research contributions, Röpke and Rüstow, the other founders

¹⁸² See Böhm (1953), p. 433: “. . . der Marktwirtschaft ist eine ganz bestimmte Einkommensverteilung zugeordnet, die nur Personen berücksichtigt, die in irgendeiner Weise mit gewissen Einlagen am Produktionsprozess teilnehmen. . .”.

¹⁸³ See Böhm (1953), p. 434: “. . . die Aufgabe, die nicht unmittelbar marktwirtschaftlich entlohnten Menschen mit Einkommen auszustatten, immer mehr auf Gemeinde und Staat[. . .] übergeht. . .”.

¹⁸⁴ See Böhm (1953), p. 434: “. . .Zugleich bewirkt die breitenmäßige Streuung der Einkommen, durch die ja auch die allgemeine Teilhabe an Schulbildung und am politischen Leben eines freien Staatswesens ermöglicht wird, daß ein Standard von Bildung und Selbstbewußtsein breiter Schichten erzielt wird, den die rein marktwirtschaftliche Einkommensverteilung niemals zu gewährleisten imstande sein würde. . .”.

¹⁸⁵ See Böhm (1953), p. 435: “. . .Die Marktwirtschaft lebte geradezu davon, daß sie durch einen nichtmarktwirtschaftlichen Einkommensbereich ergänzt wird. . .”. And here we have the principle of voluntarism which paradoxically is part of a market economy in which, as we know, individualism dictates.

of the German model of **Social Market Economy**, had held some leadership positions in NGOs and associations themselves, without being directly involved in politics. They represented, together with Böhm, a bridge between Eucken and Erhard.

Apart from the works from which we have already quoted above, we add *The ordering of the Economy as Historical Task and Legislating Accomplishment* (Die Ordnung der Wirtschaft als geschichtliche Aufgabe und rechtsschöpferische Leistung), published in 1936.

2.3.3.3 Wilhelm Röpke (1899–1966)

Wilhelm Röpke (1899–1966) was born on October 10, 1899, in Schwarmstedt, near Hanover, and died in Geneva on February, 12, 1966, following a heart attack. His father was a village doctor in Niedersachsen (Lower Saxony), a northern German state with green plains bordering the North Sea and characterised by rural atmosphere with lots of traditional small crafts industry. These all often fascinated the child and young Wilhelm.

He studied political science, law and national economics at the Universities of Göttingen, Tübingen and Marburg and was a brilliant student. He graduated when he was barely 22 and immediately obtained the position of private lecturer at the University of Marburg, on the basis of a thesis in the field of the Theory and Policy of Economic Cycles. At Marburg, he taught political economy until 1924, when he was appointed full professor at the University of Jena. He was then barely 24 years old.¹⁸⁶

His marriage to Eva Fincke from Stettin (Szczecin, in present day Poland), with whom he had one son and twin daughters, didn't prevent him from having a continuous research activity in the field of monetary policy and of international economic relations.

He remained at the University of Jena until 1928. After half a year as a guest professor (Gastprofessor) at the Rockefeller Foundation in the USA, he transferred to the University of Graz, in Austria. He remained there for only 1 year because he was appointed Head of the Department at the University of Marburg, a position that he kept until 1933. During the same year he was, for a short time, the Economic Policy Adviser to the last democratic government of the Weimar Republic, the Brüning Government.¹⁸⁷

Because of the texts published in 1933 against the National Socialist German Workers' Party (NSDAP), he lost his position at the University of Marburg and was forced to emigrate. He went to Istanbul, Turkey, where "... in every aspect he felt <like an alien>..."¹⁸⁸ as he stated in a letter sent in 1935 to Karl Brandt, who was

¹⁸⁶ Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2007\)](#) Vol. 8, pp. 485–486, and Skwiercz (1988), pp. 26–28.

¹⁸⁷ See [Deutsche Biographische Enzyklopädie \(2007\)](#), Vol. 8, pp. 485–486.

¹⁸⁸ See. Skwiercz (1988) p. 30.

going to become his co-author for the first issue of the *ORDO* Jahrbuch. Alexander Rüstow was also one of his colleagues in Istanbul. Several biographers state they got along well as colleagues and friends, but this might have not been apparent enough from correspondence only. They both taught national economics. Röpke was the one who created the Institute of Social Sciences at the University of Istanbul,¹⁸⁹ an initiative praised not only by the Turkish academic community but also by Turkey—a modernised secular state. It is thus easy to understand that the German–Turkish sympathy and status as allied powers in the First World War has been continuing during the interwar period and also after the Second World War. Then, in the early 1960s, Germany decided to invite guest workers during its economic boom and labour shortage, not only from Southern European countries like Yugoslavia, Italy and Portugal but also from Muslim Turkey.

Röpke remained in Istanbul only until 1937, when he managed to find a teaching position at the famous Institute of International Relations (Institut des Hautes Études Internationales) in Geneva. While in Switzerland, he got in touch with Willi Bretscher, the editor in chief of *Neue Zürcher Zeitung*—the renowned Swiss daily on international issues, published in German. For several years, it daily published numerous articles that Röpke wrote against the National Socialists and against Hitler, the adversity of whom he managed to trigger.¹⁹⁰

Röpke continued to write for the same daily even after the overthrow of the Nazi dictatorship in Germany, but this time against communism. He was perceived as one of the most intimidating European publicists who were against this totalitarian regime of self-entitled “communists”. Due to his struggle against these two European systemic errors, he became a Western European typical for the twentieth century.

The position of **political adviser** represented an important achievement in Röpke’s practical activity. In 1947, he was appointed President of Honour of the Liberal International, an important position situated at the crossing of science and politics. However, Röpke was not involved in politics himself: he was just advising others. In 1999, on the occasion of the 100th anniversary of his birth, the German daily *Handelsblatt* referred to Röpke as the *liberal economic humanist*.¹⁹¹ He was an important economic adviser in the first German Federal Government after 1949. However, because he publicly criticised, starting with the end of the 1950s, not only the fiscal policy of the European Economic Community but also the policy of mass motorisation of the German Federal Government, he gradually lost his influence among politicians. A certain social isolation came about due to this but was also due to some serious hearing disorders which brought him to the edge of deafness during the last years of his life.

¹⁸⁹ Comp. biographical data in *Deutsche Biographische Enzyklopädie* (2007), Vol. 8, pp. 485–486 and Skwiercz (1988), pp. 26–28.

¹⁹⁰ Comp. biographical data in *Deutsche Biographische Enzyklopädie* (2007), Vol. 8, pp. 485–486 and Skwiercz (1988), pp. 28–30.

¹⁹¹ See Schüller (1999) p. 25.

The theory and policy of economic cycles and the field of international economic relations were part of his academic interests as soon as 1930, when he was the Economic Cycle Expert in the “Brauns-Kommission”—a commission for the fight against unemployment.¹⁹² In 1924 he was appointed expert adviser on the issue of war compensations by the German Foreign Office. It was during this year that he developed his interest for international economic relations.

Röpke’s reasoning can be summarised as follows: **the state is infested with collectivist principles of welfare.** He believed that the social policy of the state prevented citizens from achieving “something” without explicitly referring to society and to the value or use that their project could have for society. The increase of social expenditure in the economy triggered, according to Röpke, the loss of meaning for values such as family, property and religion. This automatically led to the scourge of unemployment and to the crisis of the state for which all are waiting to show up with a rescuing solution. Not everything Röpke said was true; we know now that a market economy unavoidably needs a minimum of ca. 2 % unemployment rate; otherwise it cannot exist, so unemployment is not only a scourge but also a “must”. It may become a scourge if it is above a certain minimum level, of course. With respect to humanitarian activities (e.g. giving aid) once the social dimension run by the state becomes too big, they lose their confidential character and are dragged into the political sphere, becoming public. The confidential character of humanitarian activities is in fact a profound Christian commandment given by Jesus himself: “But if thou doest alms, let not your left hand know what thy right hand is doing, so that your alms may be in secret. And your Father who sees in secret will reward you openly”.¹⁹³

Human activities lose their private character in a system with strong welfare tendencies and they become public by being aspired in the sphere of the state. Thus, the legitimate and unavoidable question which came thus to be answered was on who leads the parties and the state. The only answer can be: it is the interest groups that had managed to accumulate economic power and can thus exercise pressure on eligible politicians. The economic segregation of those who do not accept the dictatorship of the other economic interests groups who had “kidnapped” the government was the next logical stage to be expected: the state found itself kidnapped by interest groups and the citizens rallied to these groups. In the end, the victims were, as always, weak workers who were not organised well enough, as well as a part of small businesses—engulfed by the concentric circles of power of the bigger companies.

In order to prevent the reoccurrence of such undesirable events, which had happened in Germany during the interwar age, Röpke defended the liberal values

¹⁹² Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2007\)](#), Vol. 8, pp. 485–486, and Skwiercz (1988), p. 29.

¹⁹³ See *Evangelium nach Matthäus* 6, 3–4 in (1975) *Die Heilige Schrift des Alten und Neuen Testaments*: “Wenn du aber Almosen gibst, so soll deine linke Hand nicht wissen, was deine rechte tut, damit dein Almosen im Verborgenen sei. Und dein Vater, der ins Verborgene sieht, wird es dir vergelten öffentlich”.

such as the freedom of the individual, tolerance and the rule of law. For him, these liberal values came before the values of the community. If properly respected, these values could represent the basis for a credible system of market economy, a system where human passions were softened and people became more honest, more trustworthy, more organised, disciplined, friendly and altruistic than in other types of societies. Röpke's reasoning is close not only to liberalism but also to that social-Christian philosophy which is purified of its suffocating communitarianism.

Liberal Economic Humanism is characteristic of many of Röpke's writings. After having defined reasoning, he is quoted to have enumerated some of the prerequisites for individuals for participating on the market: "being self-disciplined, having the sense of justice, sincerity, fairness, chivalry, moderation, having public spirit, respecting the human dignity of others, stable moral norms—all these are things that people should already possess when entering the market and competing with others".¹⁹⁴ Well, these personal qualities are definitely to be found only in an ideal market. It is often that only through market participation most people learn these attributes, i.e. it is the other way around especially today when the young generation seems to be disoriented and in need of credible social models.

Röpke's academic personal contribution as a liberal was in the field of state interventions in the economy. Even if he was a liberal, Röpke started his theoretical construct by departing from the belief that there are only two alternatives: individualism or corporatism. A clear delimitation should be made between the two notions, the choice being univocal: either one or the other. He wrote: "we have to start from a tough insight: one who doesn't want collectivism, must want the market economy".¹⁹⁵ According to Röpke, these two systems mutually excluded each other. On this, Böhm thought differently. But, like Müller-Armack, Röpke believed that some interventions of the state that didn't radically and irreversibly disrupt the functioning of a market economy could be taken. Sally describes the type of interventions which Röpke approved in a different way than other analysts. Sally says that Röpke agreed with "measures which he considered market conforming because they did not interfere directly with the price mechanism (unlike market-nonconforming measures such as price controls, quotas...)"¹⁹⁶ Others say that Röpke approved only the so-called liberal interventions by the state, those which necessarily are liberal by respecting two principles. "The first of these principles is obtained through the clear distinction between conservation interventions and adaptation interventions. We reject the first category for being reactionary, dangerous and irrational but we support the latter in order to soften the hardships and

¹⁹⁴ See Skwiercz (1988), p. 43: "Selbstdisziplin, Gerechtigkeitssinn, Ehrlichkeit, Fairneß, Ritterlichkeit, Maßhalten, Gemeinsinn, Achtung vor der Menschenwürde des Anderen, feste sittliche Normen—das alles sind Dinge die die Menschen bereits mitbringen müssen, wenn sie auf dem Markt gehen und sich im Wettbewerb miteinander messen".

¹⁹⁵ See Röpke (1944), p. 228: "...Beginnen müssen wir mit der rücksichtslosen Einsicht, daß wer den Kollektivismus nicht will, die Marktwirtschaft wollen muß..."

¹⁹⁶ Sally (1998), p. 120.

frictions coming by the economic changes and perturbations and in order to help weak groups in their struggle for existence. In this way, we will be able to meet both the goals of the market economy and the simple demands of common sense and humanity”.¹⁹⁷ The second principle characteristic to those liberal interventions which, according to Röpke, are allowed to be made by the state could be determined also by making a differentiation between “appropriate and inappropriate state interventions . . . Their meaning consists in that we must erect a solid dam against those types of interventions by the state against which we must in any circumstance defend ourselves if we do not want to slide into collectivism. At each intervention by the state we must be able to say if it is or is not in accordance with the fundamental principles of our market economy system and if it is assimilated by it, or whether this is not the case”.¹⁹⁸ Through this statement, Röpke bitingly criticised the “welfare state”.¹⁹⁹ This criticism must be analysed by taking into account the other main political trends in Germany and in Continental Europe: conservatism, social democracy, corporatism and liberalism. It appears clear that Röpke focused mainly on defending the freedom side of the market economy while interpreting the other parts of the latter through the interests of the first.

Compared to the other socio-economists in the meanwhile called “fathers of the **Social Market Economy**”—except maybe Müller-Armack and Erhard—Röpke did not only stand up for the implementation of an economic policy in accordance with the two principles mentioned above but also for the implementation, by the government, of a **consistent structural policy**. For him, this meant that the simple identification of the existing problematic structural problems of the economy and the society was not enough. Decisions to change this state had to be made in order to achieve a certain political goal, of course finally a nation-building—or “formierte Gesellschaft” which in the Social Market Economy means more or less the same—goal. Again we see that economic policy has finally domestic and also foreign policy goals and effects.

¹⁹⁷ See Röpke (1944), p. 229: “. . . Das erste dieser Prinzipien gewinnen wir aus der Unterscheidung zwischen Erhaltungs- und Anpassungsinterventionen, von denen wir die ersten als reaktionär, gefährlich und irrationell ablehnen, die letzten aber befürworten, um die Härten und Reibungen der Umstellungen und Störungen im Wirtschaftsleben zu mildern und schwachen Gruppen in ihrem Existenzkampf zu helfen, daß wir dem Sinne der Marktwirtschaft wie dem einfachen Gebote der Vernunft und der Menschlichkeit in gleichem Maße gerecht werden. . .”.

¹⁹⁸ See Röpke (1944), p. 230: “. . . konforme und nicht konforme Eingriffe. Ihre Bedeutung beruht darauf, daß wir ja einen festen Damm gegenüber solchen Staatseingriffen aufrichten müssen, vor denen wir uns unter allen Umständen zu hüten haben, wenn wir nicht zum Kollektivismus abgleiten wollen. Bei jedem Staatseingriff müssen wir uns darüber klar sein, ob er den Grundsätzen unseres marktwirtschaftlichen Systems noch gemäß und von ihm noch verdaut wird, oder ob das nicht der Fall ist. . .”.

¹⁹⁹ In order to translate the German notion of “Wohlfahrtsstaat”, we chose the expression “welfare state”, which is not to be confused with the notion of “welfare capitalism”. In this latter case, welfare comes from private, individual initiatives, which all are in a state (country) with a free market economy. In the former case (Wohlfahrtsstaat) it is a public service with a social character run by state institutions or the government.

Generally, Röpke's teleology (not theology) had humanistic purposes and styles. He found himself in contradiction with the Keynesian system and its theory which stated that unemployment had to be reduced by the intervention of the state even if this meant expanding the deficit and increasing inflation. But whether Röpke was also in contradiction with liberal capitalism is less easy to say: it could be interpreted in such a way that he upgraded the doctrine of liberal capitalism by placing it into its economic and social context. We are able to fully perceive the complexity of Röpke's reasoning only when, besides what we have seen until now, we also understand that, in fact, he didn't fully believe that the free market economy was the sole and ultimately perfect solution to achieve a prosperous society. He even criticised the initial reasoning and liberal practice related to market economy. "This was the capital mistake of the old liberal—capitalist way of thinking and acting, that saw market economy as an automatically performing and self-sufficient process . . . This way of thinking wasn't taking into account the fact that market economy was only a limited segment of social life, a segment included in a broader one . . . in which people were not competitors, producers, businessmen, consumers, trade unionists, stakeholders, savers or investors but simply people who do not live on bread alone, people, family members, neighbours, Church members. . . people of flesh and blood".²⁰⁰

It is also important to look at Röpke's view on **ethics**, because he took this aspect into account in his economic reasoning. In his volume *Beyond Supply and Demand* (*Jenseits von Angebot und Nachfrage*), published in 1958, Wilhelm Röpke expressed his views on free markets. In the absence of intrinsic ethical links, markets would disappear in the long term. This disappearance would be automatic, similar to a self-dissolution, and this argument is easy to understand by everyone who has some experience in the private business sector: no commercially efficient economic activity is possible without the trust between the trading partners. The buyer has to trust that the seller will deliver the agreed quality, quantity and in time. Otherwise he would have to check the quality of every individual product, count the whole quantity at each delivery and not engage in further trading with third parties with the received goods because the risk of non-performance would be too costly. The seller has to trust that the buyer will pay the due amount at the agreed time; otherwise, he will be out of his cash flow planning, with the prospect of additional credit at higher cost from the bank. And trust is the expression of lived ethical values of keeping the word given at the onset of the common planning in the business relationship.

²⁰⁰ See Röpke (1944), p. 231: "...Es war gerade der Kardinalfehler des alten—liberalen, kapitalistischen' Denkens und Handelns gewesen, die Marktwirtschaft als einen in sich selbst ruhenden und automatisch abschnurrenden Prozeß zu betrachten. Man hatte übersehen, daß die Marktwirtschaft nur einen engeren Bezirk des gesellschaftlichen Lebens ausmacht, der von einem weiteren umrahmt und gehalten wird: einem Außenfelde, in dem die Menschen nicht Konkurrenten, Produzenten, Geschäftsleute, Konsumenten, Gewerkschaftsmitglieder, Aktionäre, Sparer und Investoren, sondern ganz einfach Menschen sind, die nicht von Brot allein leben, Familienmitglieder, Nachbarn, Angehörige der Kirchengemeinde [...] Wesen von Fleisch und Blut...".

Even if Röpke came from a Protestant environment, we could say that when subordinating the economic activity to the common good, he identified himself with many principles from within the Catholic Social Teaching. But Röpke was not aiming only directly at achieving “social” goals but also indirectly via individual freedom: he clearly stressed that the upholding of the individual’s freedom of action was, however, another way of reaching the common good by reaching it as a result of subsumed individual efficient actions. But freedom did not have a value in itself. Like for the other economists among the fathers of the Social Market Economy, the number one goal was the common good, not the freedom of the individual.

Röpke’s fine nature as an expression of the identity of a Central Western European person, product of the matured Western European capitalist system, which could be noticed in his physical traits, offered him numerous opportunities to communicate with high-ranking politicians and other important German and international leaders. Ludwig Erhard admitted, during the period when he was the Federal Minister of Economics, that he had an especially close relationship with Röpke, but also good relations with Eucken and Rüstow. Röpke and Erhard had both been members of the **Mont Pélérin Society**, an exclusive association of economists with connections inside the first rank decision circles. The first one had been a member since 1947 while the latter became a member after 1950. They kept in touch through letters and meetings at conferences and international forums.

Out of his own initiative, Erhard paid visits to Röpke and his family, in Geneva. He sought advice, even for more concrete questions related to options for the economic governance of Germany. From Geneva, Röpke in his turn wrote letters to Erhard. For instance, in one of his letters from September 26, 1953, he wrote: “Dear Mr. Erhard, let me first—also in the name of my wife—repeat how very much we were glad about your visit to Geneva and hope for another visit! Meanwhile, you expect me, as you said, to send you a professional study in which to present my point of view on the practical political problems involved by introducing in the near future the convertibility in the current international context. . .”²⁰¹

Röpke characterised himself in an article on German liberalism which can be found in the Wilhelm Röpke archive²⁰² in Cologne in relationship with liberalism.

²⁰¹ See Röpke (1976), pp. 133–134: “. . .Lieber Herr Erhard, Lassen Sie mich zunächst—auch im Namen meiner Frau—wiederholen, wie sehr wir uns über Ihren Besuch in Genf gefreut haben und auf eine Wiederholung hoffen! [. . .] Bis dahin erwarten Sie, wie Sie sagten, von mir noch ein Gutachten, in dem ich die praktisch—politischen Probleme der Aktion für eine baldige Konvertibilität auf Grund der internationalen Lage, wie ich sie sehe, darlegen soll. . .”.

²⁰² The personal and possibly almost complete archive on Röpke can be found at the Institute für Wirtschaftspolitik of the University of Cologne, being overseen (2002) by Prof. Hans Willgerodt, the son of one of Röpke’s sisters. Apart from a big number of letters, sent or received by the German scientist, one can find here almost all the works that have been published in volumes and in European journals for his area of expertise. Röpke is present in the most important specific philosophical and economic publications in Europe. In Germany: “Frankfurter Allgemeine Zeitung”, “Der Volkswirt” (Frankfurt), “Rheinischer Merkur” (Koblenz), “Handelsblatt” (Düsseldorf), “Der Tagesspiegel” (Berlin), “Christ und Welt” (Stuttgart) and various journals issued by trade unions and employers’ associations; Switzerland: “Neue Zürcher Zeitung”,

He understood himself as a liberal if by this was meant anti-totalitarianism, but did not understand himself as a liberal if by this was meant an aggressive expansionist doctrine.²⁰³

Besides the works from which we have already quoted or the ones presented in the Bibliography, Röpke's main works are *Die Lehre von der Wirtschaft* (The teaching from the economy), 1937; *Die Gesellschaftskrisis der Gegenwart* (The Social Crisis of Our Time), 1942; *Civitas Humana*, 1944; *Internationale Ordnung—heute* (International Order—Today), 1945; *Mass und Mitte* (Balance and Sensibleness), 1950; and *Wirrnis und Wahrheit* (Confusion and Truth), 1962.²⁰⁴

2.3.3.4 Alexander Rüstow (1885–1963)

Alexander Rüstow (1885–1963)²⁰⁵ was born on April 8, 1885, in Wiesbaden, today's capital of the land of Hessen. The city was made capital of the land with the establishment of the federal system in 1949, after it had been the Eastern city quarter on the Rhine valley of the city of Mainz. The city has roots back in antiquity when it was the headquarters of the Roman garrison and, later, starting in the Middle Ages, the Episcopal Office of the prince-electors of Mainz.

Before moving to Heidelberg, he first studied history and political sciences in Göttingen, Munich and Berlin and got his Ph.D. in Erlangen.²⁰⁶ He was educated according to the Protestant principles by his mother Bertha. His mother who was predisposed to illnesses promoted into the family the Prussian principle of money saving, a description of which we saw from Benjamin Franklin. His father was a military lieutenant in the 27 Nassau regiment of field artillery. The Rüstow family respected a long tradition according to which one member of the family had to be enrolled in the army. In this Protestant family, just like in the case of Catholic families, we can see the "Italian connection" of many Germans: one of Alexander's uncle,

"Gazette de Lausanne", etc.; Italy: "La Tribuna", "Quindicinale" and "Il Mondo"; Holland "Elseviers weekblad"; Great Britain: "The Economist"; Sweden: "Svensk Handel"; South Africa: "The South African Journal of Economics"; Hungary: "Szabadság, Nemzetör"; and Czech Republic: "Prager Tageblatt", "Mont Pélérin Quarterly" and many others. Röpke's friendship with von Hayek influenced Röpke's wife Eva to translate the latter's works from English into German. She translated von Hayek's *The Road to Serfdom* into *Der Weg zur Knechtschaft* and published it in 1971.

²⁰³ Comp. Röpke's article "Der Deutsche Liberalismus" in the "Frankfurter Rundschau" newspaper of 1946 and in the archive Wilhelm Röpke at the Institut für Wirtschaftspolitik Köln.

²⁰⁴ See [Deutsche Biographische Enzyklopädie \(2007\)](#), Vol. 8, p. 486.

²⁰⁵ Comp. biographical data in Brockhaus Enzyklopädie in 30 Bänden (2006) Vol. 23, p. 577, [Deutsche Biographische Enzyklopädie \(2007\)](#), Vol. 8, p. 617 as well as and Meier-Rust (1993), pp. 17–100.

²⁰⁶ See [Deutsche Biographische Enzyklopädie \(2007\)](#), Vol. 8, p. 617.

Friedrich Wilhelm Rüstow, a man of liberal convictions, was the Chief of the Defence staff of General Garibaldi in his campaigns for unifying Italy in the 1860s.²⁰⁷

Young Alexander initially wanted to become a theologian, but he met Mathilde Herberger, whom he married, so the theology career became less promising because at that time it was much more linked to priesthood than now. Until 1918, he had radical-socialist and even Marxist convictions. Later on, starting in 1919, he often attended the lectures of Franz Oppenheimer—a medical doctor that became professor of sociology out of his own initiative and who was also a supporter of liberal socialism, which he praised during his lectures. Oppenheimer's ideas allowed Rüstow to understand sociology from a historical perspective, changing his way of thinking. According to biographers, it was during these lectures that Rüstow personally met Ludwig Erhard, among many other young people of the same generation. They had all been Oppenheimer's students.

Between 1919 and 1924, Rüstow held the position of “Referent” (specialist expert) in the Department for Political Planning (Grundsatzabteilung) of the Reich's Ministry of the Economy. His transition from idealist socialism to liberalism has been a process marked by debates with other German thinkers such as Alfred Löwe, Gerhard Cohn or Eduard Heimann. One of the effects of his intellectual debates is what Rüstow wrote on how his mind changed on freedom and unity: “Earlier, I believed that unity has to be created and only thereafter should freedom be added to it. . . (but) Today I believe to see that unity which is obtained through coercion, never leads to freedom”.²⁰⁸ He thus achieved the conviction that the only valuable social unity was the one which developed freely and spontaneously.

Apparently it was his new way of thinking which determined him to change his job. He passed from being a civil servant to working in one of the most important associations existing in the economic private sector in Germany: between 1924 and 1933 he was Head of Department within the Verband Deutscher Maschinenbauanstalten.²⁰⁹ This position allowed him to support economic freedom and competition. He fought the oligarchic and national protectionist forces from the steel, coal and processing industries and also fought the well-known “Junkers”—owners of big agricultural estates in the East of Germany.

Before 1933 when he emigrated to Turkey, Rüstow invested a lot in the formation of a group of young German theoreticians to fight against the remains of reasoning and influence of the German Historical School. During his activity within the renowned **Verein für Socialpolitik**, which today is not less elitist than at that time, he created lists containing names of young theoreticians of that time who

²⁰⁷ See Meier-Rust (1993), pp. 17–19. Meier-Rust tells us that the archive of Alexander Rüstow is in Koblenz.

²⁰⁸ Quoted in Meier-Rust (1993), p. 37: “. . .Früher glaubte ich, man solle (vorerst—o.n.) die Einheit herstellen und (erst nachher—o.n.) die Freiheit dazu kommen sollte. Heute glaube ich zu sehen, daß erzwungene Einheit, niemals zur Freiheit führt”.

²⁰⁹ See Meier-Rust (1993), p. 39. This association is the forerunner of the Association of German Machine-Building Firms (Verband Deutscher Maschinen-und Anlagenbauer), existing nowadays, which is an important lobby group defending the interests of the machine-building manufacturers.

could have represented a valuable potential for the renewal of the German theoretical way of thinking in economics.²¹⁰ Walter Eucken and Wilhelm Röpke were among the young theoreticians whose names were on Rüstow's lists.

He personally met Röpke, who was 15 years younger than him, during a conference on the purifying liberalism, not only of clichés of the "laissez-faire" type but also of social-collectivist elements. After they met each other, the two German theoreticians exchanged ideas on a regular basis through letters and discussions. Rüstow and Röpke both supported **an economic "Third Way" (der dritte Weg)** for economic policy solutions which was going to represent the basis for **a German way**.²¹¹

For Rüstow, who had an interdisciplinary personality internationally recognised in the fields of history, sociology, economics and politics, the main areas of concerns still remained, during his entire life, spirituality, religion and history. For him, economics, politics and sociology were just ways in which spirituality and history manifested themselves in day-to-day life.²¹²

In 1930, Rüstow and Eucken were already constantly sending each other letters.²¹³ In that age's context of the global economic crisis, both theoreticians declared themselves against the interventional nihilism by the state and against economic subsidies. Whether Rüstow and Erhard would have also had the strength to act accordingly in the crisis at that time, had they been in the government or ministerial positions, of course we cannot know. The question can be extrapolated to the monetary and financial crisis in 2007–2008 as well. But back in 1932 Rüstow wrote Eucken that economic success could be attained only within a free market economy, within a free international trade. This was the only way to replace the political party system which was not really working at that time and had to be somehow corrected, one way or another. This replacement was necessary because the bankrupt system was threatening not only the economy but the political system as well. The creation of a free market economy was the sole element capable of strengthening democracy and defending it from the excessive accumulation of power by the parties, which was dangerous. Such democratic ideas were way too advanced for the period he lived in—when intolerant, racist totalitarianism, and not democracy, was seen as the solution for the crisis by the majority social consensus.

Displeased with the political developments in Germany, Rüstow decided to emigrate in 1933. With the help of the Emergency Association of German Scientists (Notgemeinschaft Deutscher Wissenschaftler), he obtained a teaching position at the University of Istanbul, becoming professor of national economics. In that period, there were many Germans that chose to teach abroad, either in other

²¹⁰ Comp. biographical data in *Deutsche Biographische Enzyklopädie* (2007), Vol. 8, p. 617, and Meier-Rust (1993), pp. 17–100.

²¹¹ For details on Rüstow's position on a German third way and a market economy which is social, i.e. social market economy later, see Ebinger (2008).

²¹² See *Deutsche Biographische Enzyklopädie* (2007), Vol. 8, p. 617. Here, Rüstow is first presented as an economist and only afterwards as a historian.

²¹³ Comp. Meier-Rust (1993), pp. 54–59.

European states or even in the USA. Of them, more than 70 or 80 German professors and scientists left for Turkey. In 1932, the Turkish President Kemal Atatürk (1923–1938) had just started, following the advice of one of his counsellors (a Swiss), the modernization of the Turkish educational system into a Western European style. Therefore, the German emigrants, as well as their families, were received with open arms.²¹⁴

Rüstow arrived in Turkey in 1934 with his third wife, Countess Vitzthum von Eckstaedt, while his two children from his second marriage remained in Berlin.²¹⁵ Despite traditional friendship links between Germany and Turkey and despite the fact that he remained in Turkey until 1950 because he didn't manage, like Röpke, to obtain a teaching position in Europe, Rüstow never felt at home in this country either. Possibly one of the reasons was that the majority of the theoreticians who shared his ideas were then in the USA.

He managed to escape his incapacity to adapt to the Oriental world by attending conferences in Europe. During one of these conferences—at the **Colloque Walter Lippmann**—organised in Paris in 1938, he spoke for the first time in public about neoliberalism. Several theoreticians that shared his ideas also attended this conference. With classic liberals like Ludwig von Mises or Friedrich August von Hayek, but also with neoliberals like Eucken and Röpke, Rüstow felt freed from the human and political confinement that characterised his Turkish exile. In 1947, he participated in the creation of the Mont Pélérin Society in Switzerland. However, he didn't manage to obtain a teaching position in Europe until 1950, when he became professor of social and economic sciences at the University of Heidelberg. He immediately moved to Heidelberg and occupied this teaching position until 1956.

Once he had returned to Germany, he continued his involvement in national and international clubs and associations. This is how, in 1953, he co-founded, together with Alfred Müller-Armack, the Aktionsgemeinschaft Soziale Marktwirtschaft (**Social Market Economy Action Community**), whose president he remained until 1962²¹⁶ and which continues to be active.

Being a member of many clubs, associations and debate clubs was something typical for Rüstow. There, in a favourable academic environment, he was able to perform his main activity: promoting neoliberalism. He was able to freely express his ideas in detail, especially because he was not involved in politics or public administration, which could have had a negative impact on his professional career.

Rüstow dealt a lot with presenting theories and interacting with other German and foreign thinkers. In order to bring out the traits most typical to his views, we are going to look at his opinions regarding state interference in the private sector,

²¹⁴ Comp. Meier-Rust (1993), p. 62.

²¹⁵ See Meier-Rust (1993), pp. 62–63.

²¹⁶ Comp. biographical data in *Deutsche Biographische Enzyklopädie* (2007) Vol. 8, p. 617 and Meier-Rust (1993), pp. 83–ff. Today (2013), this Action Community's President is Prof. J. Starbatty. It expanded its activities cooperating with several other organisations such as Jenaer Allianz, Open Europe, Bund Katholischer Unternehmer, etc.

meaning the government's right to intervene in society and the economy, without upsetting their core principles. His preoccupation with power and state interference in society and the economy are similar to those of Röpke. He clearly asserts them as early as 1932 at a *Verein für Socialpolitik* symposium in Berlin, where he holds a presentation named *Free Economy—Strong State*. In his presentation, Rüstow argues for the idea that the less a government interferes in the economy and in the social sphere, the stronger it remains, while maintaining credibility at the same time. Unlike Eucken and Bohm, Rüstow accepts intervention by the state. He advocated “adaptation subsidies—money transfers, training programmes—particularly in agriculture”.²¹⁷ Correct intervention is, according to Rüstow, when a shift in the economic balance of power appears after an intervention. For instance, it is the case of the temptation of the state to intervene and help a malfunctioning corporation which is an important employer but is no longer profitable. On the contrary, the state must not intervene to diminish or eliminate the causes of the corporation's losses, but must help it go into insolvency as soon as possible, in order for it to disappear. That way, a non-profitable business activity would not continue and new employers will emerge from the corporation's bankruptcy and become available for new tasks and forms of business. These new forms may appear via the take-over of the corporation by other corporations interested in that particular field. The opposite to this kind of liberal intervention is, for Rüstow, classic government intervention, that goes as follows: “What all these interventions have in common is the fact that they are opposed to the natural course the events would take without them, they are opposed, want to hinder it and they attempt to uphold the hitherto status quo. [This is why, this type of intervention—o.n], as handy and psychologically understandable though it may be, is reactionary, because it works against the outside disruption”.²¹⁸ When explaining the type of intervention which should be allowed in his view to a government, Rüstow manages to explicitly show that there is a *third way* which, from his point of view, should be the way of the Social Market Economy, or possibly a German way “caught” between the West and East: “We have to ask ourselves: are we truly faced with the only choice between letting events follow their course unperturbed, or, in this perspective-less situation to interfere against the natural course of events? I do not believe it. I believe there is a third manner of conduct. . . when there is a consensus that the new state of balance which would be reached by letting events follow their natural course is, in and for itself, the right solution, even by going through many losses which come about through friction and unbearable situations. Then, it would make sense to try to intervene in order to bring immediately about this new state of balance, thereby cutting down to, so to say, zero on that time which it would normally take to reach

²¹⁷ See Sally (1998), p. 120.

²¹⁸ See Rüstow (1932), pp. 222–223: “Allen diesen Eingriffen ist das gemeinsam, daß sie dem Ablauf, der ohne sie vor sich gehen würde, entgegengerichtet sind, ihn verhindern, den bisherigen Zustand aufrechterhalten wollen (. . .) die rein psychologisch naheliegend und verständlich ist, nämlich reaktiv, entgegen der von außen kommenden Störung”.

the new sustainable state, that time of perspective-less struggle, of succumbing and despair. However, this intervention would be in the opposite direction than it had been intervened until now, namely not against the market, but in the same sense as the market, not in order to maintain an old state of affairs, but to bring about the new state, not in order to delay but to accelerate the natural course of events. All this is a so-called **liberal interventionism**, guided by the motto: *fata volentem ducunt, nolentem trahunt. . .*²¹⁹

Even though this type of neoliberal “pro-market” intervention is interesting in theory, it has at least three drawbacks or risks: first, who can be sure that the company—or status quo—in trouble will indeed be taken out by the market, or if indeed it is simply only going through momentous difficulties? Second, how can anyone be sure, beyond the shadow of a doubt, that the person or institution accredited to establish the right time for liberal intervention has no interest in supporting the competitors of the company in difficulty? And third, who is to be set on the board of such an institution which is to decide which company is to be acted upon? An example of this was the whole discussion with the monetary and financial crisis in 2007–2008. Here, the big companies were helped by the government at the expense of the small and medium companies. For this we should just remember the intervention package voted by the German Parliament for supporting the car manufacturers with the premiums for people to buy new cars in exchange for the old ones. This helped indeed the car manufacturers, but destroyed a lot of second-hand car dealers who for many months could barely make turnover. This was not a liberal interventionism in the sense Rüstow meant.

Even earlier, when times were closer to the introduction of the Social Market Economy in Germany and the Deutsche Mark had not yet been fully replaced by the Euro, there is a good example for a time before any major international crises (2000 and 2007–2009). It is the case of the century-old building corporation, Philip Holzman AG, and what happened in the winter of 1999/2000. Back then, Chancellor Schröder personally intervened, under pressure from the unions, and decided for

²¹⁹ See Rüstow (1932), pp. 223–224: “. . . müssen wir uns fragen: stehen wir wirklich nur vor der Wahl entweder den Dingen restlos ihren Lauf zu lassen oder in dieser aussichtslosen und verhängnisvollen Weise entgegen dem natürlichen Lauf der Dinge einzugreifen? Ich glaube es nicht. Ich glaube, daß es eine dritte Art des Verhaltens gibt (. . .) wenn nämlich Einigkeit darüber besteht, daß jener neue Gleichgewichtszustand, der sich bei freiem Ablauf ergeben würde, wenn auch erst über viele Reibungsverluste und Unerträglichkeiten hinweg, an und für sich die richtigste Lösung sein würde, so läge es doch eigentlich sehr nahe, zu versuchen, diesen Zustand eingreifenderweise sofort herbeizuführen und nur die Zwischenzeit, die sonst vergehen würde, bis der neue, in sich haltbare Zustand erreicht ist, diese Zeit des aussichtslosen Kampfes, des Niedergangs und des Elends, sozusagen auf Null abzukürzen. Das wäre ein Eingreifen in genau der entgegengesetzten Richtung, als in der bisher eingegriffen worden ist, nämlich nicht entgegen den Marktgesetzen, sondern in Richtung der Marktgesetze, nicht zur Aufrechterhaltung des alten, sondern zur Herbeiführung des neuen Zustandes, nicht zur Verzögerung, sondern zur Beschleunigung des natürlichen Ablaufs. Also, sozusagen ein liberaler Interventionismus nach dem Motto: *fata volentem ducunt, nolentem trahunt. . .*”. He then also says that this type of intervention would be much cheaper in the way it has been usually done of saving businesses or cycles.

granting a few billion Deutsche Mark from the federal budget in order to save the company from bankruptcy and, implicitly, a few tens of thousands of jobs. This also was the opposite of the liberal type of intervention Rüstow stood for. The subsidies were granted, the company was saved and the governing party was acclaimed by all. However, the corporation had some structural flaws, which were amplified by the influx of cheap construction labour from Eastern Europe. Nevertheless, all this pushed the corporation into insolvency just a year and a half later.²²⁰ Still, this second time, the social-democratic government no longer intervened, although it was asked to “save” the tens of thousands of jobs that were to be lost. These examples illustrate how the government, or rather the political parties who have to keep promises to create jobs, feel compelled and tempted to interfere, not in the sense of an ordoliberal market economy, but in the sense of a market economy with rather socialist and not social character.

As far as international policy is concerned, Alexander Rüstow, as Röpke, was always in favour of combined efforts by the Western states, along with Germany, against the socialist bloc and its doctrine. He believed that it was the duty of the West to fight socialism/communism, perceived as a subhuman system.²²¹ Rüstow wished to profess his ideas of freedom and market economy on a global scale. He was regarded by his contemporaries as the German neoliberal “par excellence” against communism.

Some of his most important writings are *Customs Protection or Free Trade (Schutzzoll oder Freihandel)*, 1925; *The Failure of Economic Liberalism (Das Versagen des Wirtschaftsliberalismus)*, 1945; *Between Capitalism and Communism (Zwischen Kapitalismus und Kommunismus)*, 1949; *History of Economic Studies (Geschichte der Wirtschaftswissenschaften)*, 1950; *The Economy and the Cultural System (Wirtschaft und Kultursystem)*, 1955; and *The Downside of the Economic Miracle (Die Kehrseite des Wirtschaftswunders)*, 1961.²²²

2.3.3.5 Alfred Müller-Armack (1901–1978)

Alfred Müller-Armack (1901–1978)²²³ was born on June 28, 1901, in Essen, a city of the Ruhr industrial area. He studied national economics in Gießen, Freiburg, München and Cologne and graduated from university in 1923. As Röpke, he became part of the university staff in 1926 at the University of Cologne at a very young age. Afterwards, by 1932, he succeeded in publishing a paper regarding the principles of

²²⁰ See article and blog Comments “Holzmann—Erst Schröders Rettung dann der Konkurs” in the weekly review FOCUS Money Online: http://www.focus.de/finanzen/news/tid-13685/firmenpleiten-holzmann-erst-schroeders-rettung-dann-der-konkurs_aid_381365.html accessed 30.04.2014.

²²¹ Rüstow (1932), p. 222.

²²² See Deutsche Biographische Enzyklopädie, Vol. 8, p. 617.

²²³ Comp. biographical data in *Deutsche Biographische Enzyklopädie (2007)* Vol. 7, pp. 282–283.

capitalism. He began to teach economics as an extraordinary professor in Cologne in 1934; then, in 1938, he was appointed professor of national economics and sociology at Münster University. There, he also worked in the Centre for Research for Textile, General and Market Economy, which he founded himself in 1940, as well as in the Research Centre for Colonisation and Housing. Given these activities at that time, it appears that Müller-Armack had less to suffer than the other fathers of Social Market Economy at the hands of the dictatorship in Germany.²²⁴

At the University of Cologne, where he was also appointed professor in 1950, he founded the Institute for Economic Policy (Institut für Wirtschaftspolitik)²²⁵ which is still active today under the rotating leadership of a group of professors at the Faculty of Economic Sciences of this university. Between 1952 and 1963, he was also head of the Policy Principles Directorate and then state secretary in the German Ministry of Finance, in charge of European affairs. From 1960, he also occupied for some time the position of president of the Economic Policy Committee of the European Communities. He died in Cologne, on March 16, 1978.

Even though he was **leaning more towards socialising** than towards liberalising the market economy, Müller-Armack is considered one of the representatives of the German neoliberal school and a founding father of Social Market Economy in this country. Once we begin to present his activity and his stance on the matter, we will perceive a difference between two trends within German neoliberalism. They are the *ordoliberal school of thought* in the south-west, in Freiburg, and the *socio-liberal school of thought* in the north-west, in Cologne. The former is based on the work of Eucken and Böhm, who created, at a theoretical level, the society project starting from the ideas of freedom and competition. The latter, based on the work of Müller-Armack and, to a certain extent, Ludwig Erhard, was focused on the idea that the economy must be in the service of the social and national progress, an institutional view on things.

The fact that analysts grouped these schools of thought under the same umbrella of German *ordo*-neoliberalism is not really unjustified. In the first issue of the **Ordo** Jahrbuch in 1948, Müller-Armack published, together with the Freiburg authors, the essay he wrote in Münster under the title “Die Wirtschaftsordnung sozial gesehen” (Economic Order from a Social Perspective). These two schools of thought represent the bulk of neoliberalism in Germany. They spread their message as a reaction to the brutal *laissez-faire* economic liberalism of the nineteenth and the

²²⁴ Compare biographical data in [Deutsche Biographische Enzyklopädie \(2007\)](#), Vol. 7, p. 282.

²²⁵ This institute has scientific prestige throughout Germany, as do many economic institutes in North Rhine Westphalia. It was also headed in 2000 by Prof. Juergen Donges, a former member of the Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung. This council consists of several members academically renowned and is a politically independent forum, founded by law in the early 1960s. It is meant to provide scientific counsel to the federal government on the evolution of Germany's economy. At least once a year, it drafts a report published in November. A director of the institute was also Prof. Andreas Freytag now at the University of Jena.

early twentieth centuries and the failure of the Weimer Republic to uphold a free market economy and democracy before the changes of 1933.

According to many commentators of his work, Müller-Armack took the idea of competition order in the economy, a core element of the Freiburg School, and developed it further under the concept of *Social Market Economy*.²²⁶ Along with this innovation of Müller-Armack shaping an original system of thought comes the beginning of the *socio-liberal school* of Cologne.

Going into some detail, in this respect, he wrote that, the way he saw and wished it to be implemented, the Social Market Economy “is by no means equivalent to simply entrusting everything to the higher productivity of a free organization system. Much more than that, every free system needs complementary safeguarding mechanisms to give it the adequate shape to today’s moral beliefs”.²²⁷ He basically agreed with creating a free order, but did not believe that society could allow itself to be fully governed by free order, so that it could live according to its contemporary beliefs and customs. In order to do so, society needs steering, direction and additional safeguarding mechanisms that can obviously only be provided by the government.

So it cannot be stated to the letter that the system of the Social Market Economy, as it was seen by Müller-Armack, the man who coined the term, is part of the ordoliberal system conceived by the Freiburg School of Thought. There is a difference between the Social Market Economy characterised by steered consensus, invented by Müller-Armack, and the type of free market economy promoted by the Freiburg—influenced ordoliberals. This difference resides not as much in the fact that Müller-Armack interpreted the Freiburg economic credo in his own way, but in the fact that **he adapted it to his own a priori vision of the economy**, the state and the nation. For Eucken and Böhm, the fundament of the entire construct was the idea of defending individual freedom, whereas for Müller-Armack it was the idea of fulfilment of the socio-political goals of the state in the name of the nation. So to sum up, Müller-Armack was more of a “nation builder” than a “freedom fighter”. This maybe explained parts of the reasons why he was still enabled to work within the structures of 1933–1945. Eucken had passed away and could no longer go into polemics with Müller-Armack in the period when the latter was publicising his economic creed, which he was enabled to implement by the influential political position he held with the German Ministry of the Economy. Not long afterwards, Franz Böhm and Friedrich August von Hayek distanced themselves (apparently in a polite way) from Alfred Müller-Armack.

As early as 1929, even before John Maynard Keynes, Müller-Armack spoke out in his publications on the politics of business cycles, in favour of active policy-driven business cycles to be led by the government. On the other hand, he is aware

²²⁶ See Lange-von Kulessa and Renner, 1998, pp. 79–ff.

²²⁷ See Müller-Armack (1950), p. 431: “. . . keineswegs gleichbedeutend ist mit einem einfachen Sichverlassen auf die überlegene Produktivität einer freien Organization [. . .] Vielmehr bedarf jede freie Ordnung dazukommender Sicherungen, um ihr eine den heutigen sittlichen Überzeugungen entsprechende Gestalt zu geben. . .”.

of the fact that, once inside the vicious circle of government interference in the economy, the state will never be able to free itself from it: “It is a mistake of the interventionist system. . . getting itself involved in a process, in which the situation requires continuing further intervention”.²²⁸

His views on the economy are influenced by his social and political views on the state. For the Freiburg élite, more prone to western Anglo-Saxon thought, society as an autonomous entity does not really exist in itself, except within the mental framework for analysis and observation; society, to them, is a sum of individuals. But for Müller-Armack, society is an independent, self-defined entity, regardless of the existence of the individuals that form it, with its own vitality, dynamics, problems and conflicts.

Still, Müller-Armack remained convinced of the necessity of keeping the market economy, but making it in such a way that government intervention be allowed in principle and be a sort of style of implementation. To him, ideal economic policy means taking those measures which ensure a social objective, without interfering with market mechanisms. The style of conforming intervention to the free market may be left undefined for the purpose of adapting it accordingly in extreme cases. In applied economic policy, focusing on the approaches that take market function into account, but not necessarily secure it at any cost, may be sufficient.

It is apparent thus that Müller-Armack does not have primarily liberal beliefs. He deals mainly with the task of defining mechanisms which are to help with the application of economic policy. And exactly this type of work for “defining mechanisms” is specifically German. Therefore, the origin of the Social Market Economy is strongly based in Germany, even though it has in its components many “imported” beliefs.

It is still to be judged in which countries the Social Market Economy can be implemented as long as it is primarily a “style” of political economy pursuing national development processes with formative principles, as Müller-Armack repeatedly wrote. As we know from intercultural communication methods, the economic policy “style” in Portugal or Italy or Greece is quite different to the style in Germany and, say, Scandinavian countries. Still, it is probably better to have introduced the term in the Treaty on European Union from Lisbon,²²⁹ than not to have done it at all and leaving the spirit governing economic policy at union level to be inexplicitly dominated by neoliberal clichés coming mainly from the USA. But even if introduced, it is not really possible to apply it practically to the Single Market in the same manner in all regions of the union.

In the post-1945 debates over the direction Germany had to take in order to rebuild, Müller-Armack pleaded for a two-stage approach. The first stage, proposed initially for the 1946–1958 interval, would have to be dominated by

²²⁸ See Lange-von Kulessa and Renner (1998), p. 82: “Es ist ein Fehler des Interventionssystems. . . daß er sich selbst in einem Prozeß hineinmanövriert, in dem die Situation immer weiteres Intervenieren erforderlich macht”.

²²⁹ See the Art. 3 (3) of Treaty of Lisbon on European Union accessible at <http://eur-lex.europa.eu/>.

entrepreneurship and ordoliberal market economy. In this stage, the acute need for goods, merchandise and services in the immediate post-war age had to be eliminated; a functional mechanism of pricing, competition and basic institutions, such as the Central Bank, would have to be established. In order for the country to successfully get through this stage, Müller-Armack supported the Freiburg School's concept of order based on freedom and competition, as he believed this system was more productive (at least in terms of monetary results) than any other. But in the second stage, because this freedom system gradually becomes highly corrosive of the social consensus, social justice and social peace, the highest priority had to be set for the social redistribution of income and to prioritise the nation building. This second stage was to occur after a reformulation of the basic principles of the economic system.

Müller-Armack envisaged a possible transformation of government objectives. The problem of the production of sufficient goods and supply to the population was satisfactorily resolved by the mid-1950s. Once this stage of a functional economy is reached, where there is a constant surplus of goods, a shift in policy, i.e. an extra step, has to be taken in order to solve other, nobler social issues, which are beyond basic supply. It is precisely at this point that Müller-Armack distanced himself from the Freiburg neoliberalism. The state, he believed, should be in charge of eliminating the negative consequences of industrialisation on people and the environment, or of developing transport facilities at high social costs and so on. Ludwig Erhard, then German Minister of the Economy, appointed him State Secretary within his ministry and gave him the possibility of influencing West German economic policy in a tangible way. Once on the job, Müller-Armack wanted to achieve that "after production problems are solved within an economy with full employment, there is a shift in the tasks of the Social Market Economy. In future it must be understood as politics of a free society".²³⁰ He believed it to be the duty of neoliberal doctrine and its representatives to transform the free market economy, at a certain point in its evolution, into the Social Market Economy.

As German Secretary of State in the Federal Ministry of Finance, Müller-Armack wrote: "As liberalism becomes more openly aware of the specificities of its own position and more willing to fully approve of the social critique of socialism as its main goal, as it becomes more aware of the necessity to diagnose our times through the full width of the Christian ideology, it will be more and more compelled by its limitations to get the other view points acquainted with the social instruments of a social policy based on the key notion of market economy... This refers to that instrumental opportunity which became apparent again of transforming the market economy into a <Social Market Economy>".²³¹ It is encouraging to see that there

²³⁰ See Müller-Armack (1960), p. 77: "...Nach der Lösung der Produktionsprobleme im Rahmen einer vollbeschäftigten Wirtschaft, verschiebt sich der Aufgabenbereich der Sozialen Marktwirtschaft. Sie muß künftig als Politik einer freien Gesellschaft begriffen werden...".

²³¹ See Müller-Armack (1950), p. 431: "Gerade je mehr sich der Liberalismus offen der Partikularität seiner eigenen Position bewußt wird und bereit ist, die soziale Kritik des Sozialismus als sein Anliegen voll anzuerkennen und um die Notwendigkeit weiss, die Diagnose unserer Zeit

existed times when public persons and even national ministers had the ability and boldness to think and write about the fundamentals underlying the problems to solve.

Later, though, after the first oil crisis in 1971–1973, and after the accumulation of a series of interventions and populist measures taken in Germany in the 3 or 4 years after 1969, resulting in an increase in unemployment, Müller-Armack backed off from his socially oriented ideas. This happened when he saw that the functioning market economy was threatened by excessive socialist distributionist measures that weakened the companies' investment power, rendering them unable to create new jobs by developing new products. It was the time when the Western democracies were looking at and trying to implement experimental measures which they saw within the Soviet bloc. This is to be seen not only in economic policies but also in architecture and not only in Germany but even in the UK where high blocks of houses were built after having torn down classical nineteenth-century and interwar architectural buildings. Similarly, Soviet bloc economies were also doing experiments in some of their industrial sectors as to whether market economy really is more productive than centralised socialist economies. It was the time of the political spring of 1968. In 1973 Müller-Armack admitted that these successive measures involving subsidies and the beginning of the policy of spending in deficit by Western states which were following the US example, normally allowed in the second stage of economic evolution, led to a situation where “the framework of the political and economic order of the Social Market Economy was modified to such an extent in the last 5 years, that the trust of entrepreneurial forces from Federal Republic in our political and economic future was shaken . . . (and led to an economic recession with—o.n.) . . . the advancement of democratic socialism”.²³² He therefore felt compelled to propose a solution for this situation. With this solution, he, temporarily at least, renounced the second stage of Social Market Economy and demanded “the clean-up of the general regulation framework of the economic policy here, in the sense of setting free the economic forces of the market (through, o.n.) a clear rejection of the manifold forms of anti-market market economy in the sense of democratic socialism”.²³³ In order to get a feel on how Müller-Armack reasoned back then in the early 1970s, and on this turn away from the second stage of the Social Market Economy, imagine that he may have argued

aus der vollen Weite des christlichen Weltbildes zu vollziehen, wird er in dieser Begrenzung um so mehr verpflichtet sein, das soziale Instrumentarium einer auf dem Ordnungsgedanken der Marktwirtschaft aufbauenden Sozialpolitik auch den übrigen Standpunkten nahe zu bringen [. . .] Es handelt sich um jene uns heute wieder sichtbar gewordene instrumentale Möglichkeit, die Marktwirtschaft [. . .] zu einer «Sozialen Marktwirtschaft» umzugestalten. . .”.

²³² See Müller-Armack (1975), p. 9: “Der wirtschaftspolitische Ordnungsrahmen der Sozialen Marktwirtschaft wurde in den letzten fünf Jahren derart verändert, daß das Vertrauen der unternehmerischen Kräfte in der Bundesrepublik in unsere wirtschaftspolitische Zukunft erschüttert wurde (. . .) das Vordringen des demokratischen Sozialismus”.

²³³ See Müller-Armack (1975), pp. 15–16: “Bereinigung des hier allgemeinen wirtschaftspolitischen Ordnungsrahmens in der Richtung der Freisetzung der ökonomischen Marktkräfte (. . .) eine klare Absage an die vielfältigen Formen einer antimarktwirtschaftlichen Marktwirtschaft im Sinne des demokratischen Sozialismus”.

in 2008 that several of the German banks like the KfW or the WestLB should have been left to go bankrupt, just like the US government did with Lehman Brothers (albeit at that time administering lots of European based capital).

Müller-Armack was criticised by many of his contemporaries for advocating the second stage, so he backed down time and again and acknowledged repeatedly that the intensity of government interference needs to be reduced, so as not to affect the functioning of the markets, when productive economy is excessively controlled and there is a danger of dirigisme. It is obvious thus that Müller-Armack tended to give the state a paternalist function, possibly derived from Catholic Social Teachings. Since he never worked in the private sector, only in education, research and administration, he probably did not have a feeling on how to take microeconomic planning into account. Had he had that experience, he might have seen that the essence of a company's functioning is that it automatically changes its market strategy the instant its managers notice that there is arbitrary and random outside interference from the government on the market and in the economic policies pursued by that very government, as the company's sole purpose is to make profit from high income at low costs. When government intervention becomes public news, for instance, when the government bails out a competitor from bankruptcy, a company will no longer make as much effort as to seek the best production and marketing strategies; any effort to fight its competition would be in vain, since the company will be saved by the government's safety net. After all, applying the safety net, government intervention buys the saving of jobs and of a company name at the cost of doing at least three bad things: it will distort the functioning of the market economy in the sector, it will de-motivate the saved company from doing its best by saving itself via pursuing the required structural changes to survive on its own on the market and it will encourage a drop in its productivity and product quality. Whether this is worth it or not is ultimately a political decision.

All of Müller-Armack's social and necessary state intervention theories are like a self-sufficient package of ideas and beliefs. He gave this package an original title: **Social Irenics (Soziale Irenik)**. This means that politics is in charge of conveying a certain world vision to the population, i.e. educating the population in a specific philosophical direction and making sure that the choices individuals make are as close to this vision as possible. It is an important job of the state to reconcile the various views of various social groups and the various theories on nation, historical evolution and economic approach. "Irenic understanding means bringing together the different points of view".²³⁴ And this is basically a systematic procedure which has several of the aspects of a political process which in other countries is called "nation building". So Müller-Armack seems to have been more of a national politician using economics as a tool, rather than an economist.

In his studies, he analysed in detail the views on society and economy of the Catholic Social Teachings, then the Protestant–Evangelical social ethics and the

²³⁴ See Müller-Armack (1950), p. 431: "irenisches Verständnis bedeutet doch eine Annäherung der verschiedenen Standpunkte".

socialist and socio-liberal theory and tried to find a model of society that reconciled all of these theories as much as possible. This is again the well-known German tendency of being inclined to give great importance to the peaceful and integrative consensus of ideas, to community life and to solidarity by taking on board all schools of thought. It is a noble integrationist and pacifist vision, wishing to please everyone, but ignoring the fact that any integration, willed though it may be, leads to the loss of individual identity. On the other hand, this tendency towards peacefulness tends to be opposite to the known outbursts of militarism in Germany's past.

In his writings, Müller-Armack dealt not only with economics and social policy, with the environment (human and natural—in the physical sense), but also with financial policy. On the latter he wrote that: “currency stability is one of the indispensable prerequisites in a free society”. Then, he also touched upon territorial development and planning: “The hitherto pursued policy of building planning, has so far been regarded from the stand-point of industrial dispersal and needs now a shift towards configuring the social environment”. Here, he meant that “a crucial stabilising factor of the environment is to be seen in an institutionalised ensuring of full employment and of expansion by an institutionalised national and international business cycle policy”.²³⁵ It is obvious that here Müller-Armack joined forces not only with Ludwig Erhard, but also with the creators of the Euro, with German export support policies and he contributes with political ideas for supporting European economic diplomacy interests.

However, Müller-Armack did not seem to have specified whether full employment is a real target to be achieved, or is just the ideal state of the labour force to be pursued by government policy, but with the awareness that in no market economy is (statistical) full employment tenable over longer periods of time than a couple of months.

The concern with the environment in Germany appeared as early as Müller-Armack's age, as one of the uniquely specific elements of the Social Market Economy in Germany. Considering the worldwide climate changes in the last four decades, Müller-Armack's conception on the environment might become internationally popular, even if it does not place the degree of freedom of the individual inside a market economy in the first place.

Because he attempted to have a holistic approach when dealing with issues, as opposed to the other ordoliberals, Müller-Armack's manner of expressing himself is tortuous, as seen above. He wished to cover all fields of concern by combining Anglo-Saxon ideas, corporate notions and Christian concepts with ideas of the German Historical School and national policy interests.

²³⁵ See Müller-Armack (1960) p. 77: “. . .Die Stabilität der Währung gehört zu den in einer freien Gesellschaft unentbehrlichen Voraussetzungen”. And p. 78: “. . .Die bisherige Raumpolitik, die wesentlich unter dem Gesichtspunkte der Industrieverteilung gesehen wurde, bedarf einer Veränderung in Richtung einer Gestaltung der gesellschaftlichen Umwelt. . .”. And again p. 77: “. . .Ein wesentlicher Stabilisator der Umweltform ist in einer institutionellen Sicherung von Vollbeschäftigung und Stetigkeit der Expansion durch eine institutionalisierte nationale und internationale Konjunkturpolitik zu sehen. . .”.

To Müller-Armack, the economy is subordinated to society and national politics; it is one of the many means through which national progress is achieved. He could be looked upon as more of a multilaterally and systemically minded national strategist than an economist. Still, he does not go near foreign policy, a field of national interest par excellence. Integrating economic policy and foreign policy was an accomplishment that belonged, in post-war Germany, mainly to Ludwig Erhard.

The main writings of Alfred Müller-Armack are *The Genealogy of Economic Styles (Genealogie der Wirtschaftsstile)*, 1941; *Directing Economic Life and Market Economy (Wirtschaftslenkung und Marktwirtschaft)*, 1947; *Religion and Economy (Religion und Wirtschaft)*, 1959; *Economic Order and Economic Policy (Wirtschaftsordnung und Wirtschaftspolitik)*, 1966; and *The Road to Europe: Memories and Perspectives (Auf dem Weg nach Europa: Erinnerungen und Ausblicke)*, 1971.²³⁶

2.3.3.6 Carl Goerdeler (1884–1945)

Carl Goerdeler (1884–1945) can be seen to an important extent as Erhard's predecessor. He was born on that former German territory which is today in Poland. He was trained as a lawyer and was mayor of Leipzig between 1930 and 1937 and Commissioner of the Reich for Price Formation between 1931 and 1932.²³⁷ He appears to have been a liberal but a revisionist (of the Versailles Peace Treaty), extremely concerned with returning German and Eastern European borders to their pre-1914 state. He wanted to cancel the borderlines which, in his opinion, were imposed on Germany and Eastern Europe by the Treaty of Versailles. His strong revisionist views pushed him to first collaborate with the NSDAP regime and even with Hermann Göring personally. However, his balanced thinking eventually led him to distance himself from the Nazis and their politics by when it became obvious that Germany would lose the two-front and "total war" as propaganda minister Goebbels had put and into which the Nazis had dragged the country after the disaster of Stalingrad of November 1942.

So, beginning in 1943, along with Ludwig Bech and Ulrich von Hassell, although somewhat late to be fully judged a dissident, Goerdeler built up a resistance group against Hitler. He was in favour of non-violent resistance, so he had conflicting views with other members of the group of the "militants", meaning Count von Stauffenberg, who was resolute to carrying out the attack on Hitler personally. After the failed attack in July 20, 1944, Goerdeler was arrested too, and in spite of his pacifism, he was sentenced to death by a Reich Tribunal and executed on February 2, 1945.²³⁸

²³⁶ Comp. his publication list in the [Deutsche Biographische Enzyklopädie \(2007\)](#) Vol. 7, pp. 282–283, where additional titles are listed.

²³⁷ Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2006\)](#) Vol. 3, p. 888.

²³⁸ Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2006\)](#) Vol. 3, p. 888.

His economic convictions were mainly liberal, as freedom was to him the number one value that came with a price of its own: responsibility. At least this is how his biographers like to see him, not only because he dared challenge “the Führer” but probably because political patriarchs and reference personalities are needed for the dark period of German history from 1939 to 1945. Goerdeler appeared to have believed that human accomplishment is owed to taking individual responsibility: “The third fundamental is the awareness that man accomplishes the more, the more those results of his work have an impact on his fate. It is only when the lazy feels his failure and when the hardworking feels his success as defining factor of their lives. . . that maximum results are accomplished. Therefore, the most flourishing economy will be the one in which the state leaves as many risks as possible to the individual and itself takes over as few risks as possible”.²³⁹ Obviously, this type of social style and view on political philosophy did not well match the style in which the Nazis had run Germany, and sooner or later, Goerdeler had to come in conflict with them.

Goerdeler was concerned with finding an economic system and the principles that, after the end of the war, could bring wealth to Germany. Today, when Germany is one of the most affluent countries in the world, this quest seems superfluous, but at that time it was certainly not. We should not forget that after 1918 and until 1933, Germany was a relatively poor country in Europe, having lost most of its overseas resources and financial assets to war reparations and much of its labour force to the winners in Eastern Europe (Czechoslovakia, Romania, Yugoslavia, known as The Little Entente). After 1933 came the Nazi dictatorship and the horrors of the war. So at least until the “Deutsches Wirtschaftswunder” took hold of the country following the economic and monetary reform of 1948, Germany had needed politicians who attempted to improve social and economic life in the country. These were the “Fathers of the Social Market Economy” to whom contemporary German social market economists like to count Mayor Goerdeler as well.

Once the collectivist and centralised economic system established by Hitler in Germany (as well as by other dictators in other countries, such as the USSR at that time) would be over, Goerdeler proposed austerity measures and the stimulation of savings, by the population as well as by companies, in order to ensure the capital required for stable investment cycles: “the harder and more modestly we work, meaning the more we accomplish without making [consumption] demands, the sooner we shall emerge from the current situation resulted after the First World War, from the diktat of Versailles and its consequences, from the deviances, from

²³⁹ See Goerdeler (1941), p. 13: “Dritte Grundlage ist die Erkenntnis, daß der Mensch um so mehr leistet, je klarer das Ergebnis seiner Leistung sein eigenes Schicksal bestimmt. Nur wenn der Faule den Mißerfolg, der Fleißige den Erfolg als Gestalter seines Lebens empfindet. . . wird höchste Leistung geboren. Daraus folgt, daß die Wirtschaft am blühendsten wird, in der der Staat oder ein anderer Zusammenschluß dem einzelnen möglichst viel Risiken beläßt und möglichst wenig Risiken abnimmt”.

the mismanagement of the last few years and from the poverty caused by the war”.²⁴⁰ While savings capitalism is definitely healthy from a moral point of view but neglects consumption (by domestic or foreign markets) in the long run, it is not really viable. Therefore, Goerdeler himself too tends to be a politician trying to help politically his country out of a deadlock.

It is not just capital and work that are important in Goerdeler’s view, but also competition. When he wrote that “the biggest accomplishment can only be reached through struggle. Inside the economy, struggle means competition”,²⁴¹ he became a believer in the principle of competition in a similar way to Böhm and Erhard. Here, we clearly see that the political identity of the German people as creators of the market economy also targets “the sky as the limit”, just as the US free market liberalism does. Thus, Germany created a system which aspires to global leadership.

As far as academic theory and as personal relationships go, within the group of the founding fathers of the Social Market Economy in Germany, Goerdeler was closest to Erhard. In his political testament, he legitimised Erhard in front of the Allies and in front of the German people. In those days, right after the end of the Second World War, Germany needed people who were “clean and untainted” by collaboration with the Nazi regime, which Goerdeler himself was not, in order to build a new future. Those people were to be those persecuted and exiled by the regime. After the attack on the Führer and until August 11, 1944, when Goerdeler himself was caught and arrested, he secretly wrote his propositions for emergence from the Nazi economic quagmire. The title of these writings was “The Tasks of the German Future” (*Die Aufgaben der deutschen Zukunft*). In this text, he recommended Ludwig Erhard as a man with the ability to successfully participate in leading Germany on the right path into the future. “Dr. Erhardt (sic!) of the Nürnberg Research Institute of the German Industry wrote a very good paper on the matter of [war—n.a.] debt, with which I agree in its main aspects. He will provide you with good counsel”.²⁴² With such a recommendation providing legitimacy from a man who paid with his life for his resistance against the dictatorship, Erhard’s start in post-Nazi German politics was consolidated.

²⁴⁰ See Goerdeler (1941), p. 13: “Aus der jetzigen, durch den Ersten Weltkrieg, das Diktat von Versailles, seine Folgewirkungen, Irrtümer, die Mißwirtschaft der letzten Jahre und den Krieg bedingten Verarmung, kommen wir um so schneller heraus, je härter und bescheidener wir arbeiten, d.h. je mehr wir anspruchslos leisten”.

²⁴¹ See Goerdeler (1941), p. 13: “höchste Leistung nur im Kampf erzielt werden kann. In der Wirtschaft ist Kampf gleich Wettbewerb”.

²⁴² See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 8: “Dr. Erhardt (sic!) vom Forschungsinstitut der Deutschen Industrie in Nürnberg, hat über die Behandlung dieser Schulden eine sehr gute Arbeit geschrieben, der ich im wesentlichen beistimme. Er wird Euch gut beraten”. Karl Hohmann was Erhard’s personal adviser with the German Ministry of Finance and with the Federal Chancellery. Also reproduced in Völklein, 1997, p. 25.

2.3.3.7 Ludwig Wilhelm Erhard (1897–1977)

Ludwig Wilhelm Erhard (1897–1977) was born on February 4, 1897, in the small town of Fürth, near Nürnberg, in Bavaria. His father Philipp was a small merchant owning a shop in the town centre. His mother Augusta Anna, born Hassold, was the daughter of a craftsman in that town. Ludwig had a sister and two brothers. At the age of two, he fell ill with spinal anaemia, which almost cost him his life. It was only his mother's love and care that saved him, but the consequences on his health remained: his right foot was severely deformed, an invalidity which was to stay with him for the rest of his life.²⁴³ Often, it is like this with many political personalities: either they inherit some difficult personal circumstances (e.g. small stature like Napoleon) or they have some illnesses which mark them and motivate them providing them with much higher achievement drives than others.

The Catholic father and Protestant mother raised Ludwig as Protestant, probably because, in those days, a Catholic man's marriage to a Protestant woman meant immediate excommunication from the Catholic Church. In Fürth, along with Catholics and Protestants and immigrants from France and the Netherlands, there also lived many Jews who had been cast out from Nürnberg, a Western European Christian practice dating back to the early Middle Ages. This mix of nationalities and faiths made Fürth a blooming little trade and crafts town and Ludwig was used to a multicultural and tolerant society from a very young age.

Fürth is the home town of other famous personalities of the twentieth century: the American diplomat of Jewish descent Henry Kissinger, industrialist Max Grundig and union leader Hans Böckler, founder of the DGB (Confederation of German Trade Unions).²⁴⁴

After graduating from the Protestant school in his home town and a brief apprenticeship as a textiles merchant in Nürnberg, in 1916 Ludwig Erhard was sent to war with the 22nd Royal Artillery Bavarian Regiment. He first fought in France, then on the Romanian front and, in the last year, in Flanders. He returned home at the end of the war after having fallen ill with fever in Romania and being injured in Flanders; he consequently had to spend several months convalescing in hospitals. This way, he realised that he could never reach his initial goal of running his father's business. Therefore, he joined the newly founded College of Commerce in Nürnberg. From there he graduated in 1922 with a commercial clerk degree (Dipl.—Kaufmann).²⁴⁵

As Nürnberg no longer satisfied him, he tried and managed to join the University of Frankfurt am Main to study economic theory. One of his professors there was Franz Oppenheimer who, as Chancellor Erhard later stated in a speech held at the

²⁴³ Comp. biographical data in [Deutsche Biographische Enzyklopädie \(2006\)](#) Vol. 3, pp. 116–117 written by Johannes Bähr and in Völklein (1997) pp. 8–25.

²⁴⁴ Comp. Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 4.

²⁴⁵ Comp. biographical data on Ludwig Erhard in [Deutsche Biographische Enzyklopädie \(2006\)](#) Vol. 3, p 116–117, and Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), pp. 4–5.

Freie Universität in Berlin on April 20, 1964, “taught me to think scientifically, with strict inner discipline, and for that I am still grateful today”.²⁴⁶ Under Oppenheimer’s tutorship, Erhard obtained his doctorate in 1925 with a dissertation that was more on philosophy than on economics, *The Essence and Content of the Unit of Value*. It appears that Oppenheimer was the one who first brought Erhard, as well as Rüstow, in contact with liberal socialism. Oppenheimer, close to the non-Marxist wing of the social democrats, proposed a critique of Karl Marx’s ideas in the academic world. We should not forget that at that time Marx’s ideas were still popular in Western Europe, and many scientists were starting to watch the developments in the then first communist–socialist-declared country of the world, the Soviet Union.

The soaring inflation of the early 1920s led Ludwig father’s business into bankruptcy, so in 1928, Ludwig took a job as an expert with the Institute for Economic Surveillance (Institut für Wirtschaftsbeobachtung) in Nürnberg. There, he worked directly with the German pioneer in research of market mechanisms, Wilhelm Vershofen, whose assistant Erhard was during his 14 years there. Working in the institute and learning some lessons out of the Great Depression in 1929–1933 through his own experience, he became interested in the economic and monetary policy of the Reich’s government. The depression had led to a doubling of unemployment, with six million people losing their jobs, and to the bankruptcy of thousands of companies.²⁴⁷ This was a time when, because of the economic instability and the big changes in the international security architecture of post-First World War Europe, many Germans leaned either to the extreme left or to the extreme right.

Erhard’s leg handicap and the injuries he suffered in the Great War spared him from participating actively in the military in the Second World War, so he remained in Germany. He appeared not to agree with National Socialist policies. The fact that he refused to join the National Socialist Association of Doctors of Science might be a reason to believe his dissidence was genuine. Later, because of this and because of tensions arising between him and his boss Vershofen, he resigned from the institute in 1943.²⁴⁸

Together with a group of friends, he founded the Institute for Industry Research in Nürnberg (Institut für Industrieforschung). He became more and more concerned with determining the real, unmasked by Nazi propaganda, consequences of the war on Germany. These preoccupations entailed a set of clandestine discussions with a circle of opponents of the regime, among which was Carl Goerdeler. During this time, Erhard wrote several papers. One of them, the one mentioned by Goerdeler

²⁴⁶ See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 5: “wissenschaftlich Denken gelehrt in straffer innerer Zucht hat mich Franz Oppenheimer und das danke ich ihm noch heute”.

²⁴⁷ Comp. biographical data in *Deutsche Biographische Enzyklopädie* (2006) Vol. 3, pp. 116–117; Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 6; and Völklein (1997) pp. 8–25.

²⁴⁸ See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997) p. 7. Further biographical data are in *Deutsche Biographische Enzyklopädie* (2006) Vol. 3, pp. 116–117, and Völklein (1997) pp. 8–25.

above, was written in secret in 1944 at the institute he founded in Nürnberg. Its title was *War Financing and Debt Consolidation*. It was not published until 1972.²⁴⁹

Later, the situation after April 1945 was in no way simple; considerable material destruction was added to the effects of the institutional system's crash and the population's widespread mistrust in the new authorities.²⁵⁰ Along with the destruction the economy and the industry suffered; industrial machinery was also dismantled and forcibly exported to other countries. It is presumably here that we have to mention that Germany had bought from Romania not only oil for the war machinery on the Eastern front but also food for the civilian population and also for the population interned in the forced labour camps. With the drop of Romania out of its anti-Communist and anti-Soviet alliance with Nazi Germany by the arrest of Marshal Ion Antonescu on August 23, 1944, the Romanian food deliveries to Germany were severed and apparently there had been some debt of Germany accumulated towards the Romanian Central Bank.²⁵¹ It is presumably also the stop of these food deliveries which had negative effects not only on the nourishment of the civilian population but also on the labour camp population as well. So by the time the Allies arrived, they found the horrible situation in the labour concentration camps and among the civilian population.

When the Americans took over Fürth in 1945, probably given the recommendations he already had from personalities like Goerdeler, Erhard is entrusted with getting the town's economy in motion. They were pleased that the results were good, so in October 1945, they appointed him **Minister of Trade and Crafts in the Bavarian Government**. There, his work consisted of managing the lack of merchandise, distributing food ration coupons, ensuring a minimal consistency in food supply for the population and other similar tasks.²⁵²

Unlike most native Germans, Erhard had an expansive personality, so he could not conform to repetitive, administrative work. He got into some work conflicts, and after the elections to the Landtag of 1946, he lost his job.

As many other dozens of intellectuals, he dedicated his newly free time entirely to sketching and a plan of economic and monetary reform for implementing in a new and united Germany. With implicit American approval and support, he started

²⁴⁹ See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 7.

²⁵⁰ Comp. Deutscher Bundestag (Hg.) (1996), pp. 318–323.

²⁵¹ According to assertions in August 2010 of the Romanian economist Radu Golban living in Basel, Switzerland, the German Reichsbank had bought from the Romanian state, via the Central Bank of Romania, amounts of food which were delivered to Germany. It paid for these by issuing treasury bonds which the Romanian Central Bank took in order to cover its payment of merchandise to the Romanian agricultural suppliers. Apparently, this German debt amounting to cumulated over 1.2 billion Reichsmark in 1944 (value 1944) was not yet paid to the Romanian Central Bank. See article on the online news site Hotnews.ro published on August 21, 2010, at 7:04 am: http://economie.hotnews.ro/stiri-finante_banci-7713587-radu-golban-cel-care-descoperit-datoria-germaniei-catre-bnr-dacanu-crede-posibilitatea-recuperarii-acestor-bani-nu-angajat-acest-demers.htm.

²⁵² Further biographical data are in *Deutsche Biographische Enzyklopädie* (2006) Vol. 3, 116–117; Völklein (1997) pp. 8–25; and Hohmann and Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 8.

his own public campaign to convince public opinion of the necessity of implementing his reform project in all occupied areas.²⁵³ He wrote 12 long articles in *Die Neue Zeitung* (*The New Journal*), a liberally oriented paper, published by the American military government between September 1946 and March 1948.²⁵⁴ He dealt with fundamental economic and monetary matters in view of German reconstruction and its adaptation to the new institutional conditions created by the post-war order.

Erhard was given a green light by the Americans and he was appointed in March 2, 1948, **Director of Economic Administration (Direktor der Verwaltung für Wirtschaft)** with responsibilities over the US, British and French zones. This is how his political career at federal level took its start. He began right after holding his platform address in front of the Council of the United Economic Zones on April 21, 1948; in his speech he argued that only a full reform, backed by the Marshall plan, was the key to economic reconstruction in Germany.²⁵⁵ After the address, his relations with his rival within the CDU, the then president of the CDU for the British zone, Konrad Adenauer began to improve. Adenauer was preparing for the general elections in 1949 and invited him to present his economic platform in front of the General Assembly of the CDU in the British Zone, on August 28, 1948, at Recklinghausen (in the Rhine-Ruhr area). Erhard's speech at Recklinghausen convinced Adenauer, the head of the new CDU, and a number of other Christian-Democratic representatives as well.²⁵⁶ He succeeded to gain political support within a majority in the CDU for the monetary reform in June 20, 1948, which had already started and for Germany embarked on the free market economy course.

Some opposition to adopting a market economy still remained in the CDU and especially in the SPD. The latter were in favour of maintaining a centralised economy. But since Adenauer by now supported him, the lots were drawn and he could proceed with initiatives for building a new legislative and institutional construct.

Erhard's philosophical and economic views may be summarised in three main principles: a philosophical one, Anglo-Saxon-style individual freedom; a socio-political one, building a "formed society" through political means; and an economic principle, monetary stability. These three elements complete each other, forming an autonomous whole for Ludwig Erhard.

In 1957 he summarises his programme by saying: "The meaning of more prosperity, the way I understand it, is of opening up perspectives for a richer, better, freer life and thus for bringing up new perspectives of life for every individual. Everything more that can be obtained in the field of education, schooling, professional training,

²⁵³ These zones were American in the South and Centre, British in the North and North-West and French in the West and South-West, as we can see in map 30.1, p. 965 in McKay et al. (1991).

²⁵⁴ Hohmann and Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997) p. 9 and Völkein (1997) pp. 8–25.

²⁵⁵ Comp. Völkein (1997), p. 32, and Wünsche (Red.), Ludwig-Erhard-Stiftung (1996), pp. 95–119. For Erhard's political speeches and relevant publications across his career, see Wünsche (Red.), Ludwig-Erhard-Stiftung (1996).

²⁵⁶ Comp. Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997) pp. 12–13.

all that can enrich us through the application of science and knowledge, all that can open us for the values of arts, culture and the spirit, all that can help restore us and to our inner balance, all this belongs to the wide spectrum of providing for human needs and, for that reason, belongs in an economic analysis, because all of it is not something given to us, but something that has to be worked out”.²⁵⁷

For Erhard, industrial production is simply a means of reaching political goals, which are considered higher. Like Müller-Armack, Erhard is primarily a national politician and less an economist or an academic. At the CDU congress in April 1960, he stated that industrial production “It is about finding towards a humanising in all areas of life and especially in the economy”.²⁵⁸ With this statement, he distanced himself from the ordoliberal school of Freiburg, by postulating a more social and national orientation, similar to the one of the socio-liberal school of Cologne and of Müller-Armack.

Nonetheless Erhard remained a liberal as he repeatedly ranked individual freedom among the most important values and principles. In his famous book *Prosperity for All (Wohlstand für Alle)*, published for the first time in 1957, he goes into detail and declares that the grounds on which prosperity can be built in a society are primarily the ensuring of the freedom for every citizen. In the chapter called *The Fundamental Economic Rights* he wrote: “in every citizen’s individual conscience, the freedom of consumption and the freedom of performing an economic activity should be perceived as fundamental, uncontested rights [meaning, o.n.] the freedom of every citizen to consume, build his life with the financial means he has at his disposal, according to his personal desires and expectations. This fundamental democratic right of freedom of consumption has to find its logical complementarity in the freedom of the entrepreneur to produce or sell that what he believes to be necessary according and successful out of the expression of the needs of all the individuals”.²⁵⁹

²⁵⁷ See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 31: “Der Sinn von “mehr Wohlstand”, wie ich ihn verstehe, ist der, dem einzelnen reichere, bessere und freiere Lebensmöglichkeiten und damit überhaupt neue Perspektiven der Lebensführung zu eröffnen. Alles, was auf dem Gebiet der Erziehung, der Schulung, der Bildung an Mehr gewonnen werden kann, was durch Wissen und Erkenntnis uns zu bereichern vermag, was uns für Werte und Werke der Kunst, der Kultur und des Geistes aufgeschlossen sein läßt, was an echter Muße und Erholung uns zu innerer Ausgewogenheit verhelfen kann—das alles gehört in die weitgespannte Skala menschlicher Bedarfsdeckung, und es gehört in eine wirtschaftliche Betrachtung dazu, weil uns das alles ja auch nicht geschenkt wird, sondern erarbeitet werden muß”.

²⁵⁸ See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 26: “Es geht darum, zu einer Vermenschlichung in allen Lebensbereichen und im besonderen innerhalb des Wirtschafts-geschehens hinzufinden”. Comp. Müller-Armack (1973), pp. 15–ff.

²⁵⁹ See Erhard (1964), p. 14: “Konsumfreiheit und die Freiheit der wirtschaftlichen Betätigung müssen in dem Bewusstsein jedes Staatsbürgers als *unantastbare Grundrechte* empfunden werden (...) die Freiheit jedes Staatsbürgers [...] das zu konsumieren, sein Leben so zu gestalten, wie dies im Rahmen der finanziellen Verfügbarkeiten den persönlichen Wünschen und Vorstellungen des Einzelnen entspricht. Dieses demokratische Grundrecht der Konsumfreiheit muß seine logische Ergänzung in der Freiheit des Unternehmers finden, das zu produzieren oder zu vertreiben, was er (...) aus den Äußerungen der Bedürfnisse aller Individuen als notwendig und erfolgsversprechend erachtet”.

Now, going into more detail by looking at the fact that Erhard proposes to the Germans a “Social Market Economy” and not a “free” or “ordo” market economy, we will notice that this proposal is based on psychological observations regarding the national inclination towards having a high regard for social aspects and on the attention given in society to justice in the sense “. . .that individual parts of the population do not enrich themselves on the back of other. . .”.²⁶⁰ Because of this and also his belief in freedom, Erhard appears to be sure of the coherence of his proposed economic system. When the great economist Friedrich August von Hayek personally criticises Erhard for adding the term “social” to the name of the market economy system in Germany, the latter liked to reply that any market economy is social. Here, he believed that the natural fruit of true freedom is socialisation and homogenisation. Whether it was social by effect of good market economy policies and not by purpose of social policy was left unclear in dialogues with von Hayek.

Ludwig Erhard was not only preoccupied with a functional production-based economy, which, on its own, was insufficient to the functioning of society. He therefore claimed that “a new life style for our lives” was needed as well, and that “production growth is pointless on its own [because] we are slipping into a hunt for material values [but] thinking highly of our neighbour [is important because—n.a.] material gains are not the limit of wisdom nor the only purpose of life”.²⁶¹ At this point, the junction with the second pillar of his theory, the “formed society” is produced. Unfortunately, today in the second decade of the twenty-first century, we see again that the Social Market Economy is not applied correctly in Germany, its home base. Most individuals at the work place are lately excessively preoccupied with themselves and get into deeper relationships out of the social circles they normally belong to only if they perceive that a specific interest of themselves is being served by these other people. This means that socially secessionist egoism is corroding the social consensus in this country.

And here, a new concept introduced to economics by Erhard is that of the **formed society**. If revitalised now after the shocks of injustice, given through bail-outs of the banks and the rich, and suffered by large parts of the population of the post-2007–2009 developed world, it could heal parts of the social consensus in these societies and enhance global credibility of the European model of economy and society.

To some extent, formed society can be interpreted as being “nation building”, but as we see it, it does have some specificities compared to the Anglo-Saxon definition. The formed society is a mature society of free consensus. It relies not on individuals, classes and social groups with their respective differing goals but on

²⁶⁰ See Erhard (1964), p. 15: “daß sich nicht einzelne Bevölkerungskreise zu lasten anderer bereichern”.

²⁶¹ See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 26: “ein neuer Stil unseres Lebens. Die wachsende Produktion allein hat keinen Sinn. . . geraten wir in solcher Jagd nach materiellen Werten. . . der Gedanken . . . an den Mitmenschen neben uns. . . materieller Gewinn nicht der Weisheit letzter Schluß, des Lebens einziger Sinn ist”.

social classes and groups that act in a convergent way, from personal conviction through free silent consent in order to achieve a common interest. Active participation by all social groups to collective life is freely consented to. Active and freely consented participation should actually be the goal of the production-based economy and social policy in a country. Erhard, just as Müller-Armack, did not believe that such a society can appear spontaneously; on the contrary it has to be brought about by state-led social policies. He believed that the formed society needs to be helped about by the state to reach political maturity. The social consensus the state needed to create may be compared to the social consensus mentioned by von Nell-Breuning, as a result of the churches' educational and social activity. Erhard believed, at least beginning with the 1960s, that: "politically speaking, the German society has lost the traits of a class-based society. . . The awareness of everyone's dependence on everyone else and the admittance of the need for progress strengthened the will of all social groups to reach mutual understanding in a way that could not have been imagined in the Weimar Republic. . . Still, I would like to characterise the current state of society as unsatisfactory as yet. An unproductive unrest on one hand is faced by a sterile opportunism on the other hand. Both phenomena stem from the same root: too strong an aspiration for material prosperity".²⁶²

Here it is clear that Erhard's creed, in spite of his Protestant upbringing, was not in its entirety directed towards Protestant-style capitalism and to the market economy that seeks only profit. He implicitly agreed with the social Catholic teaching of the principle of subsidiarity, saying that "it is necessary that the principle of subsidiarity be acknowledged as one of the most important guiding principles for social security. Priority should, in as much as possible, be given to individual self-responsibility and individual self-help".²⁶³

Now, the concrete political measures proposed by Erhard for achieving progress towards the **formed society** comprised state intervention in a number of ways: "(1) <Formed society> implies the beforehand existence of an informed society [through us, o.n.] making the state of affairs of our political, intellectual and economic life accessible to the public. . . so that they can better understand and actively play an part in the designing. . . (2) The reformation of our budget- and financial policy in order to ensure the long-term achievement of our political goals. . . (3) Associations. . . should not be allowed to deploy their efforts to achieve

²⁶² See Erhard (1965/66), p. 79: "Politisch hat die deutsche Gesellschaft den Charakter einer Klassengesellschaft verloren. Das Bewußtsein der Abhängigkeit aller von allen und das Wissen um die Notwendigkeit des Fortschritts, hat den Verständigungswillen aller Gruppen dieser Gesellschaft in einem Maße gestärkt, wie es in der Weimarer Republik noch undenkbar gewesen wäre. Trotzdem möchte ich den gegenwärtigen Zustand der Gesellschaft als noch nicht befriedigend charakterisieren. Einer unproduktiven Unruhe auf der einen steht allenthalben ein steriler Opportunismus auf der anderen Seite gegenüber. Beide Erscheinungen entspringen dem gleichen Grund: einem zu einseitigen materiellen Wohlstandstreben".

²⁶³ See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), pp. 15–16: "Es ist notwendig, daß das Subsidiaritätsprinzip als eines der wichtigsten Ordnungsprinzipien für die soziale Sicherung anerkannt und die Selbsthilfe und Eigenverantwortung soweit wie möglich der Vorrang eingeräumt wird".

their self interest only. . . (4) The <formed society> demands social and political behaviour of everyone, which should not exhaust itself only in the worry of their private sphere. . . but should deal with vivid interest much more with public issues. . . (5) It is necessary to install such social order that every citizen is left free and independent vis-a-vis organised power²⁶⁴ be it private or of the state. By dealing with general interest, Erhard proved that he too believed that the main policy goal should be the common good moving along with the individual good.

The politics of Erhard's Social Market Economy via the "formed society" bore fruit: the differences and discrepancies between social classes in the Federal Republic of Germany considerably diminished in the two decades after 1960, when Erhard was chancellor.²⁶⁵ Social uniformity rose and reached a peak at the beginning of the 1990s when, through reunification, the relatively tight-knit social structure of the West was joined by an extra 25 % population of East Germans from the former Democratic Republic of Germany plus 5 % de-colonists (Aussiedler) from the former socialist bloc countries of Central and South-Eastern Europe. The integration of all these was still an on-going process, at least until the first decade of the twenty-first century. We chose this point because it is in 2005 that Germany reached its highest population in history, namely, 82.44 mn, after which it started to decrease, reaching by 2010 the level of 81.75 mn.²⁶⁶

We cannot judge how integration of immigrants is really progressing in Germany since the native population suffers under very low demographic conditions and the country's government is forced to let in high levels of immigration and labour force in order to keep the social security systems running. These change slowly, but surely, the ethnic balance in favour of immigrants and produce irreversible changes not only in the integration situation but also in the genetic substance of the German nation. West German/East German integration also has slowed down, because the exodus of East Germans going West continues even now. Therefore, the quasi-complete equalisation between the two parts of Germany has slowed pace, and we cannot say how long it may still take in order to complete; and this is not only with regard to the material life and infrastructure, but especially to the social and emotional life.

Regarding the third principle of Erhard's philosophical and economic views, we look now at monetary stability. He identified this as an instrument of practical

²⁶⁴ See Erhard (1965/66), p. 81: "... (1) Die <Formierte Gesellschaft> setzt eine informierte Gesellschaft voraus. . . den Menschen Fakten unserer politischen, geistigen und wirtschaftlichen Existenz nahezubringen, damit sie besser verstehen und mitgestalten können. . . (2) Reformen unserer Haushalts- und Finanzpolitik, die die Erreichung unserer politischen Ziele langfristig sicherstellen. . . (3) Die Verbände . . . dürfen sich nicht nur in der Wahrnehmung eigener Interessen erschöpfen. . . (4) Die <Formierte Gesellschaft> fordert . . . ein soziales und politisches Verhalten jedes einzelnen. . . nicht nur in der Sorge um seine privaten Sphäre. . . sondern sich vielmehr mit wachem Interesse um öffentliche Dinge kümmert. . . (5) Es ist eine gesellschaftliche Ordnung zu setzen, die den einzelnen Staatsbürger . . . gegenüber der organisierten Macht frei und unabhängig sein läßt".

²⁶⁵ See the illustration in Geißler (2000), p. 57, where graphical representations of the social structure (underclass, worker class, middle class, elites, etc.) done by Ralf Dahrendorf for the 1960s and by Geißler for the 1980s are reproduced.

²⁶⁶ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p.7.

achievement of the desires of the formed society. As the third pillar of his theory, he believed that the “Social Market Economy cannot be conceived without a consistent policy of price stability”²⁶⁷ which is definitely true at least as long as money remains the vehicle of economic life. The crucial importance of this proposed principle makes Erhard plead even that “the stability of currency be taken up into among fundamental human rights”.²⁶⁸ This idea is revolutionary and may be considered more than a contribution to the field of economic policy alone, being firstly a theoretical scientific contribution. The instrument of monetary stabilisation is especially effective for the Germans, as they are particularly aware of financial security and of the importance of its efficiency raising on the results of work. For instance, in a year where inflation was registered, Germans immediately stopped saving and preferred consumption instead. “The reactions of the German people even to small increases in price can be observed by watching the significant drop in the savings rate from, for instance, a 188 million German Mark deposit surplus in July 1955 to a 109 million German Mark withdrawal surplus in July 1956”²⁶⁹ notes Erhard. As a result of studying German psychology, Erhard raises monetary stability to the rank of founding principle of his theory. But not only with regard to savings is monetary stability a main interest of German economists. This we could see on how the euro crisis unfolded first in Greece, then in Ireland and in Portugal in 2010–2011. Germany came to be perceived as the policeman of the euro, probably not only because of it being the largest euro area economy but because of its natural inclination towards order and security in finance, just as in any other aspect of economic and political life.

The integration of Germany into the post-war world economy is to Erhard a prerequisite for the success of the domestic reform. Germany’s enduring historical dependence on raw materials of all kinds compels it to enter trade especially with Eastern Europe and with other parts of the world as well, be these the former colonies Tanzania, Namibia and Togo or not. Thus, Germany had to learn to compete internationally with the victorious powers of the Second World War and to use the same markets for its products just like these countries. Erhard was rational enough to understand that domestic economic policy based on the three pillars mentioned above stands no chance of success in the long run if it is not supported by a corresponding foreign economic policy. Having lost all of its colonies outside Europe in 1919 following the Treaty of Versailles, and having been discredited in international eyes mainly by British and French foreign policy propaganda, Germany had only one way of forging a new system of economic foreign relations. Erhard was not shy about taking that road. The British Chancellor of the Exchequer, Sir Stafford Cripps,

²⁶⁷ See Erhard (1964), p. 15: “Die soziale Marktwirtschaft ist ohne eine konsequente Politik der Preisstabilität nicht denkbar”.

²⁶⁸ See Erhard (1964), p. 16: “die Währungsstabilität in die Reihe der menschlichen Grundrechte aufzunehmen”.

²⁶⁹ See Erhard (1964), p. 15: “Die Reaktion des deutschen Volkes selbst auf die geringen Preiserhöhungen zeigt sich in einem deutlichen Rückgang der Sparrate von beispielsweise einem Einzahlungsüberschuß von 188 Mill. DM im Juli 1955 zu einem Auszahlungsüberschuß von 109 Mill. DM im Juli 1956”.

asked Erhard, at the beginning of 1950, where Germany planned to sell its products, of course provided the economy would be successful. The straightforward reply of Erhard was “precisely in those countries where Great Britain set foot too”.²⁷⁰

After 14 years as Minister of Finance (1949–1963) and 3 years as Chancellor (1963–1966) upon the withdrawal of Konrad Adenauer, on March 23, 1966, Erhard became president of the CDU, but lost the general elections in the autumn of 1966 to the social democrats. On March 24, 1967, he became president of honour of the CDU and lived for another 10 years until May 5, 1977. During these last 10 years he continued as a representative in the Bundestag and became its president by age.

He succeeded in publishing a part of his writings during his lifetime. In his long and tumultuous career in economics he was awarded an impressive 23 honorary doctorates.²⁷¹ Currently, the Ludwig Erhard e. V. Foundation in Bonn is still active in his home and is a good source of research material on the politician Ludwig Wilhelm Erhard.²⁷²

2.4 Ordoliberalism

Ordoliberalism is the German-based, or rather, the Germanic form of the synthesis between Christian doctrines, ancient and contemporary secularism, political German liberalism and economic neoliberalism, based on Germanic character traits and style. At first, the Social Market Economy was built in Germany on this doctrine trend, which as we have seen has been defined between the two world wars. Ordoliberalism is different to German neoliberalism. While I agree with Sally who writes that “the German variety of neoliberalism has never struck a chord outside the German-speaking area”,²⁷³ I tend to disagree with him when he calls all of the fathers of the Social Market Economy ordoliberal economists. While I call Eucken and Böhm ordoliberal, I say that Armack, Röpke and Rüstow belong rather to another school, the socio-liberal school, because they have in fact other political purposes. While the latter envisage the social dimension, the ordoliberal envisage order.

As time passed by, other trends were brought to the forefront during the implementation of the Social Market Economy once different federal governments succeeded one another in the then capital of Bonn. The practice of ordoliberalism was obvious in the Social Market Economic model of the new, free, democratic, Western and American-oriented West Germany after 1948 and until the mid-1960s. It became less obvious during the social-democratic governments of the 1970s, but returned to the forefront of declarations in economic policy with Chancellor Kohl’s

²⁷⁰ See Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 15: “In dieselben Länder, in denen Großbritannien Fuß gefaßt hat”.

²⁷¹ Comp. Hohmann, Ludwig-Erhard-Stiftung e.V., Bonn (Hg.) (1997), p. 30.

²⁷² Comp the homepage of the Ludwig Erhard Foundation at <http://www.ludwig-erhard-stiftung.de/>.

²⁷³ See Sally (1998), p. 105.

government in 1982 (in spite of his shift to the policy of indebteding the German state during his mandates which lasted until 1998). Germany between 1949 and 1999 is the so-called Bonn Republic (die Bonner Republik), the second German republic. The “Berlin Republic” (die Berliner Republik), the third German republic, can be considered to have been established in the summer and autumn of 1999, once the federal capital was moved from Bonn, from the Rhine valley in the Franco-Anglophone West, to Berlin in the Slav- and Russian-influenced Prussian plain. This third German republic took the model of the Social Market Economy based on the ordoliberal doctrine from the West and moved it to the East.²⁷⁴

The new theory of ordoliberalism was the result of the combined action of the founding fathers of the Social Market Economy in Germany between the two world wars. The main concerns of ordoliberalism are well summarised by Franz Böhm’s words. They are connected on one hand with allowing freedom (of individuals, groups, companies and other entities) but making sure that none of these become too powerful in order to dictate over the others within society. “If one lets the macrocosmos and microcosmos of this liberty world order, or (the other way round, o.n.) of this ordered liberty world to impact one oneself, then it will become obvious what source of danger to its continuance dwells in **every bigger concentration of power**, be it political, public power, or be it the power of private persons or social groups”.²⁷⁵

Within these multiple concerns, ordoliberal thought, with its two trends, the Freiburg School and the Cologne School, as well as with the wider-reaching thought of the ordoliberals presented in Illustration 2.1, makes a difference between the institutional framework (the **order**) within which the economic processes occur and the free economic processes themselves (free—**liberal**—price formation).

There is a distinction between the rules of business life (legislation) and business life itself (operational business). Business operators are coordinated through markets which are regulated by institutions which apply laws. The Latin word “ordo” represents the ancient Roman concept of the ideal state of a civilised society, where millions of free people of good faith may and can go about their daily affairs in tranquillity and great predictability. “Ordo” was a popular word in Freiburg. In fact, it fits the German style who desires for acting in a predictable order and in clear processes, as opposed to chaos and anarchy.²⁷⁶

Furthermore, we should not forget another meaning of it, namely, the religious: ordo can also mean a religious order of Christian monks. To some extent, as we saw above, both national German churches have roots in religious orders: the Catholics

²⁷⁴ It remains to be seen to what extent this eastward move would result in Germany keeping its freedom and democracy in the long run, through its own means, without a certain amount of US “nannyng”.

²⁷⁵ See Böhm (1957), p. 112: “Läßt man aber den Makrokosmos und den Mikrokosmos dieser freiheitlichen Ordnungswelt oder geordneten Freiheitswelt auf sich einwirken, dann wird offenbar, welche Gefahrenquelle für Ihren Bestand und für ihre Bewährung *jede stärkere Konzentration der Gewalt* darstellt, sei es politische, öffentliche Gewalt, sei es die Macht einzelner Privatpersonen oder gesellschaftlicher Gruppen”.

²⁷⁶ See Streit and Kasper (1992), p. 113.

THE COLOGNE SCHOOL Socio-liberalism	THE FREIBURG SCHOOL Ordo-liberalism
Alfred Müller-Armack Ludwig Erhard Alexander Rüstow	Walter Eucken Franz Böhm Wilhelm Röpke Ludwig Erhard
<ul style="list-style-type: none"> ➤ Formed society ➤ Solidarity ➤ Social “Irenics” ➤ The two stages of the Social Market Economy ➤ Macroeconomic intervention ➤ Prosperity for all ➤ The social state ➤ Caretaker state ➤ Christianity ➤ Germanism ➤ Social Market Economy 	<ul style="list-style-type: none"> ➤ Economic freedom ➤ Invisible hand ➤ Interdependence of orders ➤ Ethics and responsibility ➤ Private property ➤ Trial & error ➤ Competition ➤ Constancy and predictability of economic policies ➤ Currency stability ➤ Subsidiarity ➤ Economic constitution ➤ The Ordo Manifesto

Illustration 2.1 The Freiburg and Cologne schools of thought and Ludwig Erhard: main ideas

with the Benedictines, Dominicans and Jesuits and the Protestants with the Teutonic order, forerunner of Prussia.

The first clear and public statement of German ordoliberalism occurred in 1936 when a text known as the **Ordo Manifesto** was published under the title *Unsere Aufgabe (Our Task)*²⁷⁷ by Eucken, Böhm and Grossmann-Doerth. This text came as a reaction to the failure and disappearance of the Weimar Democratic Republic, which fell victim to the power struggle between profit-hungry industrial and commercial monopolies, cartels and trade unions, in a context of generalised poverty following the war reparations Germany had to pay after the Treaty of Versailles. The manifesto rejected the relativism and subjectivism of the German Historical School, which did not acknowledge the existence of primary values and final goals, but also rejected the fatalism regarding the inevitable laws of national development and history.

The ordoliberals developed an autonomous systemic theory on what the government needs to do in order to protect the individuals’ freedom and prosperity from being undermined by political parties, rich individuals, interest groups and power groups. They mean that particular individual freedom can only exist through the reign of justice in the realm of the economy. The idea that individual freedom ends where the rights of others begin is widespread within ordoliberalism and is based on the assumption that human nature is the same for all individuals. Whether this applies to a multicultural society is still to be defined, especially as not all ethnic groups worldwide had the same transformative political and cultural experiences as the Europeans. In an ordoliberally organised society, everything happens within the well-defined framework of national borders and of the bidimensional

²⁷⁷ See Streit and Kasper (1992), p. 114.

(human and physical) natural environment. Ordoliberals noticed that the subsystems of an economic system are closely interrelated, as defined by Eucken's concept of **Interdependence of Orders** (Interdependenz der Ordnungen). Consequently, any outside intervention on a part of the system, e.g. the market, will influence all economic agents' future actions, meaning that they would make different plans of business as compared to the situation where the intervention did not exist. Intervention has an effect on every party of the whole, so economic activity will register a decrease in profit and productivity, because the predictable future space of calm and security is more restrained, and no one can in fact know when new intervention will occur. Again, we notice in ordoliberalism the holistic approach to national economic policy, which is an approach in German style.

The authors of the "Ordo Manifesto" proposed and demanded the implementation in Germany of the concept of **Economic Constitution** (*Wirtschaftsverfassung*). This would be a system of generally accepted behaviour rules, both written and unwritten, through which the government can make sure that an economic agent competing on the market makes truly free decisions, for which it is liable and in which it is uninfluenced by government interference. The government must be strong enough so as not be obliged to go beyond simply ensuring and applying the rules of the economic game (order) and strong enough to resist the pressure of economic and political power struggles between interest groups and major economic players. Should some of the latter become too powerful, meaning that they take up too large a market share, they will eventually be able to control almost everything, including the government, through the "purchase" of politicians' votes.

An important comment here is that, in the current (2012) context of the unravelled debt crisis across the whole developed Western world, the less debt it has, the stronger a state is. Thus, as long as government debt is not sustainable, the neutrality of government in those countries is not provided any more to a required amount.

Coming back to ordoliberalism in Germany, the motivation of the ordoliberals for being involved in politics, including those of the Cologne School, is not predominantly economic in nature, but anthropological and influenced by humanistic, moral and/or Christian views on the world.²⁷⁸ In 1948 Eucken demanded that "economic policy should implement the free, natural and God-willed order"²⁷⁹ which is in fact a mainly liberal and environmentally aware order per se. At the centre of this vision is man, as divine creation and bearer of responsibility for his own actions during life.

From a philosophical point of view, there is a mix-up and even fundamental contradiction here between the humanistic view on man and the Christian view of man. The first is born out of the French Revolution and gave way to the principle of

²⁷⁸ See Müller-Armack Andreas (1988) p. 11.

²⁷⁹ See Streit and Kasper (1992), p. 114: "die Wirtschaftspolitik soll die freie, natürliche, gottgewollte Ordnung verwirklichen".

human dignity and the Universal Declaration of Human Rights. The second is the vision of Christian life defined by the Apostle Paul and Apostle Jacob who see the spiritual life of God (as ultimate source of principles and values) opposed to that of this world and implicitly of earthly economic life: “Don’t you know that friendship with the world means enmity with God?”²⁸⁰ Ordoliberalism is therefore not precisely enough defined with respect to its roots. Although it claims to dwell on Christianity and the God of the Jews, including the reliance on this universal force, the vision it relies on is not necessarily a Christian vision but more a theistic, pantheistic or Gnostic one which is mixed up with many humanistic secularised ideas developed specifically in Western and not Eastern Europe after the eighteenth century.

Whatever the debate about the view on the roots of man as target of correct and appropriate economic policy, we have to address the principle of responsibility as well. This supposes that freedom is given to choose between possible options, as well as the necessary space to exercise one’s freedom while interacting with other actors who have the same kind of freedom. Once this is given, responsibility comes in and it means the willingness to accept the results and effects of these choices. Therefore, every truly free man is automatically also responsible because he chose freely. Individual freedom and free living conditions are indispensable to human dignity. This is also stated by theological dogma, which maintains the freedom of man to choose for or against God. But whether the free man also accepts responsibly the results of his/her choices or they are enforceable on him/her is another matter. Eucken goes very far here when dwelling on the principle of responsibility. He says that in companies, the “board of directors should be responsible for full liability as the most effective means of tying risk to responsibility”.²⁸¹ Such high responsibility is possibly imaginable from an academic perspective, but in practice it is not completely realistic. Not only that being confronted with too much risk, managers will delay decisions until safeguards have been put in place, but it would prove too slow for today’s speed in business life. It would also put too much pressure on the managers and produce even more burn-out cases than the high rhythm of work already produced. There are thus natural limits to responsibility in the national economy. As productivity is increased too much in some companies, this backfires at the national level by increasing the number of medical holidays, eroding family and social ties and increasing the consumption of drugs and antidepressants by managers in order to cope with increased demands. Thus, we can conclude that responsibility is good, competition is good and freedom of markets is good, but only if limited to the bearable level of the working age population.

To ordoliberalism can be ascribed several merits. It formulated a coherent, autonomous philosophical theory that criticised the planning and collectivism of the post-1933 German economy. This criticism might seem insignificant or taken

²⁸⁰ Der Brief des Jakobus 4,4 in (1975) Die Heilige Schrift des Alten und Neuen Testaments: “Wisset Ihr nicht, dass die Freundschaft mit der Welt Feindschaft gegen Gott ist?”

²⁸¹ See Sally (1998), p. 112.

for granted from the perspective of our times, when the free market economy system has spread throughout the world, except in countries such as North Korea, Cuba and maybe a few others. However, in the 1930s and 1940s when there was war and a planned, hyper-centralised and mandatory economy, this was quite an accomplishment of courage and foresight, especially in a country like Germany, where liberalism did not have strong roots.

Then, ordoliberalism defined the role of functional and credible state institutions in establishing the rules of the game in economy as vital. Right after 1945, ordoliberals argued against bureaucratic and government planning and offered a real alternative to the previous path taken in the country's economy. It combated the tendency to socialism which many circles of politicians and even businessmen tended to sympathise with. The beliefs of the doubters and the "socialisers" were that chaotic competition between economic agents on an unsupervised market was pure suicide. This was countered by ordoliberalism, which asserted that chaos, if addressed maturely, can give rise to a stable system. It was a belief in the invisible hand, which orders automatically human action if the latter are left free to act as they perceive their interest to be. In its historical context, ordoliberalism defended the principle of freedom as a fundamental value and proved sceptical to a high degree when it came to directing market processes and only thereby expecting to reach positive results. Ordoliberals gave great importance to the interdependence between various parts of the social and economic system, especially when it came to shaping and transforming national institutions.

The ordoliberal doctrine also contributed to defining the effects of institutional action on human behaviour. It stated that any social reform had to begin with renewed institutions and to limit the potentially random control by the state. Ordoliberals or German neoliberals stood close to what Milton Friedman defined as state tasks, meaning maintaining justice and order, defining property rights, guaranteeing the respect of contract stipulations, promoting competition, acting against technical monopolies and protecting children and the weak and disabled.²⁸²

Internationally, ordoliberalism, and especially Freiburg ordoliberalism, fought against some forms of oppressive pseudo-socialism, as it was known after 1945 in the former communist bloc. Ordoliberals stood by the idea that political freedom and economic freedom are inseparable, which might seem to mean that every free market economy must be based on a democratic political system which guarantees political pluralism. Franz Böhm repeatedly asserted that the existence of any compatibility between a democratic state and a centralised and planned socialist economic system is a utopia. Well, at that time in the 1950s and 1960s, this might have appeared true, but nowadays if we look at China, we can see that China managed the transition to an economic system which enjoys the wealth of a free

²⁸² See Streit and Kasper (1992), p. 124, where Milton Friedman is translated from Friedman (1962) *Capitalism and Freedom*. Chicago, p. 34.

market economy, by implementing free market rules through a political dictatorship of one party state. And this it did over at least 40 years from the Cultural Revolution of Mao onwards. Therefore, we see that there can also be forms of a market economy without having political democracy at the same time. Still, there is to distinguish whether this is possible only during the transition from a centralised economy to a free one, or if it applies also to after having finalised the transition.

As we go deeper into the study of the ordoliberal construct, we see that the ordoliberals' motivations diverged. Their position as a group towards other schools of thought can be observed in the good illustration drawn by Heinz Grosseckttler.²⁸³ Within the group of "ordoliberals in the wider sense" (Ordoliberale im weiteren Sinne), all considered founding fathers of the Social Market Economy in Germany, there are two different directions of doctrine. First, there was ordoliberalism in the restricted sense, that of Eucken and Böhm, called of the Freiburg School and which is closer to von Hayek's neoliberalism. Second, there were the corporate ordoliberals, Erhard and Müller-Armack, called of the Cologne School.

Looking at Illustration 2.1, we see that, among the ideas of each school of thought, the **Freiburg School** can be seen as playing, through the efforts of Eucken, Böhm and von Hayek, the role of connection between German neoliberalism and Anglo-Saxon economic neoliberalism, which became a world doctrine after 1945 until 2008. Why 2008? Because the financial crisis which changed the basis for today's world order proved that the Western free market economies which had been constantly expanding and growing in the post-war period on the basis of neoliberalism could do this only by financing their respective systems by spending in deficit and building the huge debt level we have now and not because neoliberalism is a suitable economic doctrine. The Freiburg School of Thought came into being, as we have seen, in the context of the disappearing democratic system of the Weimar Republic, of the rise of national socialism and of Germany's defeat in the Second World War, so between 1920 and 1950. Later on, after 1962, the Freiburg School's position among the great schools of economics in the West was substantially strengthened by the defensive and assertive positions adopted by von Hayek.²⁸⁴ The Freiburg School dealt primarily with finding a solution to the issue of the fundamental institutions needed in order to ensure a stable and credible framework for the proper flow of economic growth processes. According to this school, the government is meant to ensure, with the aid of an independent justice system, that every individual exercises his/her right to own property and, at the same time, to compel individuals to take responsibility for the negative effects of their choices,

²⁸³ See Grosseckttler (1999), p. 56.

²⁸⁴ This requires a new reference to the Walter Eucken Institute of Freiburg, originally presided by von Hayek. His friendship to Eucken made him give up his position at the University of Chicago (where he wrote his work *The Constitution of Liberty* in 1960), in order to continue the work of his friend Eucken. Although an Austrian, von Hayek wished, upon coming to Freiburg, to continue the bundle of ideas, teaching and style which Eucken had started in Germany. Compare Streit et al. (1992) p. 113.

even though in the case of economic activity, these may lead to bankruptcy. Then, at a macroeconomic level, the Freiburg School stood for ensuring competition and monetary stability, but said nothing about the immorality of taking up debt which is not refundable during the lifetime of a person or a company.

The Freiburg School doctrine pleads for little socialism and corporatism. Eucken and Röpke, after the end of the Second World War, vehemently accused the tendencies of all governments, whether conservative or socialist, of adopting egalitarian-style income redistribution policies, as well as giving subsidies. They warned of the danger of transforming the government into an institution of income transfer. Eucken explained the difference between a state policy of income redistribution and a state policy of maintenance of order in competition. The former acquits individuals of a great portion of personal responsibility for their own actions, while the latter puts personal individual responsibility first, given that the same rules apply to everyone. The fundamental belief of the Freiburg School was that, for the good of general economic growth and of all individuals in a society, the rules of competition must be thoroughly respected, no matter what the consequences on individuals and groups. This is what ensuring social justice from the perspective of framework conditions meant.

On the other hand, the **Cologne School**, led by Müller-Armack and approved by Rüstow, had a more socialist and corporate approach. It encompassed the German economic thought that was more socialist and corporate oriented, resulting in a somewhat more “Catholic” school of thought. Perhaps this is not surprising, given that it was born in the traditionally “Catholic fortress” (katholische Hochburg) of Northern Germany: the Roman Catholic archdiocese of Cologne appears to be, after the archdiocese of Chicago, the second in the world regarding financial contributions to the Vatican—at least this is the statistics communicated verbally in 1999 by a representative of the land ministry of Nordrhein-Westfalen from Düsseldorf.

Müller-Armack, Rüstow and Erhard acted for the state to take up the role of correcting the inequality resulting from the impact of the free market system. Therefore, the socio-liberal school of Cologne ascribed responsibility over social justice de facto to the material wealth of social entities and not to the neutral legislative and institutional framework conditions. The application of the policies developed by the Cologne school can be seen in the early 1970s. Back then, government intervention in the economy actually grew through government investment, subsidy and tax redistribution programmes.

The “ecological and moral principle” is a specific element brought in the Social Market Economy by the Cologne School. Environmental awareness was regarded as part of individual responsibility, quite a challenging political and philosophical belief for that time. Morality with respect to the human environment is also part of the responsibility towards the created universe. Erhard positioned himself, through his thinking and the public office he held, at the crossroads of the domestic German schools of Freiburg and Cologne and international ones.

According to many German specialists, the Social Market Economy sets itself, at least as seen from Germany, aside from the liberal schools of thought. Horst F. Wünsche, former personal adviser to Erhard, stated that it was originally desired

that ordoliberalism be a school of thought in itself and be ascribed almost solely to Erhard, but it is not so. Wünsche believed there are three fundamental directions in ordoliberalism: neoliberalism in a more restricted sense, represented by von Hayek; revisionist neoliberalism, which includes ordoliberalism, represented by Böhm and Eucken; and interventionist liberalism and the Social Market Economy, regarded by Wünsche as a sort of neoliberalism whose more lateral approach is represented by Erhard.²⁸⁵ This construct is difficult to accept as such, because separating Müller-Armack from Erhard is pushing interpretation too far.

Essentially, the theoretical principles which German ordoliberalism brings as grounds of the system of the Social Market Economy as it was developed in Germany are private property, contractual freedom, responsibility following consent and action, free markets (the freedom of entering and exiting a market), social justice and community, environmental awareness and morality, and monetary stability meaning low inflation and consistent economic policies, in order to ensure that economic agents plan their investments for the long term. As we shall see below, these principles can be found today in Germany's Constitution, its legislation, its institutions and in its internal and foreign economic policy. We have presented them as constitutive elements of the three pillars of the villa of Social Market Economy in Germany, as shown in Illustrations 4.1 and in Illustration 2.1 here.

References

- Ambrose S (1991) Rise to globalism. US Foreign Policy Since 1938, 6th edn. Penguin, New York
- Beattie A, Politi J (2008) I made a mistake, admits Greenspan. In Financial Times, October 24, 2008. www.ft.com accessed October 25, 2008
- Benedikt XVI Papst (2012) Jesus von Nazareth. Herder, Freiburg
- Bethge R, Gremmels C (eds) (2005) Dietrich Bonhoeffer. Bilder eines Lebens. Gütersloher Verlagshaus, Gütersloh
- Bible. New International Version. Internet portal, www.biblegateway.com
- Böhm F (1933) Die außerstaatliche (natürliche) Gesetzmäßigkeit des wettbewerblichen Wirtschaftsprozesses. In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) Grundtexte zur Sozialen Marktwirtschaft. Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 135–142
- Böhm F (1953) Marktwirtschaft von links und von rechts. In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) Grundtexte zur Sozialen Marktwirtschaft. Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 433–438

²⁸⁵ The Social Market Economy, insofar as it can be named to be an economic doctrine, would be driven if run according to Ludwig Erhard's style by a sort of *liberal, but systematic economic policy*. More details on the classification above and the quotation here can be found in a personal sketch drawn by Dr. Horst F. Wünsche from the Ludwig Erhard Stiftung e.V. Bonn sent to the author in spring 2000.

- Böhm F (1957) Die Forschungs- und Lehrgemeinschaft zwischen Juristen und Volkswirten an der Universität Freiburg in den dreißiger und vierziger Jahren des 20. Jahrhunderts (Das Recht der Ordnung der Wirtschaft). In: Wolff HJ (Hg.) (1957) *Aus der Geschichte der Rechts- und Staatswissenschaften zu Freiburg i. Br.* (Beiträge zur Freiburger Wissenschafts- und Universitätsgeschichte. 15. Heft). Verlag Eberhard Albert, Freiburg i. Br., pp 95–113
- Bracher KD, Funke M, Jacobsen HA (Hg.) (1998) *Die Weimarer Republik 1918–1933. Politik–Wirtschaft–Gesellschaft. Anhang. Schriftenreihe Band 251.* Bundeszentrale für politische Bildung, Bonn, pp 627–651
- Brockhaus Enzyklopädie in 30 Bänden (2006) 21. völlig neu überarbeitete Auflage des FA Brockhaus, Leipzig, Mannheim
- Bundesministerium der Justiz (Hg.) (2002) Fundstellennachweis A. Bundesrecht ohne völkerrechtliche Vereinbarungen. Bundesgesetzblatt 2002, Teil I G 5702, Berlin
- Bundesministerium der Justiz (Hg.) (2002) Fundstellennachweis B. Völkerrechtliche Vereinbarungen. Verträge zur Vorbereitung und Herstellung der Einheit Deutschlands. Bundesgesetzblatt 2002 Teil II G 1998, Berlin
- Copleston SJF (1962–1977) *A history of philosophy*, Vol 1–9. Image Books Doubleday & Co., New York
- Dahrendorf R (1976) *Die Staatsräson der Bundesrepublik Deutschland.* Konstanzer Universitätsreden, Universitätsverlag Konstanz, Konstanz
- Deutsche Biographische Enzyklopädie (DBE) (2005–2008) 2. Völlig überarbeitete und erweiterte Ausgabe. Hg. Rudolf Vierhaus. 12. Bände. K.G. Saur Verlag, München
- Deutscher Bundestag (Hg.) (1996) *Fragen an die deutsche Geschichte: Wege zur parlamentarischen Demokratie; historische Ausstellung im Deutschen Dom in Berlin.* 19. Neu bearb. Aufl., Bonn
- Deutschkron I (1991) *Israel und die Deutschen. Das schwierige Verhältnis.* Erweiterte Neuauflage, Verlag Wissenschaft und Politik, Köln
- Ebinger S (1988) *Alexander Rüstow und die Soziale Marktwirtschaft.* Creator Verl, Würzburg
- Enciclopedia Cattolica (1954) Vol. XII. Casa Editrice G.C. Sansoni, Firenze
- Erhard L (1956) *Grundbedingungen einer freiheitlichen Sozialordnung.* In: Hohmann K et al, Ludwig Erhard Stiftung e.V., Bonn (Hg.) (1988) *Grundtexte zur Sozialen Marktwirtschaft.* Band 2. Das Soziale in der Sozialen Marktwirtschaft. Gustav Fischer Verlag Stuttgart, New York, pp 13–16
- Erhard L (1964) *Wohlstand für Alle.* Bearbeitet von Wolfram Langer, 8th edn. Econ Verlag, Düsseldorf, Wien
- Erhard L (1965/66) *Das gesellschaftspolitische Leitbild der formierten Gesellschaft.* In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) *Grundtexte zur Sozialen Marktwirtschaft.* Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 79–82
- Eucken W (1949) *Die Wettbewerbsordnung und ihre Verwirklichung.* In: Eucken W, Böhm F, Brand K et al. (1949) *ORDO Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft.* Band 2. Helmut Küpper, Godesberg, pp 1–99
- Eucken W (1952) *Die Politik zur Herstellung der Wettbewerbsordnung.* In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) *Grundtexte zur Sozialen Marktwirtschaft.* Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 143–162
- Federici F (1946) *Der deutsche Liberalismus. Die Entwicklung einer politischen Idee von Immanuel Kant bis Thomas Mann.* Artemis Verlag, Zürich
- Geißler R (2000) *Facetten der modernen Sozialstruktur—Modelle und Kontroversen.* In: Bundeszentrale für politische Bildung (Hg.) *Informationen zur politischen Bildung.* Heft No. 269/ 2000. Sozialer Wandel in Deutschland. Franzis' Print, München, pp 56–61
- Goerdeler C (1941) *Das Ziel: Beseitigung der Kollektivwirtschaft.* In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) *Grundtexte zur Sozialen Marktwirtschaft.* Band

1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 13–14
- Goldschmidt N (1997) Die Entstehung der Freiburger Kreise. In: Buchstab G, Kleinmann HO, Küsters HJ (Hg.) Konrad-Adenauer-Stiftung (Hg.) (1997) Historisch-Politische Mitteilungen. Archiv für Christlich-Demokratische Politik. Heft 4/1997. Böhlau Verlag, Köln, pp 1–17. http://www.kas.de/upload/ACDP/HPM/HPM_04_97/HPM_04_97_1.pdf
- Gräfin von Klinckowstroem W (1992?) Walter Eucken Bibliographie. In: Sonderdruck aus: Ordnung in Freiheit. Symposium aus Anlass des 100. Jahrestages des Geburtstages von Walter Eucken am 17. Januar 1991. Sonderdruck im Buchhandel nicht erhältlich. JCB Mohr (Paul Siebeck), Tübingen, pp 125–137
- Gräfin von Klinckowstroem W (2000) Walter Eucken: Eine biographische Skizze. In: Gerken L (Hg.) (2000) Sonderdruck aus: Walter Eucken und sein Werk. Rückblick auf den Vordenker der sozialen Marktwirtschaft. Walter Eucken Institut, Untersuchungen zur Ordnungstheorie und Ordnungspolitik 41. Dieser Sonderdruck ist im Handel nicht erhältlich. Mohr Siebeck, Tübingen, pp 53–132
- Grossekettler H (1999) Kritik der Sozialen Marktwirtschaft aus der Perspektive der Neuen Institutionsökonomik. In: Nörr KW, Starbatty J (Hg.) (1999) Soll und Haben—50 Jahre Soziale Marktwirtschaft (Marktwirtschaftliche Reformpolitik. Band 3. Schriftenreihe der Aktionsgemeinschaft Soziale Marktwirtschaft N.F. Hasse R, Starbatty J (Hg.)). Lucius & Lucius Verlag, Stuttgart, pp 53–81
- Harre A (2009) Wege in die Moderne. Entwicklungsstrategien rumänischer Ökonomen im 19. und 20. Jahrhundert. Studien zur Sozial- und Wirtschaftsgeschichte Ostmitteleuropas no. 18. Harrasowitz Publishing, Wiesbaden
- Hohmann K, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1997) Ludwig Erhard (1897–1977). Eine Biographie. ST Verlag, Düsseldorf
- Institut der Deutschen Wirtschaft Köln (Hg.) (2011) Deutschland in Zahlen Ausgabe 2011. Deutscher Instituts Verlag, Köln
- John Paul II (1994) Motu Proprio. At the opening of the premises of the Pontifical Academy of Social Sciences in the Vatican, January 1. In: Internet portal of the Pontifical Academy of Social Sciences <http://www.pass.va/content/scienzesociali/en/about/motuproprio.html> accessed June 3, 2014
- Kahler E (1989) The Jews among the Nations. Transaction Publishers, New Brunswick (U.S.A.) and Oxford (U.K.)
- Kaser K (2001) Südosteuropäische Geschichte. Böhlau Verlag, Köln
- Keynes JM (1920) The economic consequences of the peace. Macmillan, London
- Koslowski P (1998) The social market economy and the varieties of Capitalism. Introduction. In: Koslowski P (ed.) (1998) The social market economy. Theory and ethics of the economic order. Springer, Berlin, Heidelberg, pp 1–9
- Lange-von Kulessa J, Renner A (1998) Die Soziale Marktwirtschaft Alfred Müller-Armacks und der Ordoliberalismus der Freiburger Schule—Zur Unvereinbarkeit zweier Staatsauffassungen. In: Lenel HO et al. (Hg.) (1998) ORDO Jahrbuch für die Ordnung für Wirtschaft und Gesellschaft. Band 49. Lucius & Lucius Verlag, Stuttgart, pp 79–104
- Lexikon-Institut Bertelsmann (Hg.) (1981) Mosaik Hand-Lexikon. Aktualisierte Neuausgabe. Mosaik Verlag, München
- List F (1877) Die Theorie des Nationalen Systems der Politischen Oekonomie. Verlag. Der königl. Hofbuchhandlung von Julius Weise (Adolf Schmidt), Stuttgart
- Lutz H (1967) Evangelische Soziallehre. In: von Nell—Breuning O, Lutz H, Budde H (Hg.) (1967) Katholische und evangelische Soziallehre. Ein Vergleich. Paulus Verlag, Recklinghausen, pp 35–50
- Manoilescu M (2010) Etica Politică. Spandugino Publishing House, București
- Marcus S (2013) Solomon Marcus. Doctor Honoris Causa Universitatea Apollonia din Iași. 7 martie 2013 (cu ocazia aniversării a 88 de ani de viață). Universitatea Apollonia, Iași

- Margies W, Fritsch S, Heinrich VII. Prinz Reuss H VII (2001) Deutsches Geschichtsbuch für Beter. Deutschlands Schuld. Deutschlands Berufung, 2. Aufl. Aufbruch Verlag, Berlin
- McKay JP, Hill BD, Buckler J (1991) A history of Western Society, 4th edn. Vol II. From absolutism to the present. Houghton Mifflin Company, Boston
- Meier-Rust K (1993) Alexander Rüstow. Geschichtsdeutung und liberales engagement. Klett-Cotta, Stuttgart
- Moggridge DE (1997) The German tradition of the historical school of economics and the English and American Tradition. In: Koslowski P (Hg.) (1997) Weltwirtschaftsethos. Global Economic Ethos. Globalisierung und Wirtschaftsethik. Globalization and Business Ethics. Passagen Verlag, Wien, pp 91–98
- Müller-Armack A (1950) Soziale Irenik. In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) Grundtexte zur Sozialen Marktwirtschaft. Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 417–432
- Müller-Armack A (1960) Die zweite Phase der Sozialen Marktwirtschaft: Ihre Ergänzung durch das Leitbild einer neuen Gesellschaftspolitik. In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) Grundtexte zur Sozialen Marktwirtschaft. Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 63–78
- Müller-Armack A (1973) Der humane Gehalt der Sozialen Marktwirtschaft. In: Tuchtfeldt E (Hg.) (1973) Soziale Marktwirtschaft im Wandel. Beiträge zur Wirtschaftspolitik. Band 20. 1. Auflage 1973. Rombach, Freiburg, pp. 15–26
- Müller-Armack A (1975) Thesen zur Konjunkturpolitik 1975. In: Wirtschaftspolitische Chronik, 24. Jahrgang, Heft 1, 1975. Institut für Wirtschaftspolitik an der Universität zu Köln, Müller-Armack A et al (Hg.) Köln, pp 7–19
- Müller-Armack A (1988) Das Konzept der Sozialen Marktwirtschaft—Grundlagen, Entwicklung, Aktualität. In: Grosser D, Lange T, Müller-Armack A, Neuss B (1988) Soziale Marktwirtschaft. Geschichte-Konzept-Leistung. Verlag W. Kohlhammer, Stuttgart–Berlin–Köln–Mainz, pp 1–34
- Mureşan S (2005) British interests in Romania? British Foreign policy towards Romania in the twentieth century. An interdisciplinary analysis. Editura Cartimpex, Cluj-Napoca
- No Author (1975) Die Heilige Schrift des Alten und Neuen Testaments. Unter Berücksichtigung der besten Übersetzungen nach dem Urtext übersetzt von Franz Eugen Schlachter. Genfer Bibel Gesellschaft (Hg.), Genf
- No Author (1988) Biblia. Editura Institutului Biblic și de Misiune al Bisericii Ortodoxe Române, Bucureşti
- Nörr KW (1995) Franz Böhm. Ein Wegbereiter des Privatrechtsgedankens. In: Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1995) Wirtschaftsordnung als Aufgabe. Zum 100. Geburtstag von Franz Böhm. Sinus Verlag, Krefeld, pp 53–70
- Nörr KW (1999) Die Entscheidung für die Soziale Marktwirtschaft als ein Wendepunkt der deutschen Geschichte. In: Nörr KW, Starbatty J (Hg.) (1999) Soll und Haben—50 Jahre Soziale Marktwirtschaft (Marktwirtschaftliche Reformpolitik. Band 3. Schriftenreihe der Aktionsgemeinschaft Soziale Marktwirtschaft. Hasse R, Starbatty J (Hg.)). Lucius & Lucius Verlag, Stuttgart, p. 23–38
- Palmor E (2002) Convergențe diplomatice și culturale. Presa Universitară Clujeană, Cluj-Napoca
- Raico R (1999) Die Partei der Freiheit. Studium zur Geschichte des deutschen Liberalismus. (Schriften zur Wirtschaftspolitik. Neue Folge—Band 7. Dongses JB, Eckhoff J (Hg.)). Lucius & Lucius, Stuttgart
- Roberts JM (1990) The Penguin history of the World. Penguin, London
- Röpke W (1944) Richtpunkte des liberalen Gesamtprogramms. In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) Grundtexte zur Sozialen Marktwirtschaft. Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 227–232

- Röpke E (ed) (1976) Wilhelm Röpke Briefe 1934–1966. Der Innere Kompaß. Eugen Rentsch Verlag, Erlenbach-Zürich
- Rüstow A (1932) Liberale Interventionen. In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) Grundtexte zur Sozialen Marktwirtschaft. Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart, New York, pp 221–225
- Rüther J (ed) (1925) Gemeinschaft und Wirtschaft. Nach ausgewählten Stücken aus den Werken des THOMAS VON AQUIN. Ferdinand Schöningh, Paderborn
- Sally R (1998) Classical liberalism and International Economic Order. Studies in Theory and Intellectual History. Routledge, London and New York
- Schlecht O (1995) Franz Böhm. Wissenschaftler und Politiker. In: Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1995) Wirtschaftsordnung als Aufgabe. Zum 100. Geburtstag von Franz Böhm. Sinus Verlag, Krefeld, pp 7–13
- Schreyvogel F (1923) Ausgewählte Schriften zur Staats- und Wirtschaftslehre des Thomas von Aquino. Neue Übertragung mit Anmerkungen und einer kritischen Einführung. Verlag Gustav Fischer, Jena
- Schüller A (1999) Der liberale Wirtschaftshumanist. In: Handelsblatt Nr. 195, Oktober 8, 1999, pp 24–25
- Sekretariat der Deutschen Bischofskonferenz (Hg.) (2013) Apostolisches Schreiben EVANGELII GAUDIM des Heiligen Vaters Papst Franziskus an die Bischöfe, an die Priester und Diakone, an die Personen geweihten Lebens und an die christgläubigen Laien über die Verkündigung des Evangeliums in der Welt von heute. Verlautbarungen des Apostolischen Stuhls Nr. 194. 24. November 2013, Bonn
- Skwiercz SH (1988) Der Dritte Weg im Denken von Wilhelm Röpke, 1st edn. Creator Verlag, Würzburg
- Streit ME, Kasper W (1992) Das institutionelle Fundament von Freiheit und Wohlstand—Lektionen der “Freiburger Schule”. In: Streit ME et al, Sonderdruck aus Freiburger Beiträge zur Ordnungsökonomik. Dieser Sonderdruck ist im Buchhandel nicht erhältlich. J.C.B. Mohr (Paul Siebeck), Tübingen, pp 105–134
- Völklein U, Ludwig Erhard Stiftung e.V. Bonn (Hg.) (1997) Ludwig Erhard—Trümmer, Träume und ein Mann der Tat. Ein Portrait. ST Verlag, Düsseldorf
- von Hayek FA (1960) The constitution of liberty. Routledge & Kegan Paul, London
- von Nell-Breuning, SJ O (1967) Katholische Soziallehre. In: von Nell-Breuning O, Lutz H, Budde H (Hg.) (1967) Katholische und evangelische Soziallehre. Ein Vergleich. Paulus Verlag, Recklinghausen, pp 7–33
- von Nell-Breuning, SJ O (1967) Katholische und evangelische Soziallehre—ein Vergleich. In: von Nell-Breuning O, Lutz H, Budde H (Hg.) (1967) Katholische und evangelische Soziallehre. Ein Vergleich. Paulus Verlag, Recklinghausen, pp 51–77
- von Nell-Breuning, SJ O (1979) Soziale Sicherheit? Zu Grundfragen der Sozialordnung aus christlicher Verantwortung. Herder, Freiburg
- Wandel E (1980) Die Entstehung der Bank deutscher Länder und die deutsche Währungsreform 1948. Die Rekonstruktion des westdeutschen Geld- und Währungssystems 1945–1949 unter Berücksichtigung der amerikanischen Besatzungspolitik. In: Schriftenreihe des Instituts für bankhistorische Forschung. Band 3. Der Wissenschaftliche Beirat des Instituts für bankhistorische Forschung (Hg). Fritz Knapp Verlag, Frankfurt am Main
- Watrin C (1998) The social market economy: The main ideas and their influence on economic policy. In: Koslowski P (ed) (1998) The social market economy. Theory and ethics of the economic order. Springer, Berlin, Heidelberg, pp 13–28
- Weber M (1905a) Die protestantische Ethik und der “Geist” des Kapitalismus. I. Das Problem. Vol. 20. In: Weber M, Sombart W, Jaffé E (Hg.) (1905) Archiv für Sozialwissenschaft und Sozialpolitik. Zwanzigster Band. JCB Mohr (Paul Siebeck), Tübingen, pp 1–54
- Weber M (1905b) Die protestantische Ethik und der “Geist” des Kapitalismus. II. Die Berufsidee des asketischen Protestantismus. Vol. 21. In: Weber M, Sombart W, Jaffé E (Hg.) (1905)

- Archiv für Sozialwissenschaft und Sozialpolitik. Einundzwanzigster Band. JCB Mohr (Paul Siebeck), Tübingen, pp 1–110
- Weinfurter S (2008) Das Reich im Mittelalter. Kleine deutsche Geschichte von 500 bis 1500. Verlag C.H. Beck, München
- Wünsche HF (Red.) Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1996) Soziale Marktwirtschaft als Historische Weichenstellung. Bewertungen und Ausblicke. Eine Festschrift zum Hundertsten Geburtstag von Ludwig Erhard. ST Verlag, Düsseldorf

Chapter 3

Models of Capitalism

3.1 Anglo-Saxon and Rhineland Capitalism

Given the traits of human nature in general and ways of social organisation in particular, the need for government stems from the social belief that “many issues, which are indispensable to society and to its collective life, can only be resolved in a collective and a unitary fashion, therefore requiring an institution which receives the task of their resolution”.¹ This institution is the state and the government, respectively. The modern European post-Westphalian nation-state carries out the act of governing by using “the confidence trick”. This deals with, among many other things, upholding an atmosphere of confidence among market participants that governing will succeed in keeping the economy running because it can uphold the rules and defend the common infrastructure.

According to the European ethicist, economist and philosopher Peter Koslowski from Hannover in north-central Germany, a “secularised Christian” as contemporary Japanese analysts would call him, there are two models of capitalism in today’s world: Anglo-Saxon and Rhineland. However, as economists know all too well, there is also a Confucian model whose public visibility is, given the Europeans’ Eurocentric point of view and the ongoing dominance of European political philosophy on the ideas market, often minimised.

In order to understand the model of capitalism developed in Germany and in central Europe under the name of the Social Market Economy, it is sufficient to present it in the context of other models in the Euro-Atlantic world.

Anglo-Saxon and American capitalism “aims at an almost total disembedding of the market and of the three features of capitalism, from distributional and

¹ See von Nell-Breuning S.J. O (1979), p. 157: “eine Vielzahl von Angelegenheiten, die für sie alle und ihr Zusammenleben unentbehrlich sind, sich nur gemeinsam und einheitlich regeln lassen, und daß es dafür einer Einrichtung bedarf, die sie mit deren Erledigung beauftragen”.

political constraints”.² This is the view from Germany on Anglo-Saxonism. This model attempts to separate economic activity and the characteristics of capitalism—private property, the maximisation of profit and market and price system coordination—from other governing acts and treat them differently. The Anglo-Saxon model of capitalism has three somewhat parallel, yet diverging, dimensions: Beveridgeism,³ Keynesianism and Thatcherism. They are applied in most former British colonies or countries under British or American influence (still). The Anglo-Saxon vision on the capitalist economy is strongly connected to the Anglo-Saxon vision on the state, political philosophy and human nature. The Anglo-Saxon state is a “welfare state”, i.e. it takes care of the needy, of those who failed in the realm of free markets, and offers them help at no economic cost. Anglo-Saxon capitalism is not a “social state” (Sozialstaat) seeking to ensure prosperity and social security for all its citizens; neither does it seek to build a nation, as is the case with Rhineland capitalism; it simply is a state which exists through the sum of the activities of its individual members.

On the other hand, Rhineland capitalism is, perhaps with the exception of France, somewhat similar in the countries on and near the Rhine River and in some Asian states: Switzerland, Austria, Italy, Germany, Belgium, the Netherlands or Japan. In these countries, the system considers an “embedding the market in a social and political framework, in a framework of social policy, mainly social security policy... equilibrating income differentials by the state... through progressive income tax... inheritance tax... and between the regions of a country...”⁴ In that part of Europe, the capitalist economy is to a large extent an instrument used by the state to fulfil its sometimes unwritten, but silently accepted, mission of “taking care” of all its citizens. The reason for this instrumentalisation of the market by politics is that Rhineland capitalism is deeply influenced by Catholic Social Teaching. But it is more than this, as it has an individualistic Protestant touch coming from the religious wars between Protestants and Catholics which shook Western and Central European societies after the sixteenth century.

The differences between the two systems are visible with “the naked eye”: the Rhineland model tackles the “nation-building” or “formed society” stage (coined lately by Ludwig Erhard), while the various Anglo-Saxon models appear to leave these preoccupations with nation building to chance, trusting that everything will work its bit, as societies are closely knit and are grounded on a solid base of spontaneous social consensus. The disadvantage of Anglo-Saxon capitalism, as compared to the Rhineland model, is that it is not concerned with the prosperity of all its citizens as a purpose of economic government, but with individual prosperity.

² See Koslowski (1998a), p. 5.

³ Named after Lord William Henry Beveridge, Member of the House of Commons, who, in 1942, wrote the “Beveridge Report” for the British Parliament. In this *report*, he proposed a model of economic revival for when the war would have ended.

⁴ See Koslowski (1998b), p. 5.

Which of the two models is more advanced, or better said more appropriate for a country in a specific age, is a matter of interpretation and, ultimately, affinity. Some believe that the most advanced societies are those which strive for the common good, meaning the good of society with mature members. Others believe they must first strive for the individual good, because when each person is doing well, everybody will by result be doing well. Some are pro-Central European, while others are pro-Anglo-American. However, from a non-German and non-Anglo-American perspective, these two models of capitalism complete each other and need each other without delay. This way, the Euro-Atlantic world would have a secure future for an indefinite time, at least as demography will not corrode the internal consensus of these societies by importing an immigrant human nature above the threshold which Euro-Atlantic societies can assimilate.

Currently, the Anglo-Saxon and Rhineland models of capitalism have propelled after the beginning of industrialisation in the late eighteenth century and until the first crisis of globalisation in 2007–2008 the strongest and most dynamic economies in the world, those of Western Europe and North America. The fact that the world is ruled globally, more or less since the early seventeenth century, when the Ottoman Empire began to fall, by countries in this part of the world is no accident, but a result of the successful symbiosis between economic policy, foreign policy and cultural and religious factors. Essentially, capitalist economies successfully coordinate human interest with supernatural life and perceptions. This leadership would definitely have continued longer, had the reform of the Bretton Woods system in 1971 not allowed for the systemic production of debt (public, private and of companies) as we have seen being accumulated by the most capitalist countries ever since.

3.2 Operating Styles of Capitalist Economic Systems

According to a classification made by an interdisciplinary group of philosophers, economists, sociologists and historians,⁵ the styles in which each of these two models of capitalism can be operated could be divided into at least three categories. In the classification quoted here, they are called “regimes”: “liberal welfare regime [. . .] social democratic welfare regime [. . .] corporatist welfare regime”.⁶ The term regime is probably not the most appropriate, as it primarily tends to make us think of a political ideology in that country. In the case analysed here, the regime is only one: capitalist. Therefore, I prefer to call “styles” the various manners and approaches for operating national political economy. Here I mean the “ingredients” in national economic policy can comprise more or less corporatism, more or less

⁵ Sections 3.2 and partly 3.3 are partially adapted from Goodin et al. (1999), pp. 39–80.

⁶ See Goodin et al. (1999), p. 39. The idea is not original to Goodin. Böhm wrote himself about a sort of “left-wing” and a sort of “right-wing” market economy. Comp. Böhm (1953), p. 433.

socialism, more or less freedom of markets, more or less regulation and the combinations of these.

The classification in the only three categories of liberal, social-democratic and corporatist seems right because otherwise the spectrum of analysis would be too broad. Furthermore, the target here is to better understand the Social Market Economy by comparative analysis to systems in comparable countries.⁷

Now, if we apply these three categories to the main two models of capitalism, there are at least six styles of capitalism. Leaning towards one or the other is up to a country's government, through the economic policy it decides to adopt.

3.2.1 *Liberal Style*

This style is embedded in a capitalist economic framework or, in other words, in a market economy where the principle of freedom is the prime guideline.⁸ In this kind of style, there is considerable manoeuvring space for liberal policies and a capitalist economy and only little space left for social policies. A liberal style only gives the state a marginal role with respect to "social welfare". Its number one value is freedom—be it individual or collective—and it professes a neutrality of the state in front of all the ideals of lifestyle which the nationals of that country might have.⁹ As compared to other models, this style's main characteristic is that "liberal social welfare policy, as such, is to separate out those who are genuinely **unable** to make any productive contribution from those who are merely **unwilling** to do so [...] (And, o.n.) those left out of and left behind through the operations of free markets [...] (may enjoy, o.n.) . . . upon ordinary human sympathy [...] social welfare policy [...] merely to alleviate undeserved distress".¹⁰

This is a somewhat inherently brutal component to this style, as social and financial failure is marginalised, leaving those who fail at the mercy of others, i.e. of the winners. Culturally analysed, this "winner–loser" model seems to bear some identity mark of lack of mercifulness of the system towards those who are unable to deliver. But still, there is also an aspect of justice in its effects with respect to those whose lack of motivation keeps them from delivering: is it just to punish those who lack motivation to deliver? Are the liberals the representatives of a rightful attitude based on individual freedom or is it that free social consensus has not yet reached all members of society (i.e. those who do not lack the motivation to deliver did not integrate into the free consensus)? The state in a liberal-style capitalism does not deploy social policies, but a bare minimum of charity in order

⁷ Additional views on economic systems can be found in the *Journal of Comparative Economics* and in *The European Journal of Comparative Economics*.

⁸ Comp. Goodin et al. (1999), pp. 40–45.

⁹ See Goodin et al. (1999), p. 40.

¹⁰ See Goodin et al. (1999), p. 42, p. 43, and p. 45.

to save those who are impoverished from starvation. For instance, in one of the main laws hereto still valid in the USA, the New Poor Law, the eligibility of people to qualify for welfare is expressed as such an undesirable option that only those who are left with no choice at that point decide to accept the social label or juridical status of “poor”.¹¹

On the other hand, economic dynamism is the main product and advantage of this style. It is a model designed for acquiring positions of leadership in comparison to other models. But it certainly has high social costs for the “losers”. It stems from the possibility of fulfilling the desire for success based on the deep fear of failure. The disadvantage is the risk of an emerging social subclass of people who do not succeed and withdraw from social competition in disappointment. Another important disadvantage is the fear of losing one’s job or one’s business: this fear can become quite obsessive at times—whether it is so much different in nature from the fear citizens living in dictatorships experience is hard to say.

We must not overlook the fact that in the countries where the Anglo-Saxon model is applied in mainly liberal styles, such as the USA, Canada, Australia and Great Britain, social and charity work is conducted mainly under private law, by NGOs, private charities and Christian associations, not really the government. The disadvantage stemming from market brutality and from the effects of business success, or the lack of it, produces social exclusion. This is being reduced by *private* charity, as opposed to *public* charity.

3.2.2 *Social-Democratic Style*

This style, in which capitalist economies can be run, has a different focus point, a different interest in comparison to the liberal style. It is rooted in a social and economic framework with socialist inclinations and gives the state a powerful role in income redistribution.¹² It pursues class politics, a socialist-oriented economy and social policies financed through redistribution. Its core value is the achievement of *social equality*.¹³ The means by which to reach equality is the classic social-democratic way. For example, in the Nordic countries, the Netherlands and Scandinavia in particular, where social democrats are more or less predominant in the government since 1945, the essential thing is the equal standing of all citizens in the eyes of society and in the eyes of the state and legislator. Joint participation and the participation of all citizens in social life, including in political and economic life, is a core assumption but also a basis of policies in this style.¹⁴ Economic policies have

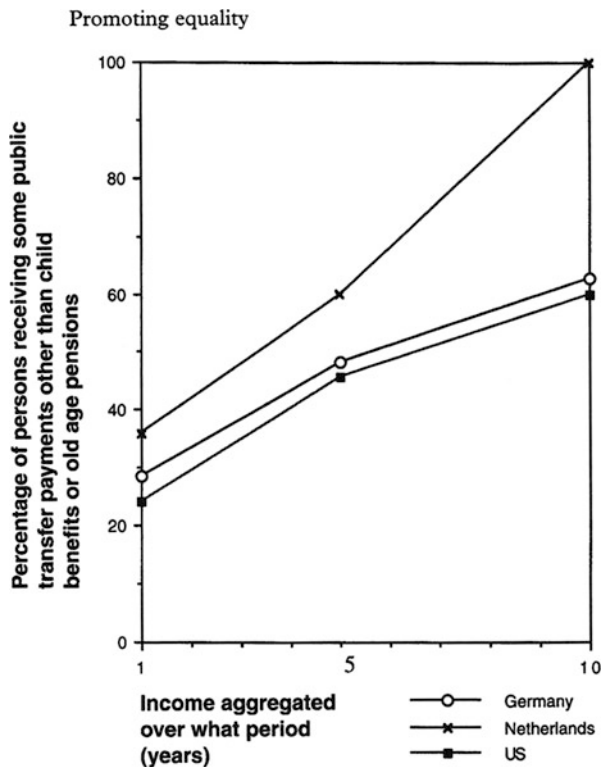
¹¹ Comp. Goodin et al. (1999), pp. 44–45.

¹² For aspects here regarding the social-democratic style, or regime as called by others, Comp. Goodin et al. (1999), pp. 45–51.

¹³ Comp. Goodin et al. (1999), p. 46.

¹⁴ Comp. Goodin et al. (1999), p. 46.

Chart 3.1 Percentage of beneficiaries of social assistance in countries, over no. of years. Source: Goodin et al. (1999), Fig. 9.3, p. 183. Reproduced with kind permission of Cambridge University Press and the authors



here the target to design the rules (legislation) for the social struggle for a share in the products of the national economy in such a way that social equality is achieved. Everybody is expected to participate, and everybody expects to be taken into account by the state. It is the generosity of the public community that, by means of redistribution policies, the state administers a service which attempts to provide all its citizens with the necessary means to contribute to community and social life. The difference to other model here appears obvious if we compare the social-democratic style in the Netherlands with the ordoliberal style (Social Market Economy) in Germany and with the liberal style in the USA. While within 10 years every Dutch citizen has benefitted from some form of public funds in the sense of social benefit (other than child allowance or retirement benefits), only slightly more than half of Germans and Americans did (see Chart 3.1). Nevertheless, this generosity may be threatened by the greed of those who may claim to be unfit to work, when in fact they are perfectly fit, but unwilling to work. The key aspect of a social-democratic style is the fact that the state and public community or society respectively “trust to the character of their people not to do so”,¹⁵ namely, to abuse this public trust.

¹⁵ See Goodin et al. (1999), p. 51.

This model creates the impression of the existence of a safety net for all and calls upon each person's civic conscience. It works in societies with a high degree of social cohesion, maturity and responsibility, like Scandinavian societies and the Netherlands have. Germany too has such inclinations, but these are limited by its specific tendency to "control" and by the coexistence of liberal factors and influences.

3.2.3 *Corporatist Style*

In this style, group politics, a primarily communitarian (not individualistic) economy and solidarity-driven social policies are being applied. As Goodin asserts, the core value and purpose of this kind of style is to achieve *social cohesion*.¹⁶ This goes together with the nature of social consensus in the respective community. Corporatists are attached to the idea of being part of a community, more precisely to groups that are built in a certain way, a way which is different from those of liberals or social democrats. Corporatists target mentally other issues than liberals or socialists. For corporatists, national or local communities are constituted by several groups. Within each group reside other groups,¹⁷ which compose the former. Given the principle of subsidiarity, central to the social teachings of the Catholic Church, in corporatism each group within a larger group is in charge of its own destinies, enjoying an autonomous decision. The cohesion with the other groups is secured by the other fundamental principle which is characterising corporatism, namely, cohesion. Thus, in corporatism, we have as main principles autonomy, subsidiarity, security, stability and cohesion.¹⁸

The mental criteria applied to the formation of groups and to the application of subsidiarity are often professional and geographic (physical proximity). Possible groups in corporatist styles are professional associations: physicians, skilled workers, lawyers, economists, professors or even guilds. These associations may also temporarily take, depending on the evolution of group interest, the form of pressure groups. Corporatist society is the result of the formation of such organisations and professional associations. With regard to the geographical criterion of physical proximity, it is noticeable that the corporatist style has another component, not just the professional one—family: the family is the cell and the smallest group.

It is followed by the group of families that form a neighbourhood, then the local community, then the city, and, in the case of Germany, the state or the "land", and only afterwards, the federal level or the national level. Looking better at the religious roots of political organisation in Central Europe, political (or civil)

¹⁶ For aspects here regarding the corporatist style, or regime as called by others, comp. Goodin et al. (1999), pp. 51–55. See Goodin et al. (1999), p. 51.

¹⁷ Comp. Goodin et al. (1999), pp. 52–ff.

¹⁸ See Goodin et al. (1999), pp. 52–55.

corporatism is the same as religious corporatism as defined within the Roman Catholic Church: parishes are formed according to the geographical proximity of the believers' homes, as defined in the documents of the Second Vatican Council (1962–1965). A feeling of belonging together develops among the members of the groups built on these criteria. The difference between the civilian and religious corporatist systems is that in the church, there is no decentralisation of decision making as it happens with associations or states, especially federal states; the Catholic Church is one of the worldwide most centralised institutions and of whose clergy a high level of discipline is expected.

An important aspect of corporatism is its interconnection with the principle of subsidiarity. The latter lies not only at the foundation of the political and social system in any social democratically run capitalist system but also in the implementation of the *acquis communautaire* of the European Union. According to this principle, any social, cultural, political or economic problem that can be addressed locally must be resolved locally; central institutions are thereby unburdened by matters they could never manage as well as the local institutions could. Thus, subsidiarity is more at the basis of any Social Market Economy system than it is at the basis of liberally run capitalisms.

This market economy-based corporatist style sees state welfare actions as intermediary actions, through which social groups may help each other. This assistance that the state provides societal groups with is reflected, among others, in the sharing of risk: for example, in the Statutory Health Insurance Fund (Gesetzliche Krankenversicherung), the illness risk is unequal among those insured, but is shared equally by all the members. The reason is that contributions are calculated according to the level of each member's income and not the risk of sickness.

The corporatist welfare style is found especially in Continental Western Europe, in areas dominated by ideologies developed by the Catholic Church: Central Europe, Belgium, Italy, Germany, Switzerland and Austria. Other Catholic countries in Europe, such as Poland and Hungary, or even Catholic countries outside Europe, like Latin America, are probably building corporatist systems themselves, but for now their models of organisation are not that obvious or crystallised as to constitute models for others. However, capitalist countries run in corporatist styles seem not to have yet reached the free social consensus needed to lead to stable results in the long run without stronger interference by the state.

3.3 Practical Models of Capitalist Market Economies

Each of these three operating styles of the two main capitalist economic systems is put to work within a national economic model. For a better exemplification of practical models of the above-mentioned styles and for a better explanation of the position in which a Social Market Economy finds itself among other economic models in developed countries, we believe it is useful to present the American,

Dutch, Italian and Swedish models. The reason for this choice is that macroeconomics experts in economically productive countries, like those of social market economies, mostly compare their country's economic progress to that of these countries. The US economy is (still—2012) regarded as a reference for economic power and visibility at a global scale. The Netherlands is regarded in Germany as the most desirable model with respect to the combination between freedom and socialisation and also as an example of openness towards entrepreneurialism. Sweden is considered the ideal reference when it comes to social order and the high degree of social uniformity. And Italy with its *civil market economy*¹⁹ has an economic system which is somewhat related to the Social Market Economy in Central Europe, but has a different root and focus.

3.3.1 *The US American Model*

This is a model of Anglo-Saxon capitalism with a liberal operating style. It functions in the USA but also in the countries under their sphere of influence. **Freedom, internationalism**, free-market economy, performance and progress, especially individual progress, be it material, social or just professional, are core values to this model.²⁰ The freedom conferred by the state is obvious in the economic initiative freed from constraints or social norms. Of course individual freedom has the reverse cost of fear²¹ of, for example, losing one's own job—and this daily fear, often even turning into terror for an employee, forces him to high productivity rates on the job.

The declared purpose of the economic style in the USA is primarily to “make money”,²² to acquire wealth, for personal benefit in the first stage and for the family's benefit, in a second stage. Only at a third stage is the good of the company considered by an employee, if at all. The last, but not less important, stage is a patriotic consideration which comes into the game: the good of the community or the nation as a whole. American patriotism, as a contradiction between individualism and nationhood, is a well-known paradox. Social security provided by schemes run by the American government for individual benefit plays only a marginal role in the benefits which can reach the individual and are enough provision for him. The nature and manner of American social security is one where people are “. . .taking

¹⁹ The term stems from the presentation of Prof. Stefano Zamagni, University of Bologna, held at the Social Ethic Debates (Sozialethische Gespräche) in Germany in Mönchengladbach in May 27–28, 2011. More by accessing [http://www.ksz.de/aktuelle_nachrichten.html?&tx_ttnews\[tt_news\]=23&cHash=5b77a0289b6568039b6dc07e47cdb760](http://www.ksz.de/aktuelle_nachrichten.html?&tx_ttnews[tt_news]=23&cHash=5b77a0289b6568039b6dc07e47cdb760). Comp. also Bruni and Zamagni (2013).

²⁰ Comp. Goodin et al. (1999), pp. 57–63.

²¹ Of course, fear is also a constraint to personal initiative, but it stems from the individual and is not imposed from his/her outside world.

²² Comp. Eichengreen (2011) on the rise and fall of the US dollar as expression of this style.

care of themselves and their families. . .”²³ They can insure themselves, of course with an insurance policy, another liberal free-market instrument against the risk of becoming dependent on others. Having at least some social security is compulsory by law in the USA. It is not however specified in which fields, where, with what insurance company and how much social security a person should enjoy. The starting point is the idea that an individual is mature enough to decide on his/her own the extent of the social security, otherwise, thus the assumption that she/he could not have survived to that point or, if she/he is an immigrant, could not even have reached the USA. Social liberty means in the USA simply that the American government administers the lowest possible chunk of the public insurance, a level lower than that which is traditional in Europe.

The opportunity for social security was created for the first time by the Social Security Act of 1935. It created a mechanism through which an individual could protect himself/herself against dependence on others, through his/her own means. The law stretches its roots to America’s colonial past, before the 1776 Revolution. The colonies used the model of the English Elizabethan Poor Law of 1601, which, in turn, was based on similar, older laws, such as that issued by the Holy Roman Emperor, Charles V, in 1543 and even that issued in the West under emperor Charlemagne in 779.²⁴ Consequently, Continental Europe and especially Holy Roman Empire influence on the US American system appears to be significant.²⁵

The social security structure of the North-American system is relatively young by comparison to that of the major developed Western European countries. Public accident insurance, health insurance and maternity allowance were established gradually after in the early twentieth century, and it continued through the mid-1960s. Government programmes for unemployment benefits, pensions and liabilities insurance were established after 1935.²⁶ This state of affairs does not however exclude the prior existence of numerous NGOs and private organisations and insurance, which are perhaps more efficient in charity and social work than the government. The total public social expenditure in the USA consisting of pensions, health and financial support during work age and others was with its levels of below 9 % of GDP in 1985 and almost 10 % of GDP in 1993. This was about half the OECD average of the 1980s (ca. 16 % of GDP in 1985) and of the 1990s (ca. 18 % of GDP in 1993).²⁷ Today things are changed. In the USA, the pressure for making public social expenditure increased to almost 16 % of GDP in 2007, thus coming close to the OECD average which increased itself too to around 19 % by 2007 (see Table 3.1). The countries with the highest social expenditure in the OECD are

²³ See Goodin et al. (1999), p. 60.

²⁴ Byzantine tradition remains here unconsidered, because we tend to consider the Social Market Economy a preeminently Western Christian creation. There are works attempting to insert social theology into the Orthodox area, incl. in Russia. Comp. Thesing and Uertz (2001).

²⁵ Comp. Goodin et al. (1999), pp. 58–60.

²⁶ Comp. Goodin et al. (1999), pp. 58–60.

²⁷ For the above exact figures on social security expenditure in selected countries in 1985 and 1993, see Goodin et al. (1999), p. 81, Table 4.4. For figures in 2007, see Table 3.1.

Table 3.1 Public social security expenditure in selected countries, % of GDP, 2007

Country	2007
Sweden	27.33
Netherlands	20.08
Belgium	26.35
Denmark	26.10
France	28.40
Germany	25.16
Austria	26.42
Finland	24.93
Ireland	16.31
Italy	24.86
UK	20.54
Norway	20.80
New Zealand	18.39
Switzerland	17.80
Canada	16.86
USA	16.20
Australia	16.02
Japan	18.70
OECD average	19.26

Source OECD (2011) Data HE 5.1 Data reproduced with kind permission of OECD Publishing

France and Sweden, having almost double the rate of the USA and being in 2007 with ca. 27 % and 28 % of GDP much higher than the OECD average. Germany also ranks high with over 25 % of GDP in 2007. But this is somewhat a balanced position in relation to the OECD average, if we keep in mind that with a million population of almost 82 million in 2010, Germany is a large country, and thus it is a bit more difficult for the government schemes to efficiently run state support programmes than it is in smaller countries like Sweden, Switzerland, Ireland, etc.

3.3.2 *The Dutch Model*²⁸

This model resembles an Anglo-Saxon model of capitalism as far as the economy goes, but operates as in a social-democratic welfare style. It is based on a free-market economy, on internationalism and on free trade but also on an original concept called “**consociationalism**”,²⁹ a sort of public sovereignty which forms itself in a “bottom to top” process.

²⁸ Comp. Goodin et al. (1999), pp. 63–71.

²⁹ See Goodin et al. (1999), p. 64.

Of course the Dutch and the British have a crucial interest and reasons to support free trade; among these are the needs for food diversity and catering to the natural food self-insufficiency in the Netherlands as well as on the British Isles. Both countries depend on food imports. If in the latter food self-sufficiency in 2008 did not reach 75 % of the domestic food consumption,³⁰ the Netherlands did somewhat better. So the very fact of wanting to survive in those cold and wet European regions makes imports of foodstuffs a “sine qua non”. For this to work, trade has to flow easily, with flexible regulations; therefore it is needed to be free.

However, the Dutch have a social network with stronger support for the poor than the British. As a Dutch specialty, consociationalism is the Dutch model of social consensus. It is based on a bottom-up sovereignty system where power, in the absence of strong central government authority, is divided between smaller “authorities”.³¹ They enjoy somewhat equal power among themselves, as they have a state-based, provincial and religious nature. The system as such is similar to the “Kleinstaaterei” in the post-Reformation Germany of the seventeenth and eighteenth centuries.

In order to make society work, these Dutch authorities found themselves, up to the nineteenth century, in situations where they had to tolerantly collaborate with each other. Nineteenth-century controversies between Catholic and Protestant schools gave consociationalism religious undertones that ended up dominating Dutch politics as late as the mid-1960s.

During the 150 years after 1815, Dutch society was divided between the Calvinist pillar and the Catholic pillar. Whereas for the Calvinists and Protestants the perception about the source of sovereignty was that this resided in one’s own group, the Catholics, professed the principle of subsidiarity as the basic pillar of authority. Dutch social policies, at a central level, meant that each pillar was responsible for its members’ social security at the national level, leaving only a marginal role to the state in this field. This was true as long as religion still played the central role in social life. This kind of system is known as the “*Nachtwakerstaat*”.³² It ceased to exist when the Netherlands adopted “the National Social Assistance Act” of 1963 replacing the “Poor Law”. Thereafter, the government took over, by law, the primary responsibility of delivering social security and assistance; it became a welfare state, a “*Verzorgingsstaat*”.³³ Assistance for the poor was no longer left to random charity or benevolent church actions, but became a public utility and a civil right, an “<entitlement>”, a right of citizenship rather than an act of charity. The <social minimum> thereby introduced was set at the same level as the

³⁰ See Romanian Ministry of Foreign Affairs, diplomatic analysis of the Department for Economic Diplomacy related to the food price worldwide increases of 2007.

³¹ The Netherlands was known, after their independence through secession from the kingdom of the Spanish Habsburgs, meaning from the Holy Roman Empire of German Nation, in 1579 and until the nineteenth century, as *The United Provinces of the Netherlands*. See *The New Britannica Encyclopaedia* (2007), p. 616.

³² Comp. Goodin RE et al. (1999), p. 65.

³³ Comp. Goodin RE et al. (1999), p. 65.

minimum wage itself, which is 50 per cent of average earning”.³⁴ This is quite a large amount, in fact and it can happen that it discourages those who benefit from it from looking for employment. The implementation of the law meant that the Netherlands’ public social expenditure soared in the 1980s from among the lowest in the OECD, as were Sweden’s during that time, towards the top. The Netherlands and Sweden had become, with France, countries with among the highest percentage of social expenditure as percentage of GDP in the OECD (see Table 3.1).

Whereas in Sweden this transformation occurred as a consequence of political action, as power was in the hands of labour organisations and unions, in the Netherlands, it happened differently, namely, through the particular way in which the two-pillar consociational policy model turned towards the Anglo-Saxon model of capitalism run by the state in a social-democratic welfare style.

The circumstances of this transformation in the Netherlands were generated by economic surplus due to a slow and controlled rise in salaries, intense international trade and income from North Sea natural gas exploitation. In the 20 years of transition of the 1960s to the late 1980s, the state and the central administration in the Netherlands learned to get over their qualms by rising from the level of provider for the citizens who had fallen through the safety net of the two traditional social pillars to the level of bearer and funder of an extended national system of social assistance.

The Netherlands have one of the highest levels of citizen benefits of social assistance. In a time span of 10 years up for analysis, all Dutch citizens benefitted from at least one type of public social transfer, not including pensions and child benefits (see Chart 3.1). The difference to the USA and to Germany is important, as these have smaller percentages of assisted citizens, that is, less than two thirds of the population.

The first public social aid programmes in the Netherlands appeared 30 years after those in Germany, shortly before the First World War broke out. But Dutch capitalism did not have to go through the turbulence which German capitalism endured between 1918 and 1948 and through the destruction brought by Soviet occupation in Eastern Germany and the East European countries after 1944.

Thus, because in the USA state-granted social security is more recent than even in the Netherlands, we can infer, while taking Germany as a reference, that the farther west and north we go from Central Europe, the lower the degree of government involvement in social protection mechanisms and the bigger the role of private and liberal initiative in society.

3.3.3 *The Swedish Model*³⁵

This model closely resembles a Rhineland model of capitalism as far as the free economy goes and operates as a social-democratic welfare style. **Achieving**

³⁴ See Goodin RE et al. (1999), p. 65.

³⁵ Parts of this subchapter have been adapted and partially adapted with kind permission from Springer Science + Business Media from Forslund (1997), pp. 121–165.

equality among the members of society is its main goal. The economy is regarded simply as just another way of reaching this goal.

According to Forslund, from the National Swedish Institute for Labour, the Swedish system has five characteristics³⁶: (1) The state runs in an efficient way, and considerable funds are earmarked for social expenditure. (2) The labour force is almost completely trade unionised, although at national level there is only a small total number of unions but which in fact have power to set the level of wages and benefits in a centralised manner. (3) Corporatism caters to the desire to have peaceful work relations, at least as much as possible, because the ideal of full peace is not attainable. (4) The state is actively involved in the labour market, similarly as in the Dutch model, although this is similar in any country that runs unemployment benefits schemes and has a labour and social policy. (5) Full employment and income equality are the main goals social life gravitates around, which, although desirable, can never be attained as it is mathematically not impossible to have exactly zero unemployment.

Pursuing and achieving these goals together can make and does indeed make Sweden *the* social-democratic country of prosperity through welfare par excellence. The state takes on, by design and destination, the role of social security provider for its citizens, from birth to death, in fact quite a generous way. It created and manages several public social services, such as free education. There is a high level of unionisation: most Swedish employees are union members. Centralism makes it so that there are only two or three large unions, thereby increasing and concentrating their power. Employers, in turn, are therefore indirectly forced to organise themselves in national centralised associations that are very powerful too.

Something more typically Swedish is the presence of union and employer association representatives in quite a number of government and public bodies. Their presence is explained by analysts by what is called *the historical compromise*.³⁷ Germany too believes in the importance of a certain degree of co-decision or codetermination where unions are involved in public government, but this participation should not be operated through public office of the state. Comparing further, we see that the nature of the historical compromise in Sweden demonstrates that the system is apparently the opposite of the US American one. Compromise means that “labour, in control of political power, tacitly agreed not to use this power to deprive capital of its economic power”.³⁸ In other words, the private sector and employers are regarded somewhat as annexes to social life and sometimes even as a sort of **evil which cannot be avoided**. Union power needs employers as an audience to influence and to fulfil its own social role. It is surprising, though, how, in spite of restrictions placed on employers, Swedish products have remained internationally competitive. Maybe in Sweden, but only given the identity of its people, creativity, ingenuity and productivity are not stimulated through

³⁶ Comp. Forslund (1997), pp. 124–ff.

³⁷ Comp. Forslund (1997), p. 140.

³⁸ See Forslund (1997), p. 140.

competition and freedom to the same extent as they are in the USA or Germany. They seem to be stimulated when results seem to lead to egalitarianism.

Another typically Swedish trait is that peaceful work relations are guaranteed by the **principle of “wage solidarity”** secured by centralised wage negotiation.³⁹ This means equal pay for equal work, no matter how profitable the company or what the gender, age and education level of the employees are. This is inconceivable in a free-market economy. Still, this principle existed in Sweden until 1983, when it was replaced by collective negotiations inside the company or within that particular economic branch, as it currently happens in Germany.

What is especially typical for Sweden is the active involvement of the state on the labour market. The open struggle against unemployment was the “number one” priority for Swedish governments between 1932 and 1988. It was actually institutionalised when the National Labour Market Board Act was passed in 1948. Since then, the government saw it as its own responsibility to ensure employment and promote mobility and measures in favour of those who were marginalised. After 1983, the turning point in the evolution of Swedish economy, the state introduced a guarantee that when unemployment benefits stemming from the former job on the first labour market expire, the government will provide a workplace for the person who is still unemployed, in at least a job with the character of social assistance. In German terms, this type of position would be counted to the secondary labour market.⁴⁰

After 1988, along with the rapprochement to the EU but prior to its accession there, in 1995 the Swedish government’s priority to secure employment was replaced by that of **maintaining a fixed inflation rate**. From this change of policy, we infer that the political philosophy behind economic policies shifted at that point. This change documents that central banks gained more importance in public policy along the government. This shift was significant and beneficial to an efficient integration of Sweden into the European Union. It must not be forgotten that hitherto during the Cold War, Sweden had been doing some balancing acts between the Soviet Union⁴¹ and the West. With this shift, the balance inclined in favour of the West and Sweden accessed to the EU in 1995. So it is safe to say that starting with the late 1980s, the Swedish economy is no longer reliant on the same grounds of political philosophy as between 1932 and 1983.

Certain economic doctrine specialists say that there is no Swedish model “per se”. Others wonder if it has ever existed. Nonetheless, most say that there is simply a set of social-democratic characteristics of capitalism that are typical to Sweden’s economy in the way they are applied, as in the large amounts spent by the state on

³⁹ See Forslund (1997), p. 142 and comp. Baldwin (1997) pp. 19–24.

⁴⁰ Comp. Forslund (1997) pp. 142–148.

⁴¹ In diplomatic circles, it goes as common knowledge that during the Cold War, Sweden had been training intelligence agent both for the West and for the Soviet Union.

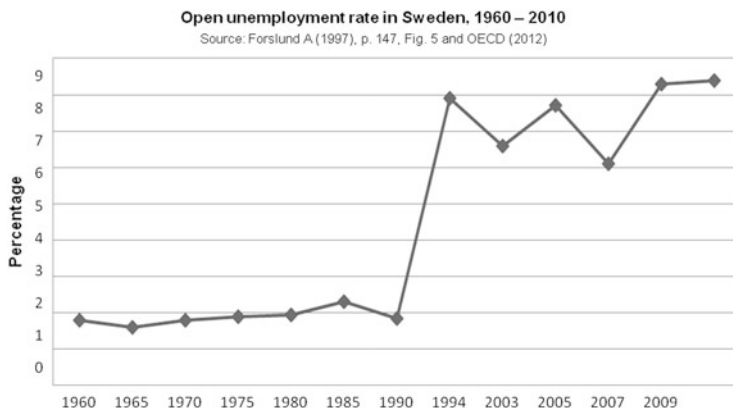


Chart 3.2 Open unemployment rate in Sweden, 1960–2010, approximate data. Chart years 1960–1994. Source: Statistics Sweden, Labor Force Surveys and National Accounts Statistics, Forslund (1997) p. 147, Fig. 5 then extended with own calculations on OECD data

social security.⁴² After 1990, the proportion of public expenses made by the Swedish government, which include social assistance, had to follow the tracks set by the five criteria of economic and monetary convergence of the EMU. So the rising path public expenses had been on the rise in the early 1990s. There was a fivefold rise in unemployment rate in less than 5 years between 1990 and 1994. While ever since the 1960s the unemployment rate was stunningly low at between 1 % and 2.5 %, after 1990 things changed abruptly (see Chart 3.2). Thus, after 1994 until 2010, Sweden has unemployment rates of ca. 7–9 % which are mainstream values for those EU member states which have sound economies.⁴³

According to the criteria of the EU's Economic Stability and Growth Pact of reducing total public debt to under 60 % of GDP, Sweden has succeeded to use the good opportunities of the first decade of the 2000s and decreased its public deficit from over 63 % GDP in 2001 to 49.3 % GDP in 2007.⁴⁴ These are signs that the Swedish model has been on its way to a more neoliberal market economy since the mid-1990s and neoliberalism began to gain strength along with the EU accession process in 1995. Considering the pressure put on the Swedish government to make adjustments, the statement that the Swedish model does not actually exist, or does not exist any more, is not completely off track. The model leans towards Rhineland capitalism operating as a social-democratic welfare style.

⁴² The range of social assistance services, maintained as a form of consolation, was still very wide up to the 1990s and is presented in detail in tables 2 and 3 by Forslund (1997), p. 129–131 and table 4 on p. 136. For instance, there is an extra subsidy to medical insurance and for the employees' dental care.

⁴³ See Forslund (1997), Fig. 5, p. 147 and OECD (2012).

⁴⁴ See OECD (2012), data reproduced with kind permission from OECD publishing.

It remains to be seen how capitalism in Europe will find its new identity after the economic and financial crisis and free itself from the domination of Anglo-Saxonism after 1945. The broad consensus which will hopefully be found between Continental European and euro area countries will influence the Swedish style as well. Consequently, Sweden's evolution will be one analysed along with the EU's evolution, although Sweden did not join the euro area. The influence on non-euro area countries will be stronger if the EU moves towards *The United States of Europe* and weaker if the EU will remain a more British type of single market free trade area, but there will still be strong influences on Sweden as well. And this can be compared with, for example, the strengthening of the Swiss franc in 2011 due to the refuge it provided to Eurozone savers from rising inflation at home.

3.3.4 *The Italian Model*

Italian unification started earlier than Germany's, but it was completed the same year, 1871. The political unification process started with the campaign of the Piedmontese and freemason Count Camillo Benso di Cavour against the Austrians. The Kingdom of Sardinia, after a successful alliance with France's Napoleon III, received in 1859 Piemonte following the peace of Villafranca. Later, Sardinian offensives continued successfully against the Austrians and in an alliance with Giuseppe Garibaldi and his successful campaigns in the peninsula, by 1860 Lombardia, and the whole of the rest of the Italian peninsula, including Sicily, but with the exception of Venetia and Lazio, were politically joined with Sardinia.⁴⁵ After the Austrian Monarchy was defeated by Prussia at Königgrätz in 1866, the regions Veneto and Lazio left Austria and respectively the Papal States in 1866 and 1870. These regions joined the Italian parliamentary monarchy and became politically united under King Vittorio Emmanuele I. Although united, the new country had political, economic and social divisions. While politically as late as the 1870s only a small minority of Italians had the right to vote (Piedmontese constitution), from a social point of view, "there was a definite division between the propertied classes and the common people. There was also a great social and cultural gap between the progressive industrializing north and the stagnant agrarian south".⁴⁶

It seems that now by 2014, most of those divisions within Italian society have kept the multiple layer nature they had at the time of political unification. It is not only the political fragmentation due to a long-term lack of a credible leadership which has pushed the voters for at least 20 years into the hands of the one and controversial man Silvio Berlusconi's party, but socially Italy is going through an age of uncertainty, political fatigue and disappointment.⁴⁷ Together with the

⁴⁵ Comp. McKay et al. (1991) map. 25.1, p. 794.

⁴⁶ See McKay et al. (1991) p. 796.

⁴⁷ Comp. CENSIS (2011) pp. 53–54.

fragmentation of political power, both among parties and among regions (Lega Nord), there is a drift towards a flattened society where drives of achievement within individuals seem to have gone asleep. Public consciousness seems to be voidening of meaning and purpose in life. Disorientation gave rise to such responses to the government's deliberate promotion of consumerism that some "people reject any kind of offer, irrespective of its merits... (while others, o.n.) are eager to quickly take advantage of apparently unrepeatably and extremely advantageous promotions".⁴⁸ These attitudes produce the atomisation of society. In addition, the North–South divide in the levels of efficiency of the public authorities is apprehensible. While businesses and institutions in the North seem to succeed in working economically competitive respectively independently and similarly to those in Central European countries, in Italy's south, powerful families seem to often dictate both to businesses and to public institutions. A lot of things have remained the same such as the role of the Italian family.

At times its patriarchal role appears to have been accepted by the state, and taken into its institutional planning, just like in other countries, remittances of workers from abroad are taken into consideration when central banks or ministries of finance plan monetary and fiscal policies, respectively. In Italy, the family is often used by the state. Dysfunctions of the public welfare system are covered by Italian family solidarity which "always have been considered a strategic pillar for Italian welfare"⁴⁹ in the sense that they have learned to protect their interests as "family groups" and the state has learned this.

Currently, analysts see in Italy "a society that is turning more and more into a mass pulp, a chaotic hodgepodge of drives, emotions and experiences. A society as unable to identify its goals as it is sceptical or indifferent vis-a-vis the future".⁵⁰

In such a situation, models and credibility are needed in order to channel energies in a constructive way. Italy has its own models⁵¹; they just have to be resuscitated and marketed accordingly.

According to Prof. Stefano Zamagni from the University of Bologna, Italy experienced a model which is called the *civil market economy*. This model has apparently its roots in Renaissance Italy of the sixteenth century. Civil market economy was developed at a time before the modern national state had appeared in the mid-seventeenth century with the Westphalian peace of 1648, when most of the social problems were solved at a local level by the civil society. After the national revolution of France and industrialisation, the state took over the solving of the social problems, bringing about what we call now Social Market Economy.

Like the Social Market Economy which has its main roots in Germany, the economic model running in Italy has its roots in the Catholic social teaching which

⁴⁸ See CENSIS (2011) p. 33.

⁴⁹ See CENSIS (2011), pp. 40–41.

⁵⁰ See CENSIS (2011), p. 235.

⁵¹ Here I do not mean the antique Roman models which the Roman empire has exported all over Europe, but I mean models from after the country's political unification.

had its centre of implementation in the former Papal States of central Italy, dissolved by the Italian national revolution under the red shirts of Giuseppe Garibaldi.

Unlike the Social Market Economy which is an offspring of industrial needs of the late nineteenth century, the *civil market economy* is rather a fruit of preindustrial society which has been adapted to industrial need by the thought of certain personalities like Don Luigi Sturzo.⁵²

Doctrinarian connections with German ordoliberalism have been drawn in Italy by Sturzo. He deals in his writings and correspondence with the German academics, not only with free-market economy issues but with ordoliberalism, the disadvantages of state intervention and with the organisation of power in public and economic life and in all with the social market economy too.⁵³

Be it social market economy or civil market economy, as Prof. Zamagni upholds, in the Italian model it is market forces which have to work for anything to be running at all. And it works best only if it is based on a strong initiative, “My defence of private initiative is based on the considered belief that a planned state economy is not only bad economics, but also that it suffocates freedom and is harmful to social well-being”⁵⁴ said Luigi Sturzo. Although a Catholic priest (i.e. most priests are known to be rather on the social distribution side of economics), he thereby made an oath of allegiance to free marketeerism based on private initiative. This is common both to the Social Market Economy in Germany and to that in Italy. Once market forces are working on both systems, we can have a look at the differences between these.

The differences between the Social Market Economy and the civil market economy start at the level of property rights. According to Prof. Zamagni, if in the first we have only the concepts of private and public property rights, in the latter we have in addition the concept of *common property rights*.⁵⁵ This relates to a property of a small local community which is more personal in its identity than the large impersonal public property of the whole state or nation. Given Italy’s history and intensive intercourse with a two-thousand-year-old Christian Church and Papal State entities, this is understandable.

Further, just like we have three types of properties in the civil market economy, in the same way we have *three types of justices*, each of them corresponding to a type of property: commutative justice (corresponding to the private property rights),

⁵² Don Luigi Sturzo was a Catholic priest in Italy. He is a descendant of the Romanian princely family Sturdza who in the nineteenth century had several members who were princes of Moldavia, and others were Foreign Ministers and Prime Ministers of Romania. Comp. Rinascimento Popolare (2009).

⁵³ Comp. Felice (2009) pp. 3–17.

⁵⁴ See European Popular Party (2009), p. 2. The European Popular Party document placed Sturzo at the same level of leadership on doctrinal issues concerning the Social Market Economy with Ludwig Erhard from Germany.

⁵⁵ Concrete results and macroeconomic data on the Italian economy and macroeconomic figures of the latest years can be seen in CENSIS (2011).

distributive justice (corresponding to public property rights) and *contributive justice* (corresponding to common property rights).⁵⁶ There is an important dimension with respect to the “common” dimension: it is neither public nor private and its corresponding “contributive” justice exists because everybody is a member of a community to which he/she contributes to the generation of wealth. This generation of wealth appears to be giving and not only taking at the smaller scale of a local community. According to Prof. Zamagni, in the Social Market Economy, a more personal and intimate nature of socialisation is missing. This is due to the missing of contributive justice and common property which make life more personal.

The differences between the Social Market Economy and the civil market economy continue at the level of solidarity. Here Zamagni’s argument runs that efficiency (free-market economy) and solidarity (the socialisation pillar at national level) are necessary pillars in the Social Market Economy, but are not enough for a successful organisation of society. There is the additional need of the element of *fraternity*.⁵⁷ This principle defined by the French Revolution and also by the papal encyclical “Caritas in Veritate” while it is different in nature to the principle of subsidiarity (which refers mainly to administrative tasks) can be a new pillar needed in order to make the system of Social Market Economy stable by expanding it with the missing **emotional dimension**. Whereas solidarity and subsidiarity can be impersonal concepts, as they also are partly invention of the Socialist international and taken over by Pope Pius XI in the encyclical *Quadragesimo Anno*, **fraternity** cannot be an impersonal concept as it **deals with small and local communities and it stays local**. In today’s debt-ridden Western countries, fraternity can be thought of as an economically relevant instrument because many problems could be addressed and solved at the local community level where the state is not able to deliver solidarity patterns from the national level via subsidiarity.

In a third way, there is a fundamental difference between the concept of “market” as social institution in the Social Market Economy and in the civil market economy. In the latter, again according to Prof. Zamagni, it is expected from the market that it maximises not only primarily the material/financial profits but also the general well-being, personal happiness and social relations, such as fraternity. The renewal proposal addressed to the Social Market Economy and especially to the neoliberal market economists from the civil market camp is to “begin to see the market-based system as being a realm designed not only for nasty (hawkish, o.n. people), but for everybody trying to pursue humanistic attitudes and styles”.⁵⁸ Apparently, these calls might have brought about some change at the academic teaching level, because several business schools, such as the Harvard Business School, have introduced master degrees in “Humanistic Management”.

The theory of the civil market economy runs further and claims that it is only through a fraternity style that conflicts of identities can be solved. These relate to

⁵⁶ Comp. Bruni and Zamagni (2013).

⁵⁷ See Zamagni (2011) p. 51 and p. 52.

⁵⁸ Comp. Bruni and Zamagni (2013), pp. 187–ff.

migratory flows, to gender issues a top management level, but also problems of the lack of happiness in spite of the level of income. Such approaches would certainly help address some of Italy's current problems in a meaningful way and bring forth sustainable solutions.

3.3.5 *The German Model*⁵⁹

As we have shown, this model can be called Continental European Rhineland capitalism operating in a corporatist welfare style. What is typical for the Social Market Economy as applied in Germany is the mix between socialism, liberalism, patriotism and environmentalism, all operating in a corporatist welfare style which in its turn is based on the Christian worldview.

The market economy in Germany and its capitalism are **neo-institutional**. This is the most important statement because the whole systematisation efforts which came up in the West and North West of Europe, after its rise to world dominance since the late sixteenth century, are centred on the institutionalism developed in the eighteenth and nineteenth centuries. "Unlike the conventional economists whose primary concern is with the current economic situation and short-run market developments, the neo-institutionalists look at the present and near future economic situations, but only against the backdrop of long-range developments".⁶⁰ It is, as we have seen, exactly the case of the fathers of Social Market Economy, the ordoliberalists, who sought to restore their country's economy with a social and historical perspective in mind. Neo-institutionalists are interested in human needs and desires. They have an interdisciplinary approach to the economy and in fact, only this makes sense at a macroeconomic level. Conventional economists, or econometrists, are not really primarily interested in the individuals' needs and desires⁶¹; they are simply driven by calculating profits and think rather from a microeconomic and business management or statistical point of view.

Besides neo-institutionalism, the German economic system is corporatist and derived from Catholic and Protestant corporatism and is, as we have already seen, a Social Market Economy. This model ideally tries to limit the human drive for profit and worldly wealth and believes that these can become addictive, especially if material and financial gains are allowed to become purposes in themselves. For example, at the beginning of post-war economic life in Germany, many company owners were not after profit as the ultimate goal; they actually wished to *serve* their

⁵⁹ Comp. Goodin et al. (1999), pp. 71–80. For a comprehensive presentation of the options for reforming the German welfare state, see Berthold and Fehn (1997), pp. 165–203. Nevertheless, these options are of course from the point of view of before the Western debt crisis became obvious after 2007–2009.

⁶⁰ See Gruchy (1972), p. 293.

⁶¹ See Gruchy (1972), p. 290.

customers, *helping* them by fulfilling their material needs or desires. Correctly, one of the results of this *service* is profit, but also social harmony. Profit is certainly the criterion for success measurement, and it is welcome, but not at the cost of harming community trust and relations. Or at least this was the case in the beginnings of Social Market Economy, before the pressures of globalisation and neoliberalisation became heavier. Later, with the advent of wealth and of the economic miracles, the view changed. The individual was no longer a human being with needs, but became a consumer, a target of the sales departments of companies and a target of marketing experts and of researchers of choice architecture, who has to spend in order to keep the economy running.

At least from a distance, the view on profit is what makes the difference between the German economic system—if applied in its original sense of the 1950s and 1960s—and the current model of Anglo-Saxon economic style. For the latter, profit and capital build-up has but one limit: “the sky is the limit”.⁶² In the German system, on the other hand, there is a belief in the common good, namely, that if everyone strives for the fulfilment of his own egoistic desire for profit in the sense of “the sky is the limit”, then nobody would care for accomplishing a common good: “while everyone wishes that for oneself, surplus goods and less hard labour, man trails his/her neighbour and prevents him from reaching what he himself desires. And as such the common good, which consists in justice, is not being observed, the unity of conscience in harmony goes to pieces”.⁶³ So in Germany the desire for profit is not limitlessly encouraged, because it is perceived as to upset the internal social peace and unity and, as a consequence, the national productivity of all market participants and, sooner or later, international peace.

The **common good and social unity** are the main goals of Social Market Economy, at least in its original pre-mid-1970s state of evolution. They can be achieved once a functional market economy is in place.

Unlike in other free societies, the German public opinion seems to believe that social justice is what ensures unity and solidarity and thus economic participation in a life within the national group, which implicitly brings forward higher productivity. As we can see if analysing the macroeconomic figures, Germany thus was, until

⁶² This expression is well known in the American business community and among the potential immigrants who dream of becoming quickly rich in the USA. Still, its correctness and achievability should be reanalysed more carefully. This proposal has become credible after the economic and financial crisis in 2007–2009 when it became known that since the reform of the Bretton Woods monetary system in 1971, that country and several other leading Western countries have been run by the principle “growth by spending in deficit”. And this was applied not only to “taking up public debt” as a systemic tool to run the government business but especially to drive private consumption. Debtors and creditors have profited from the deregulation of credit run by the Federal Reserve. For further detail on the results of deregulation, see Eichengreen (2011).

⁶³ See Rütger (1925), p. 48: “...Und indem jeder für sich dieses erstrebt, nämlich Überfluß an Gütern und Versagen beim Übeln (...) beobachtet er seinen Nächsten und hindert ihn, das zu erlangen, was er selber erstrebt. Und indem so das Gemeinwohl nicht gewahrt wird, das in der Gerechtigkeit besteht, geht unter ihnen die Einheit der Eintracht zugrunde”. in Comm. in Arist. Eth. IX, L.6.

mid-2010 when it was overtaken by China, the biggest⁶⁴ exporter of goods and services worldwide—although it is not the biggest economy worldwide. The surplus of its current balance is thus being produced by the higher productivity of the German economy, making Germany a net international earner.

Consequently, social justice should be on any government's agenda in a country which heeds to Social Market Economy principles. In this sense, it is the state's duty to take care of its own people. The private economic sphere and the government's public sphere are interlocked in the case of a central state, or a central authority, as we have operating in German-speaking lands, i.e. in the time between the end of the First Reich (843AD–1806AD) and the end of the Second Reich (1871AD–1918AD), meaning more or less from the times leading up to the First World War. In this time span, Chancellor Bismarck's personality was the decisive factor of interweaving private economic life with state regulatory life.

Germany, where today's main identity traits of the Social Market Economy stem from, became industrialised fairly late in comparison to other Western European states. The Customs Union of 1834⁶⁵ was the first decisive step towards the modernisation of German-speaking "Länder" and the unification to its current territory. Back then, after the religious Thirty Years' War between 1618 and 1648, Germany was made up of around three hundred small principalities, which coexisted until secularisation was performed under Napoleon Bonaparte in 1806. This small state system was brought to an end following the national assemblies and revolutions in 1848 by which Germany was also marked and by the three consecutive victorious wars run by Prussia against Denmark (1864), Austria (1866) and France (1871). Given the success of Bismarck's political unification through "blood and iron" and modernisation of the economy through "corn and iron" policies,⁶⁶ Germany succeeded in making its way up to the rank of the top four industrialised countries in the world. The great leap forward was made between 1880 and 1900, exactly the time when the Iron Chancellor's policy was implemented. Germany more than doubled its industrialisation level per capita, reaching half of the UK level in 1900 and being preceded by Belgium and the USA.⁶⁷ The methods through which political unity was achieved—

⁶⁴ In terms of absolute figures.

⁶⁵ See McKay et al. (1991), p. 796. The German Customs Union among the multitude of small states (Kleinstaaterei) is known as *Zollverein*.

⁶⁶ Otto von Bismarck (1871–1898) was ambassador of Prussia at the Federal Assembly in Frankfurt (1851–1859) and then to St. Petersburg and Paris and then prime minister of Prussia (1862–1871) and Chancellor of the First Reich (1871–1890). He is well known for his direct, blunt, undiplomatic and often uncompromising speeches. For instance, as early as 1862, he believed that "The great questions of the day will not be decided by speeches and resolutions—that was the blunder of 1848 and 1849—but by blood and iron". See McKay et al. (1991), p. 798.

⁶⁷ See McKay et al. (1991), table 22.1, p. 704. The table "Per capita level of industrialisation levels 1750–1913". The table shows the comparative evolution of all industrialised countries between 1750 and 1913. In 1914, Germany was behind Belgium and until 1880 was even behind France.

by outlawing the SPD as a political party⁶⁸ in 1878—and in which territorial unity was accomplished—by three wars with its neighbours Denmark, Austria and France—and the manner of adoption of the Civil Code and the Social Code, make Bismarck's government (1862–1890) look in many ways like a development dictatorship. Bismarck's system looks similar, why not say it, to that of some Eastern European or South American authoritarian political systems of the mid-twentieth century.

We must not forget that many of today's developed Western countries became industrialised through similar dictatorial measures. Every nation has periods of time when national progress was only possible by dictatorial means. The sixteenth- and seventeenth-century monarchic absolutism in England, France, Spain and Russia aside recall us of Oliver Cromwell's protectorate between 1653 and 1658 in England and the guillotine dictatorship in France between 1789 and 1801. A more recent example is Japan. Here, with the help of the US cruiser cannon diplomacy put into practice for 2 years, starting in 1853 by Commodore Matthew Perry, Japan was taken out of its two-century-long total international self-isolation, in just a few years. Earlier, in the middle of the seventeenth century, Japan had forced out all Western European missionaries, be they Dominican, Franciscan or Jesuit—who were then competing for influence in Japan among themselves—and decided to close its borders. Technically, this was made possible by insisting that all vessels built be not larger than a coastal boat so that nobody could reach the Chinese coastline. It was only in the early 1860s that the Americans succeed in opening Japanese ports for international free trade. When the Japanese understood that they could no longer maintain their isolation without it being a threat to the very existence of their nation, they took their fate into their own hands and acted fast. The “top-down” Japanese revolution was implemented after it was triggered by the restoration of the monarchy, with the help of the Meiji family's crew of samurai warriors. In a single generation, the family succeeded in taking Japan from a feudal society to a modern and industrial society in the Western European sense of the words, creating the model of the Japanese Confucian capitalist economy we still have in place now. This is what is called “the Meiji Restoration”⁶⁹: a development and adaptation dictatorship for a period of transition, but a success.

If we analyse what China did after the Cultural Revolution of comrade Mao Tse Tung ended in 1976, we notice the same: a transition dictatorship succeeded within a generation from 1976 to ca. 2006 to move China through measures comprising gradual deregulation, the “copy - paste” model in innovation, plus the public driven investment in infrastructure from a Communist totalitarian backward country into a thriving economy (still) calling itself “socialist” but in fact being capitalist in its effects. Today at the end of April 2014 surfaced first statistics according to which China has become the largest economy in the world. It has thus become the new bipolar challenger to the established US world hegemony. This happened sooner than originally expected for ca. 2031.⁷⁰

⁶⁸ See McKay et al. (1991), p. 811: “Socialist meetings and publications were strictly controlled. The Social Democratic Party was outlawed and driven underground”.

⁶⁹ See McKay et al. (1991), p. 848.

⁷⁰ See The Economist (2011, Jan 22).

Moving back to discussing Germany again, we can state that Bismarck is the man who played in Germany in the 1850–1880s, a similar role to that of the Meiji family and to what we saw as the amazing development of China after 1976. We will note that even if the German economy made great progress between 1864 and 1914, a truly strong bourgeoisie together with a middle class and subsequent strong liberal traditions did not appear as quickly. For a long time, there were residues of feudal Junker mentality and of strong guilds with paternalistic style. These guild associations are the basis of German corporatism. Now corporatism is the form of social and professional consensus of Germany, but at the beginning of modern Germany in the 1870s, society was still fairly split among these groups and organisations. A solid and homogenous enough middle class became visible as late as in the 1970–1980s by implementing the model of the Social Market Economy.

Back at its beginnings, Bismarck’s idea of building the German nation was to pair his foreign policy with a domestic policy of accelerated industrialisation through investment. For two generations between 1870s and 1918, all fought hard to catch up with the greater colonial powers of England, France, Spain, the Netherlands and the USA. In the economy, in order to counter the social imbalance resulting from the fast industrialisation, the German state, at first represented by emperors Wilhelm I and II, was put in charge of protecting the workers in front of the new and growing power of the industrial and bourgeois capitalist structures. The state was also in charge of creating for the first time a viable social security system, thus entering its paternalistic role which it kept until the present day. The model of the social security system created back in 1883 survived throughout the Weimar Republic, the NSDAP era, and was taken over into the Social Market Economy. Its core concepts are “**compulsory social security**” (responsibility) and “**collective risk sharing**” (solidarity). It has been assumed initially that all employees are a sort of “**labour soldiers**” (Soldaten der Arbeit)⁷¹ from a certain economic sector and that they exposed to the same set of professional risks and must therefore show mutual, collective and common solidarity in their own interest, by signing up for collective profession-based social security funds (health insurance and pension insurance).⁷² The result was the emergence of insurance companies centred around specific professions, another element of identity of a corporatist economic style.

⁷¹ Comp. Baldwin (1997) on a review passé on historical trends and patterns in Europe, Berthold and Fehn (1997) on the German case. On the Social Market Economy systemic issues related to the role of the employee and the employee representation (Betriebsrat), comp. the Niedenhoff (1979), p. 4–24. On the role of the consumer as key factor to the drive of consumption and demand, comp. Hemmer (1979), pp. 11–14.

⁷² For a historical sketch on the evolution of social security systems in Europe, see Baldwin (1997), pp. 3–24. For instance, even today, one of the biggest statutory health insurance funds, which kept its original name, offering competitive service on the insurance market, is the Technicians’ Health Insurance Fund (Techniker Krankenkasse). The original name in literal translation is “Technicians Sick Persons Fund” which stems from the foundation of the system in the late nineteenth century and reminds us of the guild of technicians.

But it was not only compulsory health insurance and pension funds which brought new corporatist dimensions to society. Industrial relations in Germany are based on a “co-decision” system for social groups, meaning that employers, management and employees are expected to decide in consensus what the right way for future developments of companies is. In Anglo-Saxon countries, such a consensus model is even now inconceivable. But the public opinion in Germany expects employer organisations to communicate with employee associations and to take company decisions together, according to the **principle of “co-decision” or “joint decision”**.⁷³ The social consensus since Bismarck’s day has been that companies do indeed belong to their owners or employers, but only to a certain point, as von Nell-Breuning says. After all, companies are seen as a “common good” on which all who contribute have a right to decide.

The economy and industry of the Second German Reich went well until 1918. However, losing the war and the ensuing damage to infrastructure, the expropriations and confiscations performed by some of the victorious powers, as well as the burden of war reparations laid on Germany, brought about the failure of fulfilling the goal of bringing social solidarity to all society by protecting it from money-hungry capitalists’ abuse in a way that responded to the people’s wishes and expectations. “The political failure of the Weimar Republic can be, to a decisive extent, ascribed to the lack of socialisation after 1918; it should have succeeded to a high degree; in order for history not to repeat itself, socialisation must be finally implemented (now, o.n.)”,⁷⁴ ascertains an economist of the 1980s. So it is understandable why post-war Social Market Economy of Germany attempts to make up for this pre- and interwar let-down of the society by the state. It was the deepest desire of the West German society after 1948 that building a highly profitable economy would be possible while maintaining the desired measure of social justice. The victors of Second World War understood the urgency of achieving this goal by the West German people, the biggest economy in Europe, and **abstained from laying again the burden of excessive war reparations after 1945**, probably in order to allow for the German economy to recover. This was done through the London Agreement on German External Debt of 1953.⁷⁵

In East-Germany though, the Soviet Union did not take this into account, and its economy was treated as a source of cheap but high-technology provider for it and its totalitarian spheres of influence around the world.

⁷³ Comp. Baldwin (1997) on a review passé on historical trends and pattern and Berthold and Fehn (1997) on the German case. Comp. Niedenhoff (1979), pp. 4–11 on various interpretations of co-decision or co-participation. Comp. Hemmer (1979), pp. 11–14 on a parallel aspect of co-decision, namely, that of the participation of the individual as consumer on the market side, as opposed to the participatio on the social protection side.

⁷⁴ See Nörr (1999), pp. 24–25: “das politische Mißlingen der Weimarer Republik. . . zu einem entscheidenden Teil auf die nach 1918 ausgebliebene Sozialisierung zurückgeführt, die im großen Maßstab hätte erfolgen müssen; damit sich die Geschichte nicht wiederhole, wäre nun endlich die Sozialisierung durchzuführen”.

⁷⁵ See Bundesministerium der Justiz (Hg.) (2002) Fundstellennachweis B, p. 341.

Internationally, from the point of view of foreign policy, the Social Market Economy was the economic part of the way for Germany to integrate into the Euro-Atlantic business and freedom community after 1945.

Germany's current Rhineland capitalism, operating as a corporatist welfare style, is based on four fundamental principles inspired by the country's Germanic legacy, by philosophical ideas and its cultural patterns: freedom, competition, justice and social solidarity as well as balanced interaction with the human and natural environment.

The first principle, **liberty or freedom**, is what German and Anglo-Saxon is thought to have in common. It is, at the same time, the basis and top rule of any market economy, including the Rhineland model.

The social market economy shares the belief that liberty is the basic principle of the economic order and that humans should be free to follow their self-interest. It does not believe, however, that liberty and the pursuit of self-interest by the invisible hand of the market lead to a social optimum all the time. Rather, they must be supported by political and economic institutions that aim at the preservation of the conditions under which human freedom can flourish.⁷⁶

Even German corporatist Alfred Müller-Armack firmly believes that no other economic system offers as much freedom and demands as much responsibility from its stakeholders as the market economy does. It functions only when freedom is respected and when the state guarantees basic general rights such as the right to choose a profession, the right to freely carry out trade activities, the right to freely decide on private property including production means, and the right of association.

Within the order of the market economy, according to Eucken, essential principles are "private property, liberty to conclude contracts, liability for agreements and undertaken actions, open markets (freedom to enter and exit a market), currency stability—that is to say the provision of an inflation-free currency and the constancy of economic policy".⁷⁷ In Germany, these basic rights, constituents of any market economy, are the targets of public policies—at least at the theoretical and institutional "de iure" level; whether they are also "de facto" possible might be a rather individual issue depending on the circumstances of each field of activity or situation.

The purpose of the second principle, **competition**, is to limit private economic power which has been gathered through enrichment and by applying the first principle, freedom. Even though it limits the individual freedom of some, competition defends the individual freedoms of others, thus setting itself up as the advocate of collective freedoms, as we have seen with Böhm. The importance of competitiveness is high in Western countries maybe not necessarily because the

⁷⁶ See Koslowski (1998a), p. 9.

⁷⁷ See Streit and Kasper (1992), p. 117: "Privateigentum; Vertragsfreiheit; Haftung für Vereinbarungen und Handlungen; offene Märkte (Freiheit des Marktzutritts und Marktaustritts); Währungsstabilität, d.h. Bereitstellung eines inflationsfreien Geldes und Konstanz der Wirtschaftspolitik".

general purpose is to serve the citizens with high-quality products but rather because Western societies target world leadership. The fervour to guarantee the institutional and legislative elements capable of maintaining the competition framework today is a result of excessive monopoly dominations of large parts of the economy during the interwar period. Competition has been systematically applied in Germany since 1957, when this became mandatory through legislation. Specific institutions have been created to ensure the observance of this principle (Bundeskartellamt, i.e. Federal Cartel Office). Freedom and competition represent the main premises that guarantee the functioning of the market economy and make the respective countries not only compete internationally but lead internationally. After having guaranteed the above principles through legislation and a system of specific institutions, the state must allow the productive and economically efficient but socially rather disruptive market economy to develop freely in this stable framework and not interfere with it, in order for it to yield its fruits. The ordoliberal approach of the Freiburg School represented the theoretical and philosophical basis for the profit creating economic model in Germany. This approach had a pragmatic character and upheld the rule of law (Rechtsstaat), whose goal was to ensure freedom and prosperity, positioning itself against interventionism and collectivism.

But the market economy alone is only the productive part of the system of Social Market Economy. Pursuing the analysis beyond market economy spheres, once its functioning is ensured, the second part, the principle of social justice, and the third part, the ecological principle, must be taken into consideration in order to be able to understand the whole construction.

Through historical traditions, the **principle of social justice** has been widely accepted and even desired by the people. The redistribution of revenues through taxation and social policies is and has been a major concern for those who have created and implemented the post-war economic policy in Germany, mainly for the supporters of the socio-liberal school in Cologne. It is not by coincidence that a view from the USA on Germany which produces often the remark that Germany is a “Steuerland” (taxation country) can be seen as a true statement if we consider the higher level of regulation by the state of economic and social life.

A more consistent analysis of the economic and social system in Germany leads to the conclusion that, in fact, both the social justice and the ecological principles are based on the **Christian view on the environment**. From this point of view, the environment includes a double dimension: the human sphere and the physical world, both being divine creations. Social justice is only a way of connecting human beings to the harmony of the environment’s human sphere and, ultimately, just a secular concept through which the divine commandment “love your neighbor as yourself”⁷⁸ is expressed. This biblical commandment outlines the need to reach some fairness and egalitarianism.

On the other hand, the environment’s physical world of nature functions in the same way, but is applied by the responsibility of the human beings towards the

⁷⁸ See Gospel of Matthew 19,19 in Bible. New International version, accessed June 2, 2014.

tangible natural environment. The human being must make use of “what it has been offered” by the creation as fixed material assets of production in order to attain his final goals.

The implementation strategy for the Social Market Economy which has been performed according to the original definitions until, more or less, the economic and financial crisis in 2007–2008 can be perceived as the concluding phase of the “nation-building” process initiated by Bismarck. After 1948, the goals of this process have been the improvement of the standard of living and the return of Germany, as a democratic state, among the main actors on the international stage. Not only any European but also anyone else could notice that the economic goal has been achieved and led to the foreign policy goal: the expression “Made in Germany” has become a synonym of product quality and reliability at a global level.

The implementation of the market economy in Germany entailed cooperative and corporatist relationships of an industrial and economic nature and a social policy promoting the sharing of the burden of occupational and private hazards by all. The market economy was the tool to create the **“formed society”, a mature society (formierte Gesellschaft)** as defined by Erhard in the 1960s. The instrument characteristic only to the German model of the Social Market Economy, used to create the formed society, was the principle of **“socially homogenised beliefs” (Soziale Irenik)**, as defined by Alfred Müller-Armack. The concept of social peace was used to conciliate different world views (Weltanschauung), ideologies and religious designations existing simultaneously within the national borders. According to Koslowski, the idea of Müller-Armack was that “there is a permanent ethical and political need for equalizing and equilibrating the economy in several fields. In the social market economy, the government must equilibrate between the individual economic interests in economic growth and consumption on the one hand and the protection and preservation of the natural environment on the other hand”.⁷⁹ For instance, one of the main institutions that contributed to the achievement of these goals was the “German Bank for Compensation” (Deutsche Ausgleichsbank). This was a governmental bank that has had its head office in Bonn and has been the property of the federal state, since the first decade of the twenty-first century having been taken over by the German Credit Bank for Reconstruction (Kreditanstalt für Wiederaufbau). It grants even now low-interest credits to SMEs and is involved in the preservation of the environment and performs tasks of social and regional homogenisation. It is a financial institution, created in order for its actions to have a standardisation effect at a spiritual and social level across German society. The creation of the “formed society” was mainly due to the implementation of social peace within a free-market economy. Thus, the national development, as a people started under Bismarck, could have been considered to be successfully completed, had the processes of after the early 1970s—the then still unfinished German reunification, immigration and

⁷⁹ See Koslowski (1998b) *The Social Market Economy: Social Equilibration of Capitalism and Consideration of the Totality of the Economic Order*. Notes on Alfred Müller-Armack, pp. 82–83.

demographical shrinking—not have taken a strong grip on the German national consensus and its social homogeneity.⁸⁰

The German model of the Social Market Economy has generated a market economy with the fastest recovery capacity in the world—a recovery known under the name of the **German economic miracle (deutsches Wirtschaftswunder)**. The corporatist Rhineland capitalism and the approval of its neighbours in the 1990s of its reunification transformed Germany into the biggest economy of Europe and the fourth biggest in the world, after the USA, China and Japan.

Still, not everything is clarified, and the original model of the Social Market Economy, as it has been implemented at its beginning in the 1950–1980s, is no longer applied in its original sense. There are several distortive pressures which made the political and business classes of Germany move the country away or, better said, adrift. These pressures hereto come primarily from the globalisation of markets coupled with immigration. In 2009, 19.2 % of the total population of Germany had immigrational background and who stems from the time after 1949.⁸¹ This is influencing the ethnic identity and character of the population. Pressures also come from worsening and even alarming demographic figures⁸² as well as from the increased concentration of economic power among fewer companies. The combined effects of these factors are the diminishing level of competition and economic freedom, the diminishing of the size of the middle class (backbone of a healthy German economy) and the increase of public, private and commercial debt which is coupled with the decrease of the traditional money-saving attitude of the German consumer. If we add all what ensued from the economic and financial crisis in 2007–2009, we can grasp why Germany could be slowly brought adrift from the original course of the Social Market Economy it had held.

References

- Baldwin P (1997) The past rise of social security: historical trends and patterns. In: Giersch H (ed) (1997) *Reforming the welfare state*. Springer, Berlin, pp 3–24
- Berthold N, Fehn R (1997) *Reforming the welfare state: the German case*. In: Giersch H (ed) (1997) *Reforming the welfare state*. Springer, Berlin, pp 165–203
- Bible. New International Version. Internet portal, www.biblegateway.com
- Böhm F (1953) *Marktwirtschaft von links und von rechts*. In: Stützel W et al, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1981) *Grundtexte zur Sozialen Marktwirtschaft*. Band 1. Zeugnisse aus zweihundert Jahren ordnungspolitischer Diskussion. Gustav Fischer Verlag, Stuttgart—New York, pp 433–438

⁸⁰ For a deeper study of these aspects, the book of former German Bundesbank deputy chairman Thilo Sarrazin (see Sarrazin (2010)) is a good read.

⁸¹ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 10.

⁸² See Sarrazin (2010), pp. 24–33 and pp. 251–257.

- Brockhaus Enzyklopädie in 30 Bänden (2006) 21. völlig neu überarbeitete Auflage des FA Brockhaus, Leipzig, Mannheim
- Bruni L, Zamagni S (2013) Zivilökonomie. Effizienz, Gerechtigkeit, Gemeinwohl. Mit einem Geleitwort von Reinhard Kardinal Marx und einer theologischen Einführung von Peter Schallenberg. In: Christliche Sozialethik im Diskurs, Band 1. Katholische Sozialwissenschaftliche Zentralstelle. Ferdinand Schöningh, Paderborn
- Bundesministerium der Justiz (Hg.) (2002) Fundstellennachweis B. Völkerrechtliche Vereinbarungen. Verträge zur Vorbereitung und Herstellung der Einheit Deutschlands. Bundesgesetzblatt 2002 Teil II G 1998, Berlin
- CENSIS—Centro Studi Investimenti Sociali (2011) 44th Italy Today 2010. Social Picture and Trends. Franco Angeli, Milano
- Eichengreen B (2011) Exorbitant privilege. The rise and fall of the dollar and the future of the international monetary system. Oxford University Press, Oxford
- European Popular Party (2009) The social market economy in a globalised world. Congress document adopted by the EPP statutory congress, Bonn, 9–10 Dec 2009. Internet portal. www.eppbonn2009.eu. Accessed 30 Jan 2010
- Felice F (2009) Luigi Sturzo and the Social Market Economy. Paper, Centro Internazionale Studi Luigi Sturzo, Roma
- Forslund A (1997) The Swedish model. Past, present and future. In: Giersch H (ed) (1997) Reforming the welfare state. Springer, Berlin, pp 121–165
- Goodin RE, Headey B, Muffels R, Dirven H-J (1999) The real worlds of welfare capitalism. Cambridge University Press, Cambridge
- Gruchy AG (1972) Contemporary economic thought. The contribution of neoinstitutional economics. Kelley, New Jersey
- Hemmer E (1979) Der Verbraucher in der Marktwirtschaft. Baustein 14. In: Institut der Deutschen Wirtschaft Köln (Hg.) (1979) Curriculum Soziale Marktwirtschaft, Bausteine 1–14. Deutscher Instituts Verlag, Köln
- Institut der Deutschen Wirtschaft Köln (ed) (2011) Deutschland in Zahlen 2011. Deutscher Instituts Verlag, Köln
- Koslowski P (1998a) The social market economy and the varieties of capitalism. Introduction. In: Koslowski P (ed) (1998) The social market economy. Theory and ethics of the economic order. Springer, Berlin, pp 1–9
- Koslowski P (1998b) The social market economy: social equilibration of capitalism and consideration of the totality of the economic order. Notes on Alfred Müller-Armack. In: Koslowski P (ed) (1998) The social market economy. Theory and ethics of the economic order. Springer, Berlin, pp 73–95
- McKay JP, Hill BD, Buckler J (1991) A history of western society. From Absolutism to the Present, vol II, 4th edn. Houghton Mifflin Company, Boston
- Niederhoff HU (1979) Mitbestimmung. Baustein 13. In: Institut der Deutschen Wirtschaft Köln (Hg.) (1979) Curriculum Soziale Marktwirtschaft, Bausteine 1–14. Deutscher Instituts Verlag, Köln
- Nörr KW (1999) Die Entscheidung für die Soziale Marktwirtschaft als ein Wendepunkt der deutschen Geschichte. In: Nörr KW, Starbatty J (Hg.) (1999) Soll und Haben—50 Jahre Soziale Marktwirtschaft (Marktwirtschaftliche Reformpolitik. Band 3. Schriftenreihe der Aktionsgemeinschaft Soziale Marktwirtschaft. Hasse R, Starbatty J (Hg.)). Lucius & Lucius Verlag, Stuttgart, pp 23–38
- OECD (2011) Society at a Glance 2011: OECD social indicators, Panel A. OECD Publishing, Paris. http://dx.doi.org/10.1787/soc_glance-2011-en
- OECD (2012) Country statistical profile: Sweden. Country statistical profiles: key tables from OECD. OECD Publishing, Paris. <http://dx.doi.org/10.1787/csp-swe-table-2011-1-en>
- Rinascimento Popolare (2009) Don Luigi Sturzo 1871–1959. Anno XIII—N. 2. Aprile–Giugno. Rivista politico-culturale. Centro Internazionale Studi Luigi Sturzo, Roma

- Rüther J (ed) (1925) *Gemeinschaft und Wirtschaft*. Nach ausgewählten Stücken aus den Werken des Thomas von Aquin. Ferdinand Schöningh, Paderborn
- Sarrazin T (2010) *Deutschland schafft sich ab*. Wie wir unser Land aufs Spiel setzen. Deutsche Verlags-Anstalt, München
- Streit ME, Kasper W (1992) Das institutionelle Fundament von Freiheit und Wohlstand—Lektionen der “Freiburger Schule”. In: Streit ME et al (eds) *Sonderdruck aus Freiburger Beiträge zur Ordnungsökonomik*. Dieser Sonderdruck ist im Buchhandel nicht erhältlich. JCB Mohr (Paul Siebeck), Tübingen, pp 105–134
- The Economist (2011, Jan 22) China’s currency. The rise of the redback. China will have to open its financial market if it wants the yuan to rival the dollar. Leaders section, print edition (Jan 20, if online access), London
- The New Britannica Encyclopaedia (2007) *Micropaedia*. Ready Reference, vol 8, 15th edn, Chicago
- Thesing J, Uertz R (Hg.) (2001) *Die Grundlagen der Sozial-Doktrin der Russisch-Orthodoxen Kirche*. Deutsche Übersetzung mit Einführung und Kommentar. Konrad-Adenauer-Stiftung, St. Augustin
- von Nell-Breuning SJ O (1979) *Soziale Sicherheit ? Zu Grundfragen der Sozialordnung aus christlicher Verantwortung*. Herder, Freiburg
- Zamagni S (2011) Wenn Wirtschafts und Brüderlichkeit getrennte Wege gehen. Die Botschaft der Enzyklika “Caritas in Veritate”. In: Schallenberg P, Mazurkiewicz P (Hrsg.) *Soziale Marktwirtschaft in der Europäischen Union (Christliche Sozialethik im Diskurs. Band 3)*. Ferdinand Schöningh, Paderborn, pp 43–53

Chapter 4

Pillars of the Social Market Economy as Implemented in Germany

By implementing the Social Market Economy, it was commonly hoped that a “high degree of secured prosperity for the entire population would be brought about and, as a social subsystem (the economic system, o.n.) should be compatible with the fundamental values and goals established by the free and democratic state- and social order”.¹ Internal or external observers of Germany could state that given the starting point in June 1948 and the renunciation by the Western powers to impose war compensation claims on the post-war West German Republic, these goals have been attained to a high level. The attainment of these goals has made possible the long longed for reunification with eastern Germany and has been successfully kept at least until the economic and financial crisis in 2007–2009. The latter has brought about the urgent need to rethink the whole system and dynamically adapt it to the changed and globalised environment.

A reflection on the original system built and practised in Western Germany between 1948 and 1990 shows us that the Social Market Economy is similar to a construction sustained by **three main pillars: market economy, social order and ecology** (Illustration 4.1) or the environment. We can find the theoretical principles outlined within the previous chapters as “first-level” principles which are applied within each of these pillars via legislation and specific institutions. If we understand the principles of level one, two, three and four, we can understand how the real economy of day-to-day business is working and has been constructed. These principles of various levels of importance can be found in legislation, institutions, political regulation practice and customary business practice. Once we understand the principles and their connection to everyday life, we will be able to reform and dynamically adapt the Social Market Economy to the changed international and domestic environment.

¹ See Vogel (1979), p. 4: “ein hohes Maß an <gesichertem Wohlstand> für die Gesamtbevölkerung erbringen und—als gesellschaftliches Subsystem mit den grundlegenden Wert- und Zielvorstellungen der freiheitlich-demokratischen Staats- und Gesellschaftsordnung vereinbar sein”.

The market economy is the first pillar and is given the highest importance. By “market economy” we mean the sphere of social life where the national wealth is produced, ideally without interventions of the state institutions within the economic process. National wealth is seen primarily as the accumulation of material goods, personal property and assets able to bring financial profit in the strictest and most financial sense of the word. Other areas of wealth may belong to what is considered national wealth, but these rather are in an indirect manner.

Finding the best way to supply the population with food, clothing, household products, means of transport, education, professional training and means to relax is, if to be performed at national level, a gigantic task and an issue of utmost difficulty and importance. No central planning institution, person or even software is able to establish the goods that need to be produced and delivered at the national level in a given place, at a specific time, in an established quantity and of a specific quality. Thus, only two possibilities exist in order to solve this major issue of coordination of the production and marketing processes of goods and services with the real demand of the population: the free-market economy and the command or centrally steered economy. Other economists and professors like Wolfram Engels share this view when they say: “The one who rejects both, chooses chaos”.²

After analysing these aspects, we note that some planning of economic activity, be it of production or marketing, exists in fact not only in states with centralised, planned and command economies but in every free country as well. In a so-called³ free system as we have in the Western and Atlantic community, the planning is made by the “invisible hand” that coordinates economic processes assisted by the voluntary collaboration of businesses, families and individuals aware of their personal interests. By contrast, it is the state and government institutions that make the planning in the centralised system, grounded on the views of a limited group of persons who pretend or claim to know “what is good” and “what is wrong” for the exact coordination of the society’s material needs at precise moments in time. In the centralised system, responsibility is taken by this limited group, but given the concentration of power in their hands, there is nobody from outside their social circle to enforce that they bear the consequences and punishment for wrong decisions of leadership; thus, responsibility is not taken by anyone when things go wrong. Individuals perceive this type of system as an impersonal, undefined and

² See Vogel (1979), p. 6 where he refers to Professor Wolfram Engels: “Wer beides ablehnt, wählt den Chaos”.

³ Unfortunately after September 11, 2001, the type of democracy Westerners live in no longer has a primarily spontaneous and bottom-to-top character. Due to the enacted anti-terrorism legislation, we live in a *democracy steered by the state* where limits to personal freedom have been set. These limits are implemented via the means of surveillance (incl. online) operated by intelligence services and national security agencies. Media and Internet communication technology give major possibilities of censorship by the surveillance agencies and even by advertising industries for choosing and filtering in primarily those news for a new user which are deemed politically correct (e.g. some YouTube videos are visible from some countries, but not from others). Unfortunately Western media is becoming, with few exceptions, less and less politically independent.

insensitive instrument. In the so-called free system, individuals feel they are effectively participating in day-to-day social life and that the system is working “for them” and not “against them”. This is one of the reasons for which the Cold War was won by the Western free systems who could prove to the peoples (and the banks) that they had a higher productivity, thus being able to take up more public, private and commercial debt and overtake the credibility of the centralised system.

Among the ordoliberal representatives who analysed comparatively, from a theoretical point of view, the various possibilities of solving at a national level the economic needs in a coordinated way, Walter Eucken has the most comprehensive approach, in his work “Die Grundlagen der Nationalökonomie” (*The Fundamentals of National Economics*). He suggested already in the 1930s that Germany should choose the free-market way, in other words market economy. After the CDU party won the elections of 1949—despite their minimal advantage of just 0.8 % over its rival SPD, which had a clear leftist orientation—Germany chose the way of the free-market economy. Those elections were the expression of the German people’s will to change the planned centralised economy system implemented until then by the National Socialists.

A market economy functions on the basis of “**first-level**” principles, the philosophical principles of **freedom and responsibility** dating back to Hellenic antiquity and which are expected to be practised by the market participants and mature citizens as well. These principles were imported to Germany, as also all other countries of the Atlantic community. In Germany they came to the eye of public attention in the late eighteenth century through the work of several circles of intellectuals connected to political circles, such as Johann Wolfgang Goethe. In the case of Germany, the principles of free-market economy have been and still are sponsored mainly by Protestant and Evangelical communities and lines of thought. However, the implementation of these “first-level” principles in the day-to-day economic life is made through some principles specific to the economic field, thus “second-level” principles. Laws and specific institutions have been created by the economic and monetary reform of 1948 in order to ensure the respect of these first- and second-level principles, guaranteed in the Federal Constitution of 1949. These principles enjoy consistent support from the mainstream social classes in the country. The listing of the second-level principles which guarantee the existence and the coordination of economic agents on the market is important in order to have a clear view on them.

The most important “**second-level**” principle is **economic freedom**. Economic freedom refers to the freedom to consume and produce, to enter and exit a market and to conclude and cease contracts.

It is followed by the **right to private ownership** on the means of production. “Private property” could be seen as a second “second-level” principle, the instrument through which responsibility, as a counterweight to freedom, has direct effects both for the entrepreneur and the owner. Property is, in fact, a mental connection, a relationship between the tangible object, the personal decision and the sense of responsibility about it. Through property, the members of the society admit the existence of the owner’s absolute right of decision over the respective means of

production and over the results of the activity in which those means have been used (*ususfructus*). Nevertheless, in Germany, as we've seen above, if we looked at from a philosophical point of view, private property is not absolute: in some extreme situations, it is subordinated to the "common good".

The market economy as part of the national economic and social system consists of several basic and fundamental units: these are the businesses or companies. They provide, on the one hand, the goods and services needed by the population and, on the other hand, the profit needed to pay taxes and social duties and to fund future investments. Once created, these basic cells of the market economy are expected to grow and develop, providing products for the citizen. Originally, in the early days of the post-war period, businesses were meant to "nobly serve the material needs" of the citizen and fellow countrymen. Now, with the deterioration of morale, ethics and business confidence in general, they work in a rougher atmosphere to "deliver to the consumers and clients and cash the profit". At a certain point in this run for customer loyalty (*Kundenbindung*), they interfere with other businesses from the same economic sector. This is where the first limits imposed by the Economic Constitution appear in the growth process of a company: a limitless expansion of businesses within a limited national market and within national borders is impossible. As a result, once we have a free-market economy in place, we have a whole package of other dimensions bound to it. Thus, one of the dimensions is that growth is allowed to appear only if it does not interfere with the "**competition**" principle, which is the third "second-level" principle of the market economy as part of the Social Market Economy. Another dimension bound to free-market economy is that as long as it exists it can do so only as long as their markets can become bigger and bigger, for example, by acquiring more foreign markets. This was one of the implicit interests of Western Europeans to accept the Eastern Europeans into their European Union: to simply have a bigger market where they can sell more products. Otherwise, if they remained only in the West, the system would necessarily have collapsed on itself, because competition would have blocked growth.

Why is this third "second-level" principle necessary? The reason is that it guarantees a functional system of prices that enables the economy to work properly. It limits the economic power a business can exercise on a market and therefore upholds the freedom of the other businesses of the same market. Without competition, neither markets nor freedom for each and every business can exist. Through competition, businesses on the market can compare with each other and indirectly and reciprocally stimulate each other to make progress and create new products. They then supervise each other so that none of them exceeds a certain degree of economic power. If this situation was to occur, the businesses which become too strong could impose, through monopoly or in an oligopoly, the prices on the market. Therefore, the goal of any free society is to maintain open markets, both at domestic and international levels, without limiting imports and exports. At an international level, it is not yet possible to talk about total freedom, but international organisations such as the DG Competition of the European Commission at the regional level of the EU and the WTO at the global level are addressing this aspect. Reaching to the last strongholds of closed economic systems such as North Korea, Cuba,

Venezuela a.s.o. is a “sine qua non” goal of the free-market economy. Moreover, thanks to the amazing revolution in communication technologies of the last 15 years available through the Internet, markets are swiftly moving towards the achievement of the goal of achieving “total competition” at a global level.

Going back to the “second-level” economic principles, we become aware that, in a market economy, it would be ideal if all economic activities took place within a macroeconomic framework characterised by a “**stability of the currency**”, i.e. by zero inflation. If microeconomic activities took place within a domestic or even international framework where the “**constant and foreseeable nature of the economic policy**” were considered virtues and were applied as such by the political force in power, we would have an ideal regulatory situation. These two principles are the fourth and the fifth “second-level” principles of the market economy, as the main pillar of the Social Market Economy. They are both compatible with the spiritual structure of the German people because, as shown above, Germans are bothered by fluctuant inflation and changing things in general and would rather see a conservation of value and therefore have inflation at a low level. Also, German-speaking peoples, be they Austrian, Swiss or German, speak out for **constancy and predictability of economic policy** because this suits well the structure of the Germanic soul. As pointed out above, this ethnic group generally prefers predictability, in whatever field, and does not like to act in a rush. It is rather introverted and likes to think things through in quiet reflection, so that a stable economic policy fits well the type of market economy which has been set up in Germany.

The model that Ludwig Erhard and other established academicians such as von Hayek and Woll had in mind when talking about the Social Market Economy and the expected results from implementing it is: “Indicator for the success of the Social Market Economy is that the social services become redundant. . . Social Market Economy is either a pleonasm or a political slogan that can counter almost any claim coming from interest groups”.⁴ Therefore, the Social Market Economy is seen by its “inventor” and two of its critics as an instrument for running the state and society in an economically efficient way. If it works well and full employment is in view, social services become redundant: the social order is absorbed by market economy.

But what Erhard said is more of a theoretical and ideal situation. In the meanwhile we know that a market economy cannot work on the long run with an unemployment rate which is lower than two percent, unless it is in a short phase of massive expansion or overheating. This model, within which a “total” market economy is successful, would be efficient only if perceived as an ideal, as a goal to reach. Implemented, this model would probably work only for short periods of time. Moreover, this model did not prove to be efficient in the long run, not even in

⁴ See Wünsche (1994) p. 36: “Indikator für den Erfolg der Sozialen Marktwirtschaft ist, daß die sozialen Leistungen überflüssig werden. . . Soziale Marktwirtschaft sei entweder ein Pleonasmus, oder ein politisches Schlagwort mit dem fast jede Forderung von Interessengruppen erkämpft werden kann”. Woll and von Hayek too are reference persons of Wünsche in this quotation.

Germany, where it was considered likewise only until around 1970.⁵ “Total” market economy does not stand any chance of succeeding in the long run, not only in Germany but anywhere else. The situation is caused by the fickleness of the population’s trust in the government, in the unpredictable nature of its action and in the functioning of the economic system through spontaneous self-regulation. Why? Simply because higher social mistrust reduces the courage and initiative of entrepreneurs to plan and invest. This reduction disrupts the balance between the economic and demographic growth rates, causing unemployment and social problems of survival for the people affected. These negative effects, or better said the collateral effects of the market economy at work, exist even in a perfectionist country like Germany, a country that deliberately strives to guarantee “the common good for everyone”. The domestic mistrust originates also in the disruptions from international and global events, which make sure that no national economy is independent from the economic evolutions of other countries. Who could handle this situation at a national level better than the state? Therefore, a full and free-market economy will never exist and is a utopia, albeit a useful one.

We now move on to the second pillar of Social Market Economy: **social order**.

This pillar functions properly, thanks to the application of some of its “first-level” principles: “**freedom in community**” and the “**absolute social minimum**”. These are the third and fourth “first-level” principles and belong to the pillar of social order, as the second pillar of the Social Market Economy.

Within the social order, there is an expected minimum degree of socialisation. This refers, for instance, to the reintegration in professional life of entrepreneurs who have failed and had to close their businesses, to the protection of workers and the unemployed against abuses and unbearable and limitless exploitation by their employers, i.e. against employers’ greed for profit. Socialisation and homogenisation are tasks which can be carried out only by public institutions, be they national or local. They are carried out with the help of the principles of “**social justice**” and “**common good**”. They are the overall sixth and the seventh “second-level” principles, constituents of the social order, as the second pillar of Social Market Economy. Social order is implemented through specific laws and institutions. However, the social policies carried out by the state, as the high-level agent who applies the principles of social justice and common good, as goals in themselves, have collateral and discouraging effects on the market economy area of the Social Market Economy. These effects weaken motivation to obtain profit and to increase economic dynamism, labour productivity and product competitiveness. Why? Simply because a socialisation run by the state is run with the money taken from the “entrepreneurial” side of the system and distributed to the “social” side of the system.

⁵The foreign workforce that has been imported in Germany since 1961 has triggered an erosion process of the pre-existent social consensus that had created what has become known as the “German economic miracle” (Deutsches Wirtschaftswunder).

For this reason, divergent opinions exist concerning the proportion and size that social order should have within Social Market Economy. Over the years, social order has obviously been understood differently by the various public personalities of Germany. Some, like the former Federal Minister of Finance Oskar Lafontaine (1998–1999), perceived it as a modality through which revenues obtained in the market economy area are redistributed towards all other social layers in order to attain homogenisation. Others, such as Ludwig Erhard, have seen it quite differently, i.e. that social order is an automatic result and effect of a proper implementation of the market economy, as seen above. If the “. . . Social Market Economy in the sense of Ludwig Erhard has nothing in common with the concept of operating on the market in a social way in which market forces would be switched off or in which market driven results would be corrected. Social Market Economy envisages the achievement of a market economy order driven order without redistributive state intervention”.⁶ For his subordinate, Müller-Armack, some redistribution actions are nevertheless necessary. Through them, “. . . any degree of desired social compensation could be implemented, without interfering with the rules specific to Market Economy. In this type of social structure, the performance capacity of the Market Economy continues to be a goal to be pursued. . .”.⁷

Even though very different to other economic and social orders, the Social Market Economy is quite flexibly implementable. All the models above, even though inherently different, remain within the framework set by the Federal Constitution, which is, as we are about to see, a broad framework that indicates only specific goals, rather than ways to reach them. As a result of the freedom guaranteed within the Constitution, the model of the Social Market Economy implemented in Germany has been, over the decades, submitted to different adjustments. The model was successively influenced, at times by the rather social, at other times by the rather liberal policies of the different governments in power.

Nevertheless, the state’s implication in the social order has its limits. In order to maintain freedom as a fundamental value, the state can apply only a limited quantity of social order, because it depends on the financial resources it can get from its taxpayers.

As a result, in Germany at least, the market economy prevails over the social order. This is the reason for which, at least as long as the current Federal Constitution is in force, Germany firstly remains a free and only secondly a social society. With one amendment, in Germany this freedom is rather a “**group freedom**” than an “individual freedom”.

⁶ See Wünsche (1994), p. 35: “. . . Soziale Marktwirtschaft im Sinne von Ludwig Erhard hat mit den Vorstellungen von sozialen Marktwirtschaften, bei denen Marktprozesse außer Kraft gesetzt oder Marktergebnisse korrigiert werden sollen, nichts gemein. Soziale Marktwirtschaft zielt auf Realisierung einer marktwirtschaftlichen Ordnung ohne umverteilende Staatseingriffe. . .”.

⁷ See Wünsche (1994), p. 37 where Wünsche quotes Müller-Armack: “jeder gewünschte soziale Ausgleich durchsetzen, ohne mit den Spielregeln des Marktes in Widerspruch zu geraten. Die Leistungsfähigkeit der Marktwirtschaft steht in einer solchen sozialen Konstruktion nach wie vor zu Gebote”.

Still, market economy and social order are not the exclusive and only pillars of the Social Market Economy system. A significant part of it is represented by ecology and environment. This is the third pillar of the Social Market Economy. This pillar has become more and more important since the enactment of the first environmental protection laws of 1971 and at least since 1983, when the Greens⁸ gained seats and entered the conservative milieu of the German Bundestag by overhauling the electoral threshold of 5 %.

Ecology benefits from the strong and growing support of the population. It is based on the eighth “second-level” principle of the Social Market Economy and the first principle of ecology, namely, the **responsibility of the human being towards the environment**, which is perceived as a divine creation. After 1998, Germany became the only country in the world where a Green Party was included in a governing team. Having accomplished in their governing activities the promises of the election campaign, after the general elections in 2002, the Greens continued to maintain their position in the federal government until 2005, when they went into opposition after the winner CDU chose the FDP as their coalition partner. The contribution of the Greens from between 1998 and 2005 is significant not only at national level in Germany but through the implementation of an ecological policy supporting renewable energies at an international level as well: the German foreign affairs and diplomacy portfolio have been in the hands of the Green Minister Joschka Fischer who was also Vice-Chancellor between 1998 and 2005.⁹

In order to comprehensively explain the way in which these three pillars are built and work, we will analyse them individually. We will outline the even more concrete principles, the “third-level” at times even “fourth-level” principles that determine the legislation and the specific institutions as applied in the Social Market Economy in Germany.

⁸ Originally, the Greens were what the Pirate Party of Germany is today. Dressed in blue jeans and with Adidas sports shoes, they developed a political party programme out of the idea of “challenging the establishment”.

⁹ The analysts remember well that when the Greens first succeeded to come into federal government as late as autumn of 1998, their first attempt in order to be loyal to the promises they had made to the electorate was to go to Washington DC and negotiate Germany’s exit from NATO. Still, more or less within 6 months, German bureaucrats and civil servants succeeded to teach the newcomer “blue jeans politicians” what Realpolitik is.

4.1 Market Economy and Its Institutions

4.1.1 *Political Freedom, Private Property, Monetary Reform*

4.1.1.1 The Economic and Monetary Reform of 1948

Even though it was not stated this way from the beginning of the post-war period, the Social Market Economy in Germany began with the adoption of the package of legislative measures known as “the economic and monetary reform” of June 20, 1948 (Wirtschafts- und Währungsreform).

This reform was the first legislative pillar of the new economic system in post-war Germany. It reintroduced economic freedom; of course this is to be understood against the status quo in which the economy in Germany had been turned into a centralised war economy. Creating the market economy was the first legislative and institutional step undertaken in order to implement the ordoliberal and socio-liberal ideas that had lain until then in the drawers of the group of professors mentioned above as “fathers of the Social Market Economy”.

The positive effects of this reform, namely, that it brought into movement the energies and initiatives of entrepreneurs, were catalysed and accelerated by the **Marshall Plan**. Through the 1.3 billion American dollars that was made available to Germany between 1948 and 1952 (ca. 10 % of the total funds made available by the USA under the Marshall Plan for Europe), the Marshall Plan contributed to the financial capital and fixed assets required for recovery.¹⁰

On the one hand, this decisive step of the economic and monetary reform consisted in the monetary and financial reform and, on the other hand, in another series of liberalisations through the adoption of a set of laws concerning commercial and financial liberalisation.

There were four main laws. The first law, the “**Currency Law**” (**Währungsgesetz**) (**Military Law No. 61**), regulated the replacement of the Reichsmark with a new currency called the “Deutsche Mark” (DM) and the initial supply of the population, the public institutions, businesses and banks with a fixed amount of DM. At the same time, the law decreed the cancellation of the old Reichsmark currency and its withdrawal from the market.

The second law was the “**Coinage Law**” (**Emissionsgesetz**) (Military Law No. 62) and was related to the means of issuing, transporting, storing a.s.o. of new banknotes and coins as well as withdrawing the old ones from the market. It also established the minimum reserve requirements and created a foreign currency exchange department within the Bank of the German States. These two laws both came into force on June 20, 1948.

The third law was the “**Conversion Rates Law**” (Military Law No. 63) that became effective one week later, on June 27, 1948. It regulated—provisionally—

¹⁰ See the history of the OECD on the Internet portal of the OECD on <http://www.oecd.org/about/history/>.

conversion rates from the old currency into the new one for the various types of deposits, securities and other **contributions**. It also established the modality through which the conversion operation was going to be overseen by the newly created Federal Ministry of Finance.

The fourth law was the “**Fixed Accounts Law**” (**Festkontengesetz**) that came into force only in October 1948. It established the final value for the level of bank accounts and contributions.¹¹

This was a fresh new start. The bright ones seized the opportunity. Many who started new businesses then are now well-established companies on the market.

The Reichsmark (RM) was thus replaced by the Deutsche Mark (DM). Up to 10 billion new banknotes were issued and brought on the market. The amount was calculated so that it maintained economic stability. The new banknotes were made “of simple paper, bearing no watermark. The graphical design of numbers and brochures was similar to the dollar notes. Gears, marble pedestals, titans and women were copied from the American railway company’s shares”.¹² Every German citizen initially received 40 DM in cash, in exchange for 40 RM. Moreover, each employer received 60 DM in liquid assets for each of his employees. The conversion of the other payment means that exceeded the value of 40 RM was made, initially using the formula $100 \text{ RM} = 10 \text{ DM}$. During the autumn of 1948, however, as a result of inflationist tendencies, the conversion rate for deposits at that specific moment in personal or business bank accounts was reduced to $100 \text{ RM} = 6.50 \text{ DM}$.¹³

The other part of the economic and monetary reform, i.e. the liberalisations, was centred on the “**Act on reference interest rates for economic activity and the price policy after the Monetary Reform**” (**Leitsätze für die Bewirtschaftung und Preispolitik nach der Geldreform**). The law concerning reference rates and many other decrees and application norms, adopted under Erhard’s lead, brought back freedom into economy. These measures invalidated around 90 % of the prescription ordinances for price levels, blocked since 1936. The limitations on wages and the ban on obtaining a bank loan on the basis of a current account were also lifted. Quotas were established for over 400 products.¹⁴

Among academics and public opinion, this economic and monetary reform was supported through individual actions of the other professors, members of the ordoliberal group. They backed Erhard with written articles, lobby, interviews a.s.o. Erhard’s personal merit on top of this is the “popular” way in which he orchestrated the implementation of the reform. He found the way to connect ordinary people with the academic and political spheres. Unlike today, at that

¹¹ For the military laws quoted above, see Wandel (1980), pp. 120–125.

¹² See Wandel (1980), p. 129: “einfaches Papier, ohne Wasserzeichen... Die graphische Gestaltung der Ziffern und Brochüren ähnelte den Dollarnoten. Ähnlich der Dollarnoten. Zahnräder, Marmorsockel, Titanen und Frauengestalten, waren den amerikanischen Eisenbahnaktien entliehen”.

¹³ Comp. Wandel (1980), p. 124.

¹⁴ Comp. Wandel (1980), pp. 118–ff.

time, political discourse was credible and the so-called masses listened to their speeches and strategies. Through perseverance, firmness and the campaign undertaken in the academic, industrial, administrative and working environments, Erhard managed to maintain a calm in the people in spite of the shocks that occurred during the first months after the enactment of the reform and until the system started to yield its first fruits “in their wallets”.

In the economic and monetary reform, during the special circumstances created by the London Agreement on German External Debt of 1953, the road had been opened towards the much praised **“German economic miracle” (Deutsches Wirtschaftswunder)**, well known to the experts in national economics from all around the world. Shelves became filled with products literally overnight, on Monday, June 21, 1948. In fact, these goods already existed in the country, but because of the lack of regulation at a macroeconomic level, they were only available on the black market.

It is important to note that the economic and monetary reform took place before any other political reform was generated through German initiative. The economic reform preceded, by almost 1 year, the adoption of the democratic Constitution. Democratic Germany thus made the first step in the economic field, a fact that proves again that this country is an economic nation and also that the Social Market Economy has its roots in the real economy and not in social distributionist policies.

Support in the political field, for the actions undertaken already earlier in the economic sphere under the Allies came only later, in a period when the economic and monetary reform already implemented, had delivered considerable positive results. The first sign of political support for the economic and monetary reform coincided with the first sign that sovereignty could be regained by Germany. The sign was given by Federal Minister Erhard on August, 28, 1948, during his speech in Recklinghausen, held before the CDU assembly from the British Zone. It was there that Erhard explained the principles of the new economic system of the market economy which had been enacted at the initiative of the USA by the military laws and in cooperation with local economists and politicians. Here an important idea to put forward for debate is whether it can be stated that the Social Market Economy and even the German economic miracle were so successful because they were partly started under the initiative of the USA as the winning power and main occupier of Germany or whether it would have been successful in itself if Germany was a sovereign country at the moment of the economic and monetary reform. Whatever the truth, during his speech, Erhard said he saw the market economy as the sole system being able to suit Germany in the future; well, of course, the future as Erhard could see it was a future within the international security structure created by the winning powers, the US and UK—and these countries were and still are free—marketers. It is said that, after Erhard’s speech, Adenauer would have stated: “this was an extraordinary speech. . . the principles outlined by M. Erhard are truly good principles”.¹⁵ This phrase represented the political signal for starting down the

¹⁵ See Hohmann K, Ludwig-Erhard-Stiftung e.V. Bonn (Hg.) (1997), p. 13: “ausgezeichnete Rede. . . die Prinzipien die uns Herr Erhard dargelegt hat. . .wirklich gute Prinzipien sind”.

new path of the free-market economic system of post-war Germany. Although Adenauer might not have meant it from a neutral and scientific point of view, he certainly meant it from the point of view of the then German political national interests of the then balance of power.

Whatever the truth, the economic and monetary reform opened the way for that new economic model of the Social Market Economy, which was to be implemented on the basis of the free-market doctrine. This opening also made way for a national democratic political reform which was at that time still to come.

4.1.1.2 The Democratic Constitution of 1949 and Political Roots

In 1949, a new democracy appeared on the European political stage: the Federal Republic of (Western) Germany. The Constitution was adopted and the first general elections were held during the same year. The Constitution is to be seen as the second foundation of the Social Market Economy, the political foundation.

Being the fundamental and first national law with political character of post-war Germany, the Constitution bore an appropriate name: the “**Basic Law**” (**Grundgesetz**). It was adopted on May 8, 1949, by the Parliamentary Council (Parlamentarischer Rat) gathered in Bonn and came into force on May 23, 1949. After the German reunification of 1990, the West German Constitution was modified and completed in 1994 in order to include the five new “Länder” of the former German Democratic Republic. The amendments became effective on November 1, 1995.

Between the free-market economy and the Constitution, there was a dynamic and mutually conditional relationship. This relationship was described by former Chancellor Schröder too. The Constitution attempts to exclude extremely bad situations for individuals which appear given the market forces. But it also provides that a command economy cannot appear in Germany. Thus, it is a middle way between the two types of economic policy. Social democrats thus agree with the Social Market Economy as the “third way”, even though the decision for it was mainly done by Christian Democrats.¹⁶

It should be stated from the very beginning that the form of government of the Federal Republic of Germany, as the Second German Republic, or the Bonn Republic, was that of a **federal parliamentary republic**. It is hard to say whether this form of government was the choice of Germany alone, free from international influences. The federal form was definitely a local choice, but maybe while looking again at the model of US federalism.

Nowadays, the Republic still reminds many people of defeat, while the Reich and the monarchy are associated with historical traditions, times of glory, stability and prosperity. Larger masses of population have begun to gradually tolerate and accept the Republic as a positive form of government only one generation after the

¹⁶ See Schröder (1999), p. 18.

end of the war. This change was catalysed by the high prosperity and success achieved via the Social Market Economy in Germany at a national and international scale.

If, in the economic field, Germany opted for the continental model of Rhineland capitalism, the political field was sown with values inspired from the French Republic and US federalism. The French model was embedded in political elements particularly to Germany, which then received North American implementation influences. No political programme and no party—aside from those that came to be perceived as extremist after 1945, i.e. the Republicans and the NPD—abandoned the values promoted by the French Revolution. There is a consensus among political and constitutional experts who draw parallels between the French “**Liberté, Egalité, Fraternité**” and the values embedded in the German Constitution. If “**Liberté**” was translated into German political discourse using the exact equivalent, “**Freiheit**” (freedom), the other two virtues were equated according to different local German specificities. “**Egalité**” was equated with “**Gerechtigkeit**” (justice) and not “**Gleichheit**” (equality). “**Fraternité**” was translated using the word “**Solidarität**” (solidarity) instead of “**Brüderlichkeit**”¹⁷ (fraternity/brotherhood). According to Nell-Breuning and other analysts, it is being liked to see that all above three core elements of the French Revolution are included in the German Constitution, in the contemporary political discourse, included in the legislation of the socio-economic system and in institutional principles.¹⁸

The French triad is embedded in the German-specific concept of the state. This concept has strong mediaeval (Western and Catholic) roots and is based on the concept of divinity and is explained in one of Pope Leo XIII’s (1878–1903) encyclical works. According to that concept, the state is “as an entity endowed with authority directly by God in the person of the Prince, in some ways an incarnated bearer of sovereignty”.¹⁹ According to this model, the authority is granted with legitimacy from “above” by the grace of God (Gottesgnadentum), and according to the Catholic mediaeval vision, this authority is first received by the Pope of Rome. The Pope then delegates and transmits this authority received from above through the coronation of the Kaiser. The latter then transmits it further “down” by delegating it to local noblemen or princes, dukes, counts, etc. This is the feudal system and was called “the system of the lent right and of vassal support” (Lehnswesen).²⁰ It is within this system that principalities, as state entities preceding the contemporary 16 Länder of Germany, appeared during the High Middle Ages. The main idea is that noblemen borrow (leihen) from the Kaiser not only the right to exert power locally but also the right to use the land over which they rule.

¹⁷ See von Nell—Breuning (1979), pp. 150–151.

¹⁸ Comp. von Nell—Breuning (1979), pp.150–153.

¹⁹ See von Nell—Breuning (1979), p. 156: “als unmittelbar von Gott mit Autorität ausgerüsteter, in der Person des «princeps» gewissermaßen inkarnierter Hoheitsträger”.

²⁰ Comp. Lexikon-Institut Bertelsmann (Hg.) (1981), p. 711.

In his turn, the Kaiser relies (anlehnen) on his noblemen in the governing process and the wars he might have to lead.

The system is similar to the clerical one. In the case of both the Catholic and the Orthodox Churches, the priests are the bishops' representatives in the territory, i.e. in the parishes. The sole reason for which priests are needed in parishes is that bishops cannot be physically present simultaneously in all the parishes of their diocese. According to Canon Law, the only persons directly authorised by Jesus Christ to preach and to give out the Holy Communion to the people (church customers, in a more economic and cynical language) would be bishops. This is the reason for which only bishops are entitled to appoint priests as their delegates.

Therefore, we note that in its exertion, the state authority is a top-to-bottom system and is perceived as coming from above and exercised at the bottom through delegates or commissioning (the subsidiarity principle). This delegation/commissioning is clearly visible in Germany, thanks to the existence of the Constitutions of the 16 federal Länder. However, when central power is elected in the federal system, their authority comes from below, and it moves upwards by representative democracy becoming perceivable at the meeting in the Reichstag (Bundestag). In Austria the political system is somewhat similar not only because it belongs culturally to the German language area, but because it also belongs to the area of the Holy Roman Empire of the German Nation.

Unlike the French centralised system, within which the main part of the authority remains in the capital city, Paris, even though it might be exercised at local level, the downward delegation characteristic to the German system doesn't strictly refer to the right of exerting the authority but to its delegation and transfer to a local level, where then responsibility also rests.

The respect granted to federalism and public local authorities in Germany is understandable, because these public institutions are endowed with authority also at local level. This respect is based on free consent by the citizens created by the belief that this is how it really should be.

We thus see that freedom plays an essential role in the German political system, even if it cannot be identified as a goal to be pursued in itself (pursuit of happiness), thus remaining only the best believed means in order to achieve wealth and social peace.

The Constitution of Germany is a federal one. According to the **subsidiarity principle**, it does not affect all spheres of public life. It only sets out the basic principles and the general organisation framework for political life. Within this general framework, the specific fields of public life are regulated, in a detailed manner, in the **Constitutions of each of the sixteen Länder**. The Länder, in their quality of semi-sovereign states, decided to freely accept the Federal Constitution. At the same time, given the right of subsidiarity, they did not delegate all their competences to the federal authority. For example, policing, education and the tax collecting system are just some of the areas in which competence is exerted mainly by the Länder, however, respecting the general limits imposed by the Federal Constitution.

The ethnic German people's orientation towards work, its quest for harmony and consensus and its specific search for its own national vocation strongly influenced the identity of the Social Market Economy system which appeared within its borders. Often, the national vocation within "the concert of peoples" is connected to the Social Market Economy model as it defines the concept of profession, of work and of community as a vocation from God. Here, the concept of profession (Beruf) is the most important because the individuals are main drivers of any economic activity. In this case, profession becomes synonymous with mission, calling, aptitude and talent. The concept bears the name of "Berufung" or "Beruf", just like we saw in Thomas Aquinas and Max Weber, and becomes visible in the Constitution for the whole nation and is understood as being in front of the international community: "In awareness of its responsibility in front of God and men, inspired by the will to serve world peace as an equally entitled member of a united Europe, the German people, by virtue of its constituent sovereignty, has enacted upon itself this Basic Law".²¹ But what is, more precisely, the type of state and of Constitution which the German people have given themselves?

One of the basic rights guaranteed by the Constitution is freedom: "The freedom of the individual person is inviolable".²² Nevertheless, this disposition appears only in Article 2 and seems to be just a means to achieve the main goal in the German model: **human dignity**. The fact that freedom is not a goal in itself can be inferred from Article 1 paragraph 1 of the Constitution which mentions dignity, not freedom: "The dignity of man is intangible".²³ The German focus is thus the human being as a whole. The holistic approach was definitely transferred from the political level to the economic level of the Social Market Economy as well. Freedom finds itself among the other social values and has the same importance as any of them, but not more. The elements with individual and private character do not have an absolute but a relative validity.

Then, the Constitution **guarantees private property, but rather in a limited way**. It states that "(1) Property and inheritance rights are guaranteed. The content and limitations thereto are established by the laws".²⁴ Connected to property is the

²¹ See Grundgesetz für die Bundesrepublik Deutschland, Präambel: "Im Bewußtsein seiner Verantwortung vor Gott und den Menschen, von dem Willen beseelt, als gleichberechtigtes Glied in einem vereinten Europa dem Frieden der Welt zu dienen, hat sich das Deutsche Volk kraft seiner verfassungsgebenden Gewalt dieses Grundgesetz gegeben" http://www.bundestag.de/bundestag/aufgaben/rechtsgrundlagen/grundgesetz/gg_00/245200, accessed June 2, 2014.

²² See Grundgesetz für die Bundesrepublik Deutschland, Art.2 par. (2): "...Die Freiheit der Person ist unverletzlich..." http://www.bundestag.de/bundestag/aufgaben/rechtsgrundlagen/grundgesetz/gg_01/245122, accessed June 2, 2014.

²³ See Grundgesetz für die Bundesrepublik Deutschland, Art. 1 par. (1): "Die Würde des Menschen ist unantastbar". http://www.bundestag.de/bundestag/aufgaben/rechtsgrundlagen/grundgesetz/gg_01/245122 accessed June 2, 2014.

²⁴ See Grundgesetz für die Bundesrepublik Deutschland, Art. 14 par. (1): "Das Eigentum und das Erbrecht werden gewährleistet. Inhalt und Schranken werden durch die Gesetze bestimmt". http://www.bundestag.de/bundestag/aufgaben/rechtsgrundlagen/grundgesetz/gg_01/245122, accessed June 2, 2014.

principle of responsibility which is formulated in the very next paragraph and connected to the concept of collective rights and responsibilities: “(2) Property creates obligations. The use of property shall equally serve the common good. (3) An expropriation is admissible only for the common good”.²⁵ So, in theory, if the exercise of property rights obstructs the common good, e.g. in the case of war, expropriations would be not inconceivable. This political choice is important since it defines the focus on commonwealth interests of the business community, on the interests of social groups. Although this might have its advantages for social cohesion, at times though it seems to be a dangerous path to follow, because it always depends on the interpretation by the decision-making body of what is in the interest of common good and what is not.

Through the provisions of the Constitution, the **tutorial effects of the social state model** also apply to the economic field. The Constitution “does not make the Social Market Economy compulsory, but limits itself to banning a Market Economy that is not bound to the social dimension, as well as banning a Centralised Administration Economy”.²⁶ Because they are included in the Constitution, elements related to the social order have a significant power over the functioning of the market economy. The statement that “The Federal Republic of Germany is a democratic and social federal state”²⁷ means that the state automatically has some social responsibilities as well. The fact that the state is supposed and expected to orchestrate the social order is not determined only by the Constitution but also by the German traditional way of perceiving the community and the state. “The State (more precisely the Prince) is just, good and wise; he knows what is best for his subjects and wants only their best; his subjects are not mature and uneducated underaged who need education and, in some cases, to be disciplined by the State who assists them with parental authority”.²⁸ Therefore, a tutorial interaction exists between the state and its citizens.

As we are about to see below, the social order really contains two “third-level” principles derived from the social tasks delegated to the state by political consensus: “the principle of state care” (staatliches Fürsorgeprinzip) and “the principle of state supply” (staatliches Versorgungsprinzip). Through these, the state

²⁵ See Grundgesetz für die Bundesrepublik Deutschland, Art. 14 par. (2) und (3): “Eigentum verpflichtet. Sein Gebrauch soll zugleich dem Wohle der Allgemeinheit dienen (3) Eine Enteignung ist nur zum Wohle der Allgemeinheit zulässig. . .”.

²⁶ See Grosser (1988) p. 56: “Da das Grundgesetz aber die Soziale Marktwirtschaft nicht festlegt, sondern lediglich eine sozial nicht gebundene Marktwirtschaft, sowie eine Zentralverwaltungswirtschaft untersagt. . .”.

²⁷ See “Grundgesetz für die Bundesrepublik Deutschland” Art. 20 par. (1): “Die Bundesrepublik Deutschland ist ein demokratischer und sozialer Bundesstaat”. http://www.bundestag.de/bundestag/aufgaben/rechtsgrundlagen/grundgesetz/gg_02/245124. accessed June 2, 2014.

²⁸ See von Nell—Breuning S.J. O (1979), p. 156: “Der Staat (konkret der «princeps») ist gerecht, gütig und weise; er weiß, was für die Untertanen gut ist und will nur ihr Bestes; die Untertanen sind unmündig, ungebildet und unerzogen, bedürfen der Erziehung und gegebenenfalls in Zucht gehalten zu werden, durch den mit (landes-) väterlicher Autorität ihnen gegenüberstehenden Staat”.

accomplishes its missions of orchestrating social order and of tutoring its citizens. These two principles represent the starting point for the creation of laws and social institutions with this specific influence of identity.

The way the Constitution is written proves that the goal of the Social Market Economy is to guarantee common good but also to protect against dictatorial and political abuses. It does not indicate the manner in which to reach these goals. The Constitution allows the implementation of any economic model, provided that the social dimension is maintained. The distinctive feature for Germany, and which can be pointed out here, is that historical traditions visibly influence the choice of the type of economy, state model and economic policy style.

The competent institution responsible for the monitoring of the Constitution is the **Federal Constitutional Court of Germany (Bundesverfassungsgericht)**, located in Karlsruhe. As long as its judges will succeed to maintain an equidistant character of the decisions, the principles of “social justice” and “common good” shall be properly applied in Germany. Still, with the slow decline of the practice of virtue, a “sine qua non” for the functioning of political democracy, it may be that federal constitutional judges might, at times, heed to political pressure.

The implementation of the Social Market Economy within the current political constitutional framework led, during the first three decades after 1945, to good results. Even though there have been voices advocating the introduction of a model similar to the ordoliberal theoretical model of Eucken, Böhm and Erhard that had produced the German economic miracle of post-war reconstruction within the Federal Constitution, such a model was not included into the Constitution. Some analysts believe that it was this decision that allowed a turn towards Keynesianism and Socialism in the 1970s. According to another hypothesis, if the model had been included in the Constitution, there is no guarantee that it could have been adjusted in accordance to the change of political doctrine in successive governments.²⁹ In Great Britain, for instance, a final text in a written form of the British Constitution does not even exist; it is rather a huge collection of common law, case law and experience in the judicial field built up over the centuries, and where the social order and the market economy are to be freely governed by the respective governments. No one thinks of questioning it, but this makes the British system flexible according to the specific need of the respective historical age in order to serve British interest.

From this perspective, we can identify another specific feature of political identity: psychology and national style are influenced by their transposition in writing, in the concrete, in the tangible version of essential concepts. Maybe the natural vocation towards the production of goods is yet another reflection of the spiritual preference for the concrete in the economic sphere, a preference that can be identified in the political field as well.

To sum up, we could say that the Constitution is the primary largest political framework within which the economic processes take place. It could be considered

²⁹ Comp. Grosser (1988) pp. 35–73.

the “exterior ordering circle” or “the largest circle of the Economic Constitution” of the Social Market Economy as it was developed in Germany.

4.1.2 Business Organisations (Companies), Profit and Investments

As we have seen, in order for it to be functional, any national economy has to be supported by a minimum number of profitable business organisations. Without these economic cells, ideally producers of profit, maintained at a self-sufficient level, no social-economic life is possible. Their profitability is the ideal case and is needed at any expense because they are the driving force of physical existence. But things are not ideal any more, ever since the West left in 1971 the classical model of the “savings capitalism” and moved to “debt-driven” capitalism. The US government’s tacit fiscal policy of growth by spending in deficit, pursued after the onset of the free floating system in 1971, allowed for a large number of core companies—mainly those operating on the basis of public procurement, but also other companies which profited from the artificial market demand created by debt-driven consumption—to appear more profitable and productive than they were in fact if regarded strictly from a free-market economics point of view. This artificial and illusionary profitability was still able to move the economic life of capitalist countries forwards, at least until the financial crisis proved that such high levels of total debt (public, individual and companies) in the range of ca. 300 % of GDP in the USA, around 500 % of GDP in the UK, over 290 % of GDP in Germany and 230 % of GDP in Spain³⁰ are not sustainable. Still, in order to be able to think over a restructuring solution for the productive part of the Social Market Economy, we have to resume the analysis from scratch.

From the point of view of the principles of the Social Market Economy, companies are legal entities through which the principles of economic freedom, initiative and private property concretely manifest themselves. Business organisations are the institutionalised means through which these principles are optimally applied in order to ensure the microeconomic organisation framework needed for the respective business to succeed.

At first, any business organisation is built respecting the idea and the goal defined by its founders. The goal of the business is included in its statute and in the contract of association between partners and remains the core idea in all its economic activities, until the dissolution of the company or their modifications.

Like any other of their counterparts in the world, entrepreneurs in the Social Market Economy have the same goals: to make profit, become rich and be their own masters. Nevertheless, a core value in this economic system, and often even in Germany where this system is applied, is unique because most entrepreneurs are

³⁰ See The Economist (2011).

expected to attain these goals in a specific way, or style, to try harder, maybe only half-conscious, in order for the profit-making activity not to be a strictly selfish one, but to include in it the altruistic component of attending to the needs of their human being fellows, providing them with the products they need.

It is true that the basic idea for the creation of a firm or business belongs to its owner, to the entrepreneur. However, because the specific Catholic and Christian mentalities coexist in societies³¹ along with other mentalities, this basic idea can't be entirely covered and fulfilled within that firm only, but rather in the community at large. In such countries, "a business is generally accepted as an association of human beings who collaborate for common achievements"³² says the influential German Jesuit Professor von Nell-Breuning. It is not specified that the purpose of the association is to create profit or pursue happiness, not even the clients'. Some among these many people who collaborate with each other are the ones who come up with the idea that constitutes the starting point for opening businesses. In 2009 there were a total of 3,598,248 businesses (see Chart 4.1) whose juridical form was either based on persons, on physical individuals, on capital and on some other combined forms. But coming up with the founding idea doesn't mean at all that these people are going to be perceived as forever detaining exclusive decision capabilities on that business. Therefore, unlike in many other economic models, in Germany and in social market economies, the business entity or association is not perceived as the exclusive property of the owner, but in some ways of the employees as well. Quite the opposite in the Anglo-Saxon model, for instance, the business is exclusively the property of its owner and has nothing to do with employees: "the other persons that actively participate in the activities of the respective business do not belong to the business, are not its members... in the sense that citizens belong to a state. From a juridical point of view, they are outsiders for the business in which they actively participate, like suppliers or clients".³³ Thus, we can see the complete difference between the concept on the business entity in a Social Market Economy country and in a free-market neoliberal economy country.

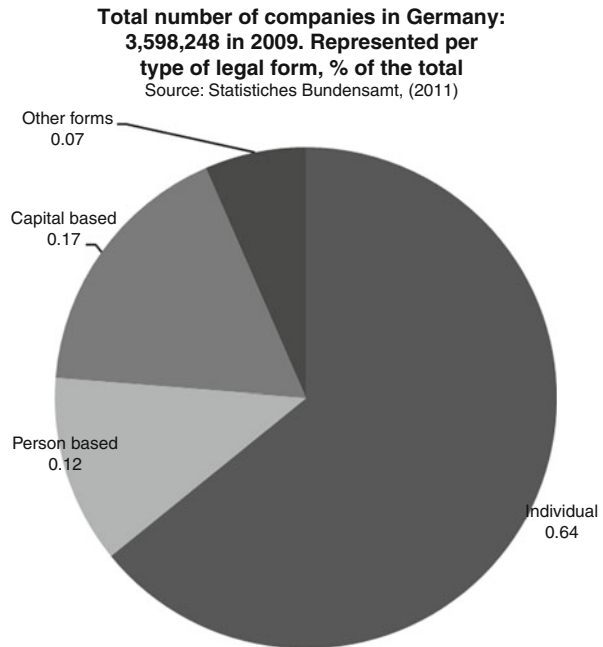
In Germany, the legal form of a company is for the microeconomic activity, what the "**Economic Constitution**" is for macroeconomics. The law establishes the sharing proportion among the owners' freedom to operate and to administer property and the degree and way in which responsibility is assumed for concluded commercial contracts. It is definitely not easy to create a system, which when

³¹ This was such at least at the time of the creation of today's institutions in the 1950s and 1960. It is such probably less now, because European societies are not Christian any more.

³² See von Nell—Breuning (1979), p. 91: "der Betrieb ist allgemein anerkannt als *Verbund* der zu gemeinsamer Leistungserstellung kooperierenden Menschen".

³³ See von Nell—Breuning (1979), p. 123: "die im Unternehmen Tätigen nicht *zum* Unternehmen <gehören>, nicht seine Mitglieder sind[...] wie beispielsweise der Staatsangehörige dem Staat, sondern im Rechtssinn *Außenstehende* sind, die dem Unternehmen wie Zulieferer oder Abnehmer als <Dritte> gegenüberstehen".

Chart 4.1 Total number of companies in Germany, classified according to legal form, 2009



implemented should encourage over 3.6 million³⁴ business owners to assume responsibilities.

Several types of company juridical forms will be presented in order to facilitate the understanding of this situation we have in Germany. It has been duly considered that these juridical forms for economic activity via which responsibility is taken on, either by the individual, or by the family association, or by the associates, or shareholders, do cover the whole imaginable range of economic activities: from those of the smallest business, the individual and family, to those of organisations quoted on stock exchanges with hundreds of thousands of shareholders and thousands of employees and which operate globally in dozens of countries.

First of all, with ca. 2.3 million, the so-called Einzelunternehmer (**individual entrepreneurs**) who basically are to be considered self-employed are by far the largest number of companies from the whole of Germany. They are the so-called individual-based companies.

Second are the **closed business organisations**, which are person based and are set up either on the basis of the Civil Code (Bürgerliches Gesetzbuch—BGB), like “partnerships under civil law” (Gesellschaft Bürgerlichen Rechts—GBR), or on the

³⁴ See Statistisches Bundesamt (Hg.) (2001). <http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Navigation/Statistiken/UnternehmenGewerbeInsolvenzen/Unternehmensregister/Unternehmensregister.psm1>, accessed May 26, 2014.

basis of the Commercial Code (Handelsgesetzbuch—HGB),³⁵ such as “limited partnerships” (Kommanditgesellschaft—KG). “General partnerships” (Offene Handelsgesellschaft—OHG) can also be created on the basis of the Commercial Code. The total number of these closed business organisations which are person-based companies in 2009 was just over 435,000 (see Chart 4.1).

In what the **capital-based business organisations** are concerned, a special law exists for “public companies limited by shares” (Aktiengesellschaft—AG Gesetz) and for “private limited companies by shares” (Gesellschaft mit beschränkter Haftung—GmbH Gesetz). These capital-based companies constitute the backbone of the German economy in what turnover and employees are concerned. This is true although as a number of the total number of companies registered they are below 20 %: in 2009, these capital-based companies totalled a number of just over 619,000 (see Chart 4.1). An increasing dissolution of the implementation by the judiciary of the basic principle of limitation of personal liability in the case of insolvent GmbH companies can be noticed beginning more or less with the first decade of the twenty-first century. In such cases, judges decided in many cases to make the owners and sometimes even the management of the GmbHs liable with their personal assets. This is a not so good infringement into the principle of this very type of company, thus causing an overlapping with the KG type of company.

Other juridical forms than the above comprise combinations of open with closed and of person with capital-based companies.

As GBR, KG, GmbH and AG are business entities that are relatively well known in most European countries, we shall briefly look at KGaA, GmbH & Co. KG and OHG which are less known outside Germany, Austria and Switzerland.

KGaA (Kommanditgesellschaft auf Aktien) is an open type of business organisation, a limited partnership, similar to a public company limited by shares, but less common. It has two categories of partners: general partners (Komplementäre) with unlimited liability extending to the entirety of their personal assets and limited partners (Komanditisten) whose liability extends only to their nominal holdings in the company. The greatest risk is taken by the general partners. KGaA combines the advantages of a public company limited by shares with those of a partnership keeping thus a flexible and comparably low taxation level.

GmbH & Co. KG is a type of limited partnership in which one of the partners is a private company limited by shares. This type of business entity benefits both from the advantages of partnership and those of limited liability. So the general partner, the one with unlimited liability, is a GmbH (Gesellschaft mit beschränkter Haftung) in which the responsibility is in fact limited to the subscribed capital.

OHG (Offene Handelsgesellschaft) is an open partnership in which the partners’ liability is as extended as possible. In order to start the partnership, at least two

³⁵ See No authors (1993) Handelsgesetzbuch, 1. HGB Art. 105–160. pp. 53–66 for OHG. Then for Kommanditgesellschaft Art. 161–177a, pp. 66–70. The first version of the German Commercial Code (Handelsgesetzbuch—HGB) was adopted on May, 10, 1897, 1 year after the adoption of the German Civil Code (Bürgerliches Gesetzbuch—BGB), on August, 18, 1896. They both entered into force on Jan. 1, 1900. See Hefermehl W (1993) Einführung. I. Handelsgesetzbuch. 1. Bedeutung und Geltungsbereich. In: No authors (1993) Handelsgesetzbuch, p. 7.

partners are needed. They are personally and unlimitedly liable for the partnership's debts, and liability extends to their personal assets. Moreover, each partner is solely and individually liable for the partnership's full debt. Still, in such a situation, reimbursement may be asked by the creditor from only one of the partners.³⁶

Every one of these business organisation types in Germany benefits from certain kinds of special advantages in accounting and taxation. Owners do their best to combine them in such a way so as to maximise profit. So it is obvious that legal flexibility towards such constructs encourages efforts to turn profit.

Still, entity type is not the only important factor in ensuring business profitability. There are other parameters to analyse, both at a microeconomic and macroeconomic scale.

At the executive level, the company's goal, its strategy to reach that goal and to reach a certain work productivity, turnover, profitability rate, size of the profit and a willingness to capitalise on it and reinvest it, are all closely interrelated factors. Their evolution in a juridical form is different to one another, so the juridical form decides on the future health of these companies.

The form of organisation is sensitive to the way profits are used inside it and the way it conducts investments. Owners, managers and administrators must always invest in the maintenance and upgrade of existing production units and especially in developing non-stop new products for release on the market. The reason for this is simple: no continuous progress means automatic regression, making disappearance from the market only a matter of time. Managers who are loyal to their employers fight for the microeconomic health of the company they run.

But interdependence is even more complicated. It is not just managers who have a say in how the company works, but it is also the government, through its economic policy. Company–state interdependence is decisive. The size of the turnover makes big companies not only subjects but also actors on the regional and national economic stage. As we can see in Charts 4.2 and 4.3, the number of companies with over 1,000 employees was only ca. 1 % of the total number of companies in 2009 in the German productive industries. However, these achieved ca. 38 % of the total turnover in this whole industry. The increase of concentration of industrial activity in industry between 2000 and 2009 is illustrated by the lower number of companies active in industry in 2009 than in 2000, while during the same years an increase in the volume of industrial activity is known to have taken place (see Charts 4.4 and 4.5).

The impact which their managers' decisions have on the related impact on the government's social and financial system is significant. This is how, in the year 2009, the total taxes collected in Germany by the federation, Länder and town councils from all the companies rose to €524 billion.³⁷ In that same year, the biggest German industrial companies were Volkswagen with a turnover of €105.187 billion and E-ON with €81.817 billion, respectively. Together with the

³⁶ Practical details on advantages or disadvantages to these major types of business can be obtained from the Chambers of Commerce and Industry and from "Germany Trade and Invest" (www.gtai.de) which is the government economic development agency dealing with foreign investment too.

³⁷ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 68.

Chart 4.2 Percent of companies per employee numbers, processing industry, 2000

Processing Industry 2000: in total 48,859 companies.
Classification according to number of employees
Source: Institut der Deutschen Wirtschaft Köln (Hg.), (2002), p. 34

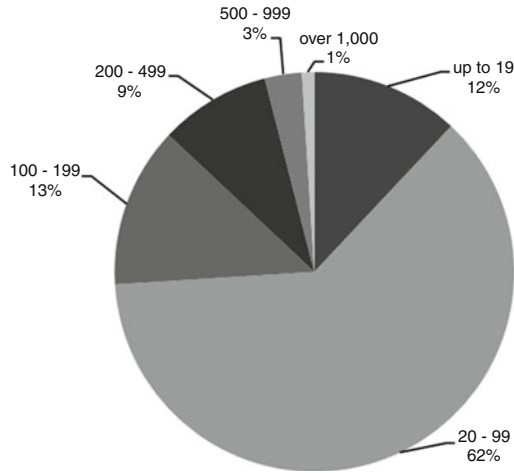
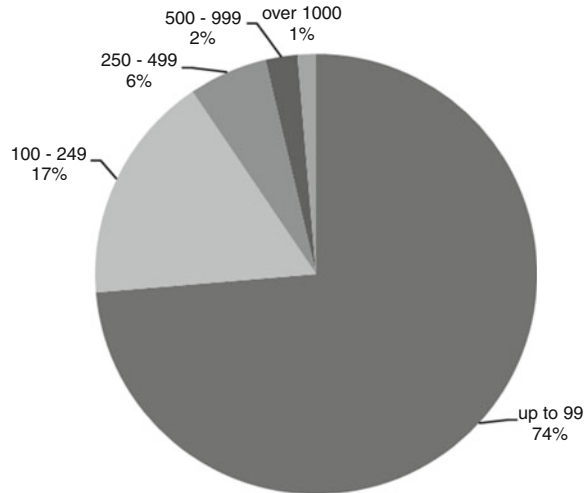


Chart 4.3 Percent of companies, per size according to employee in processing industry, 2009

Processing Industry 2009: in total 45,231 companies.
Classification according to number of employees
Source: Institut der Deutschen Wirtschaft Köln (Hg.), (2011), p. 34



other nine following companies Daimler, Siemens, BASF, BMW, RWE, ThyssenKrupp, Robert Bosch, Bayer and Adolf Merckle, they had a higher turnover than the total tax revenue of the combined state budgets of the year.³⁸ What is

³⁸ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 52.

Chart 4.4 Turnover share of companies per employee numbers, in industry, 2000

Industrial companies, 2000. Percentage of the total turnover of the sector achieved against the entire sector according to number of employees

Source: Institut der Deutschen Wirtschaft Köln (Hg.), (2002), p. 34

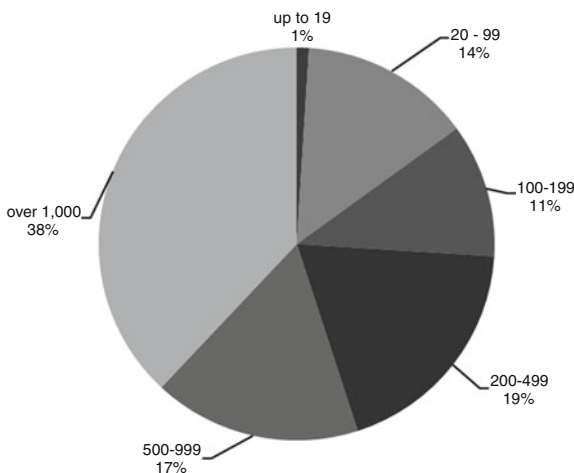
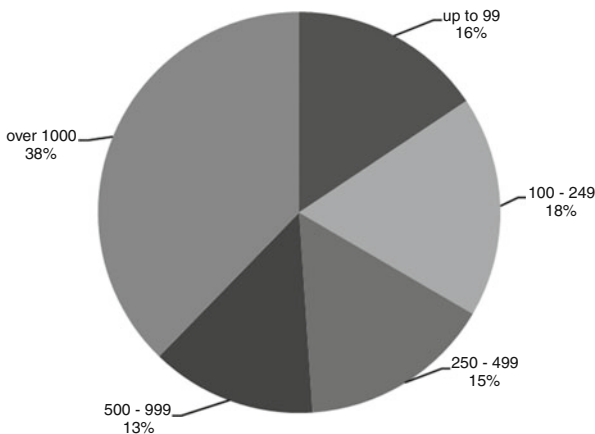


Chart 4.5 Turnover share of companies, per size according to employee in industry, 2009

Industrial companies, 2009. Percentage of the turnover achieved against the entire sector, according to the number of employees,

Source: Institut der Deutschen Wirtschaft Köln (Hg.), (2011), p. 34



socially important, beside the considerable amount the government collected through direct and indirect taxes from these companies, is that each of these had as many employees as several medium-sized towns. In 2009, Volkswagen employed 351,600 people, Siemens 405,000 people and the other nine companies mentioned above registered a cumulated figure of up to 2,023,500 employees.

Even if only half of these are employed on German territory and not abroad in the international branches, 1,000,000 employees for ten companies is a high number compared to a total of 38,662,000 employees in the whole of Germany in that year.³⁹ Therefore, it can be stated that the executive management of these companies truly deploys social and economic policies, not only at a regional level but most certainly at a national level, if we take vertical and horizontal interdependence between suppliers and clients into account. A single wrong decision can lead to tens of thousands of people being laid off, towns in ruin, burdened social budgets and a drastic reduction in the amount of money levied by the state through taxes. This degree of responsibility puts enormous amounts of pressure on the management in these big companies. Given the sheer size of these companies, we can imagine that indeed they might be too big to fail and therefore have in their turn a huge power on the government's economic and financial policies. For that reason, it is easy to see that what matters for the health of a business organisation is not just managers who are aware of the need to reinvest profit but also that the government, as guardian of social order, is able to respect an optimal proportion, specific to that particular economic branch, of the percentage of payroll and social security taxes it levies on the company's income. This is the only way a business has the chance of keeping as big a part as possible from its profits in order to reinvest it and create new jobs. Sooner or later, the governments too will benefit from the effects of a healthy tax policy. Smaller taxes mean the business has enough funds to make investments and is thus able to employ more people, of course provided they also have healthy and future-oriented products and do not park the money with banks.

At a government level, this means that the social security system will have less expenses with social assistance and unemployment benefits and, what is even more important, the new employees turn from consumers into contributors to the state and social budgets.

Moreover, the existence of healthy and stable companies means that individuals can practise their profession within an organised structure. They have the opportunity to grow professionally and personally by answering to their professional calling, as we have seen in the last chapter. While growing personally, in ideal conditions, people start to love their country and their society more, thus bringing a new wave of support for the existing economic and social order. This increased support brings extra stability to the act of governing that country. With gained support and credibility, the government is stronger when it comes to correctly implementing economic and social order and collecting taxes and levies that are as low as possible, without giving in to pressure from interest groups. All this boosts the health of the economic environment further.

In other words, a state which is apparently financially poor is in fact strong, because it normally has healthy companies at its disposal, which, in case of dire

³⁹ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) pp. 13 and 52.

need, it can occasionally “skim”. This possibility is based on the assumption that politicians have the strength not to let themselves bullied by managers and employers of the huge concentrated economic power bundles, as happened with the financial crisis in 2007–2008 when banks forced the governments, and thus the taxpayers, to bail them out of their expected responsibilities and from going bankrupt if they managed wrongly.

The interaction between the business, its management and the government is important. The dynamics of the “market economy” as part of the Social Market Economy is maintained by keeping businesses, the basic components of them, within a profit zone where they produce “black figures” (schwarze Zahlen), not in “red figures” (rote Zahlen)—meaning losses, as they say in German—in the balance sheets.

While looking at the principle of the free-market economy also from the point of view of producing sustainable growth, we must unfortunately conclude that in the long term, the free-market economy is doomed. The reason is simply that its survival depends on more and more consumption and uninterrupted sales and the need for new markets. Well, as the Earth’s resources are limited, it is obvious that the applicability of the free-market economy, which otherwise is the instrument for creating fastest growth and for alleviating poverty, is limited in time. It will have to be replaced by another system which cannot be defined at this point in time. Of course this does not apply only to the Social Market Economy but to any national economic system where it is present.

4.1.3 Competition

Competition is the third “second-level” principle at the basis of a market economy and thus of the Social Market Economy as we know it in Germany too. Along with freedom and private property, competition can, if applied and supervised correctly, create the prerequisites to lead to a high level of economic productivity. It creates a dynamic between companies. Competition is an impersonal mechanism, but it makes sure that the price formed at the meeting point between supply and demand stays functional and becomes credible. It also puts pressure on individual businesses by stimulating them to improve their performance, product quality, innovation and product amounts in order to remain on the market. The reverse of competition is the socio-psychological phenomenon of burnout of some of the staff who are not able to sustain over long periods of time the high level of productivity required by market survival needs.

One of the explanations of how the principle of competition functions is the observation, from this point of view, of the mechanism of mergers. The motivation companies have to merge, to enter new markets and to adopt a market-oriented behaviour is usually given by the financial advantages resulting from lower costs relating to supply, production and finance. Many economists uphold the view that the most important advantage in a merger is the enlargement of the client base by

adding the clients of the merged partner. Moreover, for both merged companies, there are other production and financing advantages resulting from the fact that any product in a market economy, even a bank loan, is cheaper when it is acquired in large quantities and is done in a single transaction. These are the so-called peripheral and the preparation and operation closing activities. Mergers have become a global phenomenon. As Appendices 11a and b show, between 1990 and 2000, the number of annual mergers in the world multiplied by almost three, while their annual volume grew approximately eight times in that same decade. At that time, mergers were still perceived by most economic analysts as forms of harmless organisation optimisation. However, for the market, in general, there are disadvantages derived from mergers. The larger companies are, as far as turnover and product ranges are concerned, the more powerful they are. The more powerful they are, the larger their influence on the market and the lesser the pressure to be competitive and the willingness to invest in research and development and new products. In time, their position on the market may become much too powerful and may turn into price and product quality dictators. By not respecting a minimum of competition, they will restrain the freedom of the other businesses on the market and especially the chances of new companies in the same branch to survive. As a consequence of these limitations caused by the accumulation of power, the principle of freedom is undermined. The most serious violation of freedom is when companies that have become too strong pressure the government to adopt economic policy to their own benefit.

Until the crisis in 2007–2008, no government official or minister seemed to have worried that mergers will produce “companies too big to fail”. These came, as we have repeatedly seen, into a position to force many governments to bail them out of bankruptcy—and this not with money produced by the neoliberal “self-regulating” free market, but with the loathed taxpayers’ money. As a result, there has been an increase in the perception among government officials and policymakers around the world about the dangers of mergers and acquisitions which give too much power to companies in general and to certain companies in particular. At some point after the crisis, the volume of international mergers and acquisitions dropped quite spectacularly. In only two years, the yearly volume of these international M&A dropped in 2009 to only ca. 37 % of its highest ever value in 2007.⁴⁰ Thus, the social injustice which ensued from the thousands of billions of euros of taxpayers’ money used to bail out these inflated merged companies is a price all taxpayers had to pay for the governments not having watched over the implementation of the principle of competition and limits to concentration of power in the respective markets.

The legal instrument which is used in Germany against violations of the principle of competition in the Social Market Economy is the **Act Against Restraints on Competition** (Gesetz gegen Wettbewerbsbeschränkungen) adopted by the Bundestag in 1957. It is the concrete practical result of Franz Böhm’s theoretical

⁴⁰ See OECD (2010), Fig. A.8.2. International M&A activity by firms based in the OECD area <http://dx.doi.org/10.1787/838165361721>.

but applied work in this direction. This Act came into force on January 1, 1958, and has been amended at least seven times so far, with the last one in 2011. Its purpose is to limit power build-ups in the private sector. In the very first article of this Act, in its amended and republished form, it is stipulated that “Agreements between companies, decisions by associations of companies and concerted practices, which aim at hindering, restriction or distortion of competition, are prohibited”.⁴¹ This prohibition in itself is a good thing. But who, be it person or institution, could interpret and decide impartially on the illegal aspects of cooperation between businesses?

In Germany it is the **Federal Cartel Office (Bundeskartellamt)** who supervises and should ensure that the law and the principle of competition are respected. In the name of the government, it has the mission of *monitoring abuse*.⁴² In other words, there is an open and public indirect heed of opinion that abuse against competition in the market does exist and that it can only partially be eliminated. In order to preserve the balance of power on the market, the government needs to be informed about as many trespasses of competition regulations as possible. Otherwise market mechanisms will not function coherently enough in order to make the system credible to the entrepreneur. The implementation of the Competition Act had positive results: in 1930, the German Weimar Republic apparently had between 2,000 and 3,000 cartels for a much smaller economy than that of today’s Federal Republic of Germany. The latter had in 1978 barely over 260 cartels, and the figure went further down to barely above 240 in 1985.⁴³

The Federal Cartel Office systematically monitors market share of companies and the concentration of power in individual product markets at the national level. It groups similar economic branches together according to certain criteria which it considers significant, thereby establishing economic sectors for the purpose of monitoring. There can be differences between various economic sectors as far as the respective market share is concerned. At the beginning of the 1980s, market power concentration⁴⁴ was with 75.2 % highest in the national economy in the office supplies and IT sector.⁴⁵ What follows is a process of complex, interdisciplinary, economic, political and social interpretation of the results in order to

⁴¹ “Vereinbarungen zwischen Unternehmen, Beschlüsse von Unternehmensvereinigungen und aufeinander abgestimmte Verhaltensweisen, die eine Verhinderung, Einschränkung oder Verfälschung des Wettbewerbs bezwecken oder bewirken, sind verboten”. See Art. 1 of the Law against Limitations of Competition (Gesetz gegen Wettbewerbsbeschränkungen—GWB), on the Internet homepage of the Federal Cartel Office http://www.bundeskartellamt.de/DE/UeberUns/Bundeskartellamt/bundeskartellamt_node.html#doc4532724bodyText2, accessed May 26, 2014 or of the Federal Ministry of Justice: <http://www.gesetze-im-internet.de/gwb/BJNR252110998.html> accessed May, 26, 2014.

⁴² See Grosser (1988) p. 43: “eine Missbrachsaufsicht ausübt”.

⁴³ For the exact figures here see Grosser (1988) p. 44.

⁴⁴ It is usually defined as the cumulated market share of the three largest companies in that sector.

⁴⁵ See Grosser (1988) p. 44. Other market power concentration was ca. 63 % in mining, ca. 61 % in tobacco, ca. 50 % in lubricants and ca. 49 % in automotive sectors.

establish what the effects of market concentration are on competition in a particular sector. Interpretation is done by the Bundeskartellamt according to certain principles. What these principles are is made obvious by a dispute between the Federal Cartel Office and the European Commission. In order to ease the bureaucracy of monitoring work, back in 1999, the European Commission had proposed the implementation of the “innocent until proven guilty” principle which should be applied to all companies. That is to say that if this principle is to be applied at the EU level, then until the situation is to be fully analysed and the Cartel Offices of the EU member states issue a prohibition decision for every single merger, mergers and the formation of cartels could carry on. The Bundeskartellamt believes the contrary to what the European Commission believes. The German institution is pragmatic here and stands for the principles that the formation of all cartels should be prohibited, because competition-damaging mergers are not entirely known or detected anyway. The reason behind this is that it is practically difficult to decide which method is the better one: the more flexible one of the EU, which allows greater dynamics and freedom of association between businesses but is more exposed to abuse, or the German method, apparently less exposed to abuse, as it keeps businesses on “permanent alert” as to what is forbidden, but allows for less freedom and flexibility? In a way, it is probably not far from the truth to state that the German model of competition stimulation within the Social Market Economy is to ensure freedom through supervision of company activity.

There is a high degree of the complexity of this work of supervision. There is to be distinguished between implicit and explicit cartels⁴⁶ or oligopolistic situations. Discovering overt company mergers is relatively easy because they are explicit cartels. But discovering contracts of association that are sometimes confidential which de facto are implicit cartels (but de jure are not) and may lead to monopolistic or oligopolistic situations on the market is rendered difficult by the fact that companies use the power they already have and withhold the relevant information from the media market. There are procedures in place according to which the Kartellamt should be able to buy information from the market, including from the customs authorities or from the intelligence communities. But here operatively speaking, along with European unification and the creation of the Single Market, as well as the massive globalisation process we are in, competition monitoring jurisdiction moved to a large extent to Brussels, to the European Commission. However, given the principle of subsidiarity, this jurisdiction was delegated back to some extent to the national and even local⁴⁷ Cartel Offices, in Germany’s case to the Bundeskartellamt. Consequently, as long as the European Union does not get involved, the Office may continue to supervise free competition in Germany, as it did before the creation of the Single Market.

⁴⁶ Comp. Haucap (2014), folie 2.

⁴⁷ Should the focus of supervision be within land (local state, or regional level, Germany consists of 16 Länder—see Appendix 9) lines, jurisdiction belongs to the Land Cartel Office (Landeskartellamt).

Since 1999, after successive amendments to the law, the Federal Cartel Office has received in Germany extra competences. As a result, when public works contracts are auctioned, it should make sure that the bidding companies have an equal and fair chance against discrimination in the tender and no favours are given to any companies by the organisers of the tender.

The Bundeskartellamt is part of the Federal Ministry of the Economy, is based in Bonn and in December of 2009 it had 320 employees, of which economists and lawyers occupy about half of each of these posts. These experts periodically examine the market. Nevertheless, many of them do not have the practical business experience required in order to catch shrewd business managers who often do anything to circumvent the laws and cash in. The main course of action against abusive companies which get caught is simple taxation, or taxation by fining the extra profit incurred through illegal merger or mutual coordination. In other words, this means the government raises a part of the illegally acquired profits. The same method goes for environmental pollution. Nevertheless, fines for the violation of competition are heavier and go into the level of hundreds of thousands of euros. Plus, depending on the case, the companies may also be subject to confiscations of goods or funds worth up to three times the extra profit gained by merging. Decisions are issued in a judicial manner by the ten specialised departments of the Federal Cartel Office. These decisions are implemented by law enforcement bodies.

4.1.4 Monetary Stability and Predictability of Economic Policy

We will not get here into the debate about the nature of money nor about the self-awarded monopoly by the state, carried out through the Central Bank, to be the only actor allowed to issue means of payment within its national territory. Thus, we shall start our analysis based on the legitimacy of this monopoly.

Provided there are sufficient funds available, that there is a stable and efficient banking system which can be covered or bailed out in case of a crisis, we can say there is monetary stability as well as **predictability of the economic policy**. These are crucial conditions for the competitive functioning of any modern national economy. In Germany's case, these are the fourth and the fifth "second-level" principles of the market economy area in the Social Market Economy.

The most important institution able to ensure these principles during the era when the Deutsche Mark was Germany's currency was Germany's Central Bank, named the **German Bank of the Federation (German Central Bank or Deutsche Bundesbank)**.⁴⁸ After the third step towards the European Monetary Union was

⁴⁸ The Bundesbank is still located in Frankfurt am Main and online at www.bundesbank.de. The activity of the civil servants delegated by the Bundesbank to the European Central Bank can be investigated at www.ecb.eu.

completed on June 30, 2002, with the introduction of the euro banknotes and coins, the Bundesbank could no longer exist independently of the European Central Bank, as it had been introduced in the European System of Central Banks. Still, in order to have a better understanding of the mechanisms of today's Social Market Economy not only in Germany but all over the Eurozone and the countries depending on this zone, it is necessary to be aware of the evolution, the principles, characteristics and activities of its predecessor, the Bundesbank between 1958 and 2002 and of the Bank of the German States (Bank Deutscher Länder) between 1948 and 1958.

The main task of the Bundesbank was to ensure the stability of the German currency nationally and internationally. Nationally, it focused on price stability, since it is known that the Germans' high sensitivity towards inflation dates back to the hyperinflation of 1923.

Price stability is now directly linked to maintaining the value of cumulated capital and especially of savings and economic planning within the businesses.

The key to the Bundesbank's success is attributed by most economists to one of the key elements of its articles of association. It could be called a "third-level" principle of the Social Market Economy: **the independence of the Central Bank's monetary policy from the federal government's economic policy.**⁴⁹ It is a typically German principle, consistently applied throughout the decades and which has been taken over into the Statutes of the European Central Bank. Certainly, the sovereign debt crisis, which made itself felt over the stability of the euro at the onset of the Greek crisis in 2010, has severely forced the ECB to undermine this main principle of organisation and come to support the anti-crisis measures adopted by the federal government. It is well known that because after 2010 it was left with no choice but to buy bonds issued by commercial banks in order to counter the economic and financial crisis, the German board member Jürgen Stark resigned his post in early 2012. He found this policy pursued now under Chairman Draghi completely incompatible with any economic sensible reason.

Returning now to the original state where the theoretical design is to be analysed as the ideal one, as we can see, it is enough to look comparatively at the model applied by the French Central Bank (Banque de France). This has the mission to provide for a great influence of the French government in establishing monetary policies, leaving the bank in a position of subordination to it. In Germany, on the other hand, the Bundesbank has never been of part of the Federal Ministry of Finance.

There are several specific instruments the Bundesbank made use of to accomplish its tasks. First of all, the control over the monetary mass exerted, as by other central banks, through the exclusive right to issue means of payment and monetary mass. For example, the quantity of monetary mass in circulation at a certain point was controlled by establishing a minimum level of its own monetary reserves (Basel III agreement) that the bank must have in its possession and ownership at

⁴⁹ See Art. 12 of the Bundesbank Law (Gesetz über die Deutsche Bundesbank), Art. 12, in http://www.gesetze-im-internet.de/bbankg/_12.html accessed August 10, 2012.

any given time. However, after the economic and financial crisis, the citizens not only in Germany and Central Europe but elsewhere in Europe as well seem to be questioning the monopoly of the state and the Central Bank as its instrument to issue money.

A second category of instruments is the interest rates the Bundesbank used in its transactions with commercial banks. **Interest rate policy**⁵⁰ is the essential instrument of controlling and managing financial markets, which cannot be overlooked. It has direct effects on the amount of monetary assets and their market price with which any business can have access to. High interest is an incentive to keep money in the banks or in fixed assets and away from the market. Thus, there will be fewer monetary assets to invest in business projects. Fair enough, in a healthy economy and one which is not very dependent on international markets, high interest means low inflation in the short term, a situation where the Bundesbank could fulfil its statutory obligations. But in the long run, things change. Cutting down on liquid assets means fewer investments, or less speculation by the more hawkish of the company executives. This is how dangerous disadvantages are created, as economic activity stagnates and no new jobs are created, which practically will raise unemployment. In the long term, and sometimes medium term, rising unemployment leads to inflationist pressure, so this is any finance minister's worst nightmare, because it has a double negative effect: it lowers income from taxes and burdens the social security budget. The medium-term effect of high interest is inflation. For those who wish to understand the way in which the Bundesbank or any central bank in a developed country works, we recommend following the interest rate policy.

A third method used by the Bundesbank to accomplish its tasks is the **“open market policy”**.⁵¹ This helps the bank issue certain securities on the financial market, thereby changing the market's structure. Before the monetary union was completed, this method was more widely used than today.

A fourth and new instrument we shall evoke here and which has become known after the economic and financial crisis in 2007–2009 is the “quantitative easing”. Through this, the central banks, not only in the Eurozone but also the US Federal Reserve and the Bank of England, are pumping cash into the market by buying treasury bonds and bank issued bonds from the market. During the 4 years between 2010 and 2013, the US Federal Reserve pumped into the dollar market up to US\$ 4,000 bn,⁵² which is a stunning ca. 25 % of US GDP. Thus, the central banks are bailing out the “market” part of the free-market economy, which by many neoliberal economists is expected to rebalance itself by no outside influence. This is not only incorrect economically but also an unethical method which is running against the principle of the independence of the central banks. The European Central Bank is running quantitative easing programmes similar in size. This is prone to create bubbles and inflation, certainly in the long term and probably even in the medium

⁵⁰ Comp. Bundesministerium der Finanzen (Hg.) (1999), pp. 44–45.

⁵¹ See Bundesministerium der Finanzen (Hg.) (1999), p. 45: “Offenmarktpolitik”.

⁵² See Vergopoulos (2014) p. 15.

term. It looks increasingly probable that a bubble which is expected to burst soon will drag most economies into a necessary monetary reset, or monetary reform. Even more draconic measures are expected, namely, a full replacement of paper money with electronic money.⁵³

Nevertheless, the same principles of central bank independence and of monetary policies will be applicable to the “new money” or to the means of payment. This is why the principle of currency stability will be still applicable even if there will be no physical money any more.

Let us see how the Bundesbank came to be and how it implements policies and creates a monetary policy which is adapted to the economic nature of the Central European man where the Social Market Economy resides.

The Bank of the German States (Bank Deutscher Länder) was established in 1948 by an act of the military government of the Western Allies. Almost ten years later, in 1957, it was transformed into the Deutsche Bundesbank and it adopted some of the banking policy models of the US Central Bank and the US Federal Reserve.

The Bundesbank, unlike the Federal Reserve, is a public legal person of the German federation. Its social patrimony belongs to the federal state. It is made up of the main headquarters in Frankfurt, not Berlin, and nine regional offices (Landeszentralbank) in the capitals of the former federal states before the reunification of Germany.⁵⁴ The bank is ruled by the Executive Board (Zentralbankrat), made up of the bank’s executive directors (Vorstand) and the presidents of the regional offices.

We can say that the Bundesbank has accomplished its mission successfully. It had a significant contribution to making a name for the Deutsche Mark introduced on June 20, 1948, and replaced fifty years later by the euro. Chart 4.6 shows that, in 1986, the Bundesbank succeeded in having the Deutsche Mark appreciated by 0.1 %. Also, it is obvious that the three periods of inflation, when the inflation rate went over 4 %, coincided with the necessity of absorbing the shock of the oil crises of 1972–1974 and 1979–1981 and of the German reunification.

At a European level, since more than 60 %⁵⁵ of German exports have gone since memorial times to the European countries, it is clear that Germany has a massive interest in these countries possessing the purchasing power to buy these German

⁵³ Rumours among politicians and CEOs of large multinationals circulate saying currently that the new means of payment might be called “Ameron” and it might be a currency common to the euro area and the US dollar area. This would be meant to continue Western leadership at global level, operating in team with the effects of the Transatlantic Trade and Investment Partnership—TTIP.

⁵⁴ It is worth mentioning that Saarland only adopted the German Mark in 1959, after the establishment of the Bundesbank. This is the reason why Saarbrücken for many years did not have a Landeszentralbank branch.

⁵⁵ After 2000 and until 2010, every year between 60.3 and 64.7 % of all German exports went to the EU27 countries. See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 40. Previously, Germany exported to the EU less of its total exports, i.e. 39.5 % in 1960 and up to 56.5 % in 1995. See Institut der Deutschen Wirtschaft Köln (Hg.) (2001) p. 42.

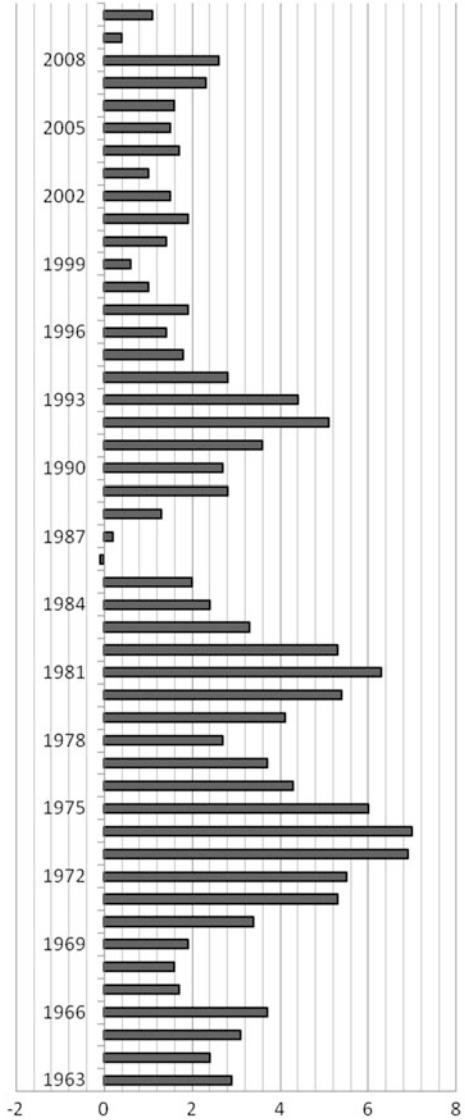
Chart 4.6 Changes of inflation rate in Germany, 1963–2010

Inflation Rate in Germany, 1963 - 2010,

%

Deutsche Mark, then Euro

Source: Statistisches Bundesamt (2001), p. 330, Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 58 The Inter-Agency Group on Economic and Financial Statistics <http://www.principalglobal>



goods. Therefore, a joint currency would serve German export interests at least as long as it was kept at a low inflation rate. Thus, once the Treaty on European Union was agreed in the small Dutch town of Maastricht and signed on February 7, 1992, the third stage of the **European Economic and Monetary Union** commenced. Consequently, the Bundesbank legally became a part of the European System of Central Banks and a founder of the European Monetary Institute. Through this Treaty, the **European Central Bank**, preceded by the European Monetary Institute, based in Frankfurt am Main, began introducing the common currency between 1999 and 2002. It put in its mission statement the German principle of the independence of the bank from the government's economic policy, the European Commission's economic policy, respectively. This is perhaps the most German contribution of the Social Market Economy model to the European Union: the ECB has, due to its statutes to focus mainly on the stability of the common currency, the euro.⁵⁶

As the European legislation integrated these German principles, when the Federal Parliament (Deutscher Bundestag) ratified the Treaty of Maastricht, the Bundesbank Act had to be modified only with respect to its form and not the contents. Article 3 of the amended act reads: "The Deutsche Bundesbank, being the Central Bank of the Federal Republic of Germany, is an integral part of the European System of Central Banks (ESCB). It participates in the performance of the ESCB's tasks with the primary objective of maintaining price stability".⁵⁷

Even after becoming part of the ESCB, the Bundesbank continued (at least up to the sovereign debt crisis as of 2010) to abide by the same principle of political independence from the government, as it did before. The difference from the past is that, now, this principle is no longer applied in the bank's own name, but indirectly. The Bundesbank underlies, just like any other central bank part of the ESCB, to Art.107 of the Treaty of Maastricht and its subsequent changes under the Treaty revisions. According to this article, neither the ECB nor any other central banks of a signatory state of the Treaty and none of the members of its leading bodies are allowed to receive orders during the exercise of duties, or to let themselves be led through any indication from any community, any government of any signatory state or by any other institution. Just like many others of the principles underlying financial institutions, this principle is under pressure now (2010 and later) from the more political interventionist part of the European economists.

Even if the Bundesbank's activities have a decisive impact on economic life, the Bundesbank and the ECB, respectively, are not the only institutions authorised to supervise and direct the markets and financial systems in Germany. Here, another

⁵⁶ The common currency used to be named the ECU—European Currency Unit—until the European Council of Madrid in 1995 and was named euro afterwards.

⁵⁷ See Art. 3 of the Bundesbank Act on www.bundesbank.de or http://www.gesetze-im-internet.de/bbankg/_3.html: "Die Deutsche Bundesbank ist als Zentralbank der Bundesrepublik Deutschland integraler Bestandteil des Europäischen Systems der Zentralbanken. Sie wirkt an der Erfüllung seiner Aufgaben mit dem vorrangigen Ziel mit, die Preisstabilität zu gewährleisten..." accessed 10 August 2012.

important authority in the banking system was the **Federal Banking Supervisory Authority** (Bundesaufsichtsamt für das Kreditwesen BAKRED). It originates in 1931 when after the financial crisis and bad experiences registered with banks, it was decided that banking activities should be supervised by the state.⁵⁸ Nationally, this authority has a close collaboration with the Bundesbank but is subordinated to the Federal Ministry of Finance. The authority was established after the banking crisis in 1931. It supervised the banks' activities and the way in which they respect banking legislation, especially the Credit Act (Kreditwesengesetz). The authority also establishes, together with the Bundesbank, the proportion of credit in a bank's assets and liabilities, the amounts credited as compared to the bank's liquid assets. It checks that the banks conform to these rules. In the course of time, the supervision of the financial sector underwent several reforms and reorganisations. Now (2013), the authority is based in Bonn and is called the Bundesamt für Finanzdienstleistungsaufsicht.⁵⁹ Internationally, the authority cooperates with the Bank for International Settlements in Basel.⁶⁰ Besides being the bank of the more than 100 central banks from across the globe which are its members, the BIS worked on the **New Basel Capital Accords** (Basel II and Basel III) and aims at assisting the international financial system to face the demands of globalisation. At European level, the European Securities and Markets Authority (ESMA) attempts to supervise financial instruments at European level and related them to the relevance of rating marks.⁶¹ Thereby it is expected that renewed financial crisis like that of 2007–2009 can be avoided and that the euro is not blamed any more in Europe for the crisis. Instead, the blame for the crisis should be attributed to the continuing debt policies, as it is in fact.

As the capital market became more and more developed in the early 2000s (probably driven by fresh Western sovereign and private debt), a new body was needed in order to ensure monetary stability in Germany. So the **Federal Securities Supervisory Office** (Bundesaufsichtsamt für den Wertpapierhandel BAWE) was created. This office watched that another “third-level” principle is respected so that equality of chances between securities owners is guaranteed: **it is forbidden to use information originating from the inside of the financial institution issuing or trading the securities (Insidergeschäfte)**⁶² in transactions on the financial market. By using this inside information, the economic actors who have them, even bank employees, could, as soon as new securities are issued, influence their value decisively for their own interest.

⁵⁸ See Bundesministerium der Finanzen (Hg.) (1999), p. 51. The authority's website was www.bakred.de and was based in Berlin. In the course of time, it underwent several reforms and reorganisations. www.bafin.de.

⁵⁹ Its homepage is www.bafin.de.

⁶⁰ The bank is based in Basel. See www.bis.org.

⁶¹ See Everling and Mureşan (2011). In EURACTIV online portal, July 1, 2011. http://www.euractiv.ro/uniunea-europeana/articlesdisplayArticle/articleID_23194. On the relevance and evidence of ratings, expertise is readily available at www.rating-evidence.com.

⁶² Comp. Bundesministerium der Finanzen (Hg.) (1999), pp. 54–55.

BAKRED, BAWE and BAV (Federal Office of Supervision of Insurance—Bundesamt für das Versicherungswesen) merged and formed as of May 2002 the National Federal Office for Supervision of the Financial Institutes (Bundesamt für Finanzdienstleistungsaufsicht BAFIN). It was brought to Bonn as part of the push by the federal government to bring national agencies and companies to Bonn to provide for losses of jobs following the move of the federal capital to Berlin in 1999–2000.

The common and generally objective action of these three financial authority institutions is expected to ensure a relatively high degree of equality of chances between the participants in financial life in the Social Market Economy system. This provided, at least until the crisis in 2007–2009, the grounds for a stable, predictable financial system where economic agents can plan their actions years in advance, by taking informed, hence responsible and economically efficient initiatives. A key element here is ratings. Whether they are commercial, sovereign, environmental issuers, etc., rating issuers still have even after the economic and financial crisis a decisive influence on the cost of borrowing or the revenue from crediting.⁶³ However, just like many of the federal institutions in the finance and monetary sector, BAFIN lost a great deal of credibility as it failed to foresee, predict or warn German citizens of the coming financial and monetary crisis in 2007–2009. In other words, the higher monetary stability and economic policy predictability are and the earlier the planning is, the lower production costs can be. Consequently, prices will go down making products more competitive on the international market. This (Produktisierung) is crucial for a country as dependent on export and from achieving a current account surplus, i.e. from earning net money from its international economic relations as Germany is. Through monetary stability and tight economic planning, German companies became more competitive on the international market than companies from countries incapable of ensuring the macroeconomic conditions necessary for planning early enough before production. In the current context of expanding globalisation, Germany has every interest in closing as many international agreements as possible so that it keeps financial instability shocks from other countries to a minimum, especially shocks from countries from which it imports raw material and countries to which it exports its products.

4.1.5 Wages, Trade Unions and Company Management

In German, the word for money is “Geld”. This stems from the noun “Gold” (for “gold”) and from the verb “gelten” meaning “to be acknowledged, valid and accepted”. For “salary” on the contrary, the words “Lohn”, “Entgelt” and “Gehalt” are used. Each of them means a different thing: “reward”, “financial recognition of something valid” and “something to keep you held up”, respectively. All three

⁶³ Comp. Achleitner and Everling (2004). Understanding ratings and their influence on equity price and markets is essential for the finance industry and economics.

notions are important for shaping a complete image of the relationship between work, the social recognition of the usefulness of work and the reward for working. In the economist's or company accountant's language, for whom the salary is being looked upon as a burden and a liability, more than anything else, the word "Lohn" is used, whereas in the words of the salaried worker who sees a salary as a positive thing, as income, the word "Gehalt" is used. The same difference in terminology can be observed if we look at the companies' systems for balancing their books. In this case of the companies, salary payment is seen as the value of human contribution, or as recognition of "a sacrifice or a load on behalf of the families who send out the labour force, but as a salary cost and the cost with the work place".⁶⁴ So a company, from the point of view of financial efficiency as a profit centre, does not care much for the employee's personal or family life. It tends to focus exclusively on making profit.

It is useful to look at these terminological differences made by German thought, because it shows a kind of separation, or even rivalry, between the social sectors that pay off, as financial resource producers, and the social sectors that consume financial resources. Therefore, it is understandable why trade unions emerged to become powerful and respected groups inside society in Germany and in the Social Market Economy system. They try to protect employees from the employers' abuse and try to humanise the company by pointing to the value of work as a productive element of the business. The simmering battle between the employers and the interest groups organised by the employees takes place in the realm of salaries, benefits or that of the rewarding bonuses of the workplace. For that reason, it is impossible to understand the system of remuneration, without first looking at the unions.

Throughout decades, unions have been aggressively protecting salary rights. Chart 4.7 regarding GDP per capita and Table 4.1 regarding companies involved in collective bargaining show how trade unions are able to get different results, depending on the land we are looking at. Even though **German trade unions** go far back in history, namely, before 1914, still they are mainly rooted in the Weimar Republic. They were outlawed by the Nazi regime after 1933 but returned to public life after 1945. The first post-war refounding of a national union organisation took place at the German Trade Union Confederation Congress (Deutscher Gewerkschaftsbund—DGB) in October 1949. Having the SPD stand up for them in federal politics, German unions had considerable strength until the mid-1990s. The highest total number of members was around 1990, when in West Germany, they reached a 9.8 million when Federal Republic of Germany had a population of 65 million. Instead of going up in numbers with at least 25 %, i.e. the proportion which represents the increase in population from East Germany who was added to West Germany, union membership stagnated. Thus, in 2000 there were 9.732 million trade union members (see Chart 4.8) in the whole of Germany. By 2010, total membership went down to 7.7 million (see Chart 4.9), i.e. with ca. 45 %, if we consider the total population of united Germany. The reason is that these trade

⁶⁴ See von Nell—Breuning S.J. O (1979), p. 130: "*nicht* als Opfer oder Last der die Arbeitskräfte entsendenden Haushalte [...] sondern nach Lohnkosten und Lohnnebenkosten veranschlagt;"

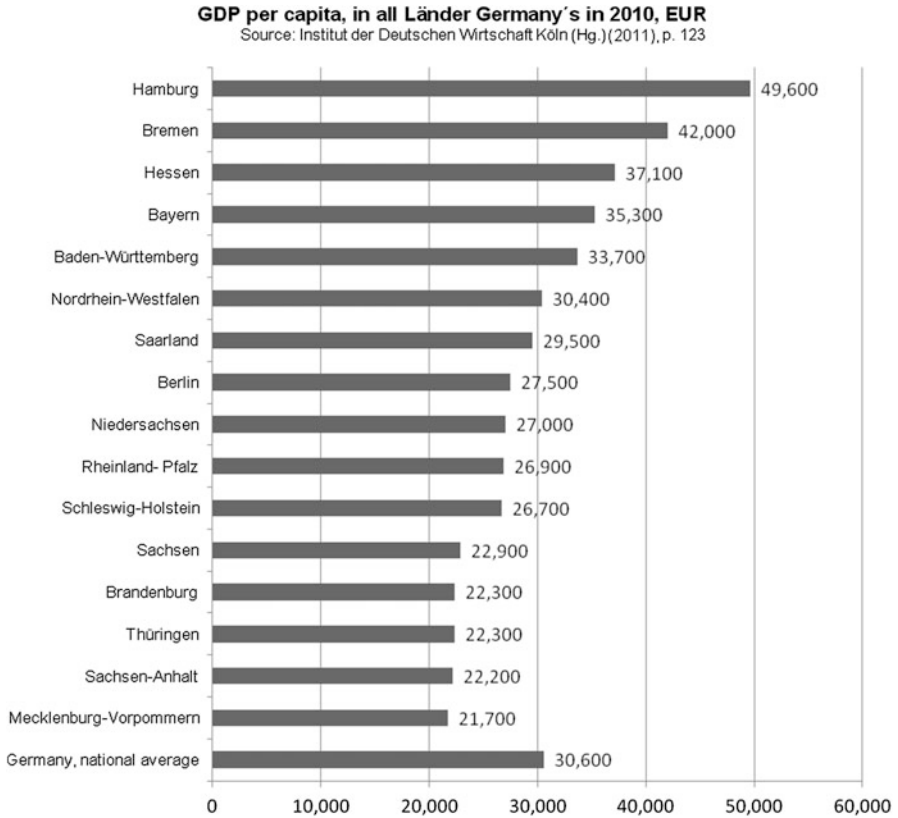


Chart 4.7 GDP per capita in all German Länder in 2010

unions were a mere tool of oppression of the former communist system and these trade unionists had a totally different style from those in the West.

Currently, the social influence of trade unions is considerably lower than twenty years ago.

Once the “golden generation” of the SPD, with members such as Willy Brandt and Helmut Schmidt, retired from active politics and along with the forced resignation of another leftist, Oskar Lafontaine, from the presidency of the party in March 1999, under the government of Gerhard Schröder, things changed and the SPD was “highjacked” and pushed towards social liberalism.

Returning now to the foundation times of Germany’s post-war republic in 1949, we see that initially the Confederation of German Trade Unions had liberals, social democrats, communists and Christian socialists among its members. Each of these groups aspired to be a co-founder of a new economic order in post-war Germany. At that time, unions believed that the best possible system for post-war Germany would be democratic socialism. This opinion brought them in direct collision with Ludwig Erhard and with the ordoliberal market economy he promoted.

Table 4.1 Degree of wage contract binding of companies and employees, 2000 and (>) 2009, % of total number of companies at national level resp. of employees

	D	West	East
% out of total number of companies			
With:			
Sectorial wage contract	41 > 33	45 > 36	23 > 19
Company wage contract	4 > 3	3 > 3	4 > 4
No wage contract	56 > 64	52 > 61	73 > 77
Of which:			
Leaning on a bound wage contract	22 > 26	20 > 25	31 > 31
Without leaning on a bound wage contract	34 > 38	32 > 36	42 > 46
% of employees, out of total employees			
With:			
Sectorial bound wage contract	61 > 52	63 > 56	46 > 38
Company bound wage contract	7 > 10	7 > 9	10 > 13
No bound wage contract	33 > 39	30 > 36	45 > 49
Of which:			
Leaning on a bound wage contract	17 > 20	15 > 19	24 > 24
Without leaning on a bound wage contract	16 > 19	15 > 17	21 > 25

Source. Institut der Deutschen Wirtschaft Köln (Hg.) (2002), p. 110 and Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 113

Still, even if the SPD remained in opposition until 1969, the unions fought the Christian Democrats of the CDU who were in power for all these first 20 years of the democratic West Germany. The result of this fight is the current system of the Social Market Economy, in which “social order” is regarded as a pillar in itself of the whole system. The facts are that “social order” is the second pillar. It is not merely a positive side effect of correctly implementing market economy, as Erhard believed, wished and talked about.

Thus, the SPD has its own direct contribution to the Social Market Economy, making the model a national one and not only a CDU-driven one.

For example, the adoption of the “**Collective Work Contract Act**” (**Tarifvertragsgesetz**) and the “**Co-decision act**” (**Mitbestimmungsgesetz**)⁶⁵ of 1976 was a direct result of union pressure. Today they are integral parts of the Social Market Economy system and are only to be found in Germany in this form.

But in order to gain pressure and negotiation power, unions strove to be economically independent from the employers and the political world. So they built their own economic empire, not just at a regional level but at a federal level, all over West Germany. This empire resisted until the 1980s and is often acknowledged as the union alternative to the market economy and capitalism. This was obvious in the projects “New Homeland” (Neue Heimat) and the “Trade Unions’ Bank” (Bank für Gemeinwirtschaft—BfG). Until 1976, the New Homeland built a

⁶⁵ Comp. Hermann (1995), pp. 114–115.

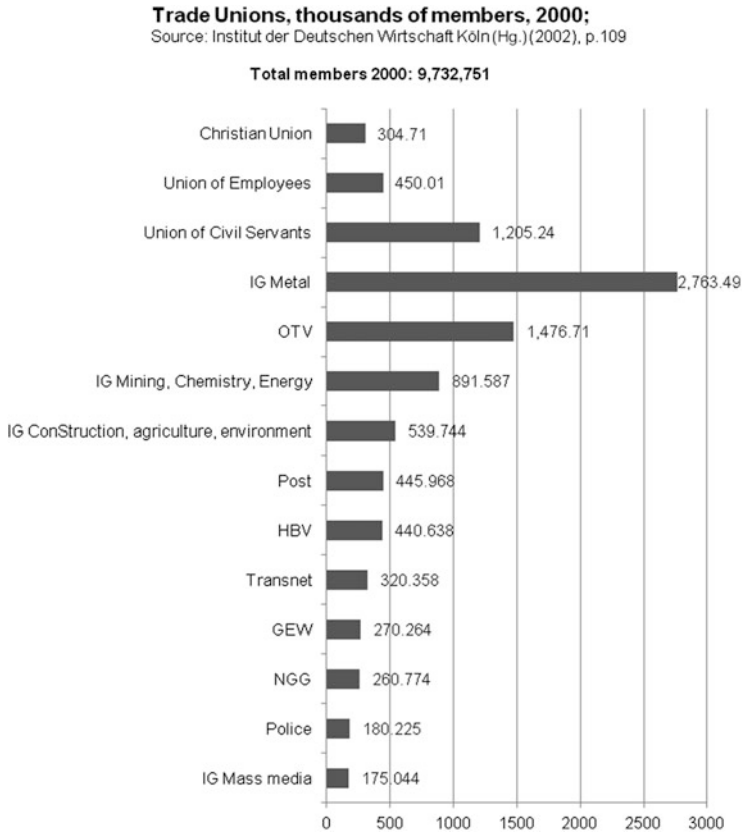


Chart 4.8 Trade union members, 2000

patrimony of 418,000 dwellings, owned and managed by the trade unions. In those days, the New Homeland was the largest real estate company in Europe. The BfG started as a small bank and moved from a turnover of 133 million Deutsche Mark in 1950 to 35 billion Deutsche Mark in 1978.⁶⁶ Unfortunately, human nature showed its teeth again, even in West Germany: the trade union empire, with its banking and real estate parts, ended up in a scandal in 1982. It had been discovered that throughout the existence of the empire, union leaders had repeatedly approved the transfer of funds from BfG and New Homeland to their own pockets. The total amount reached up to tens of millions of Deutsche Mark. The unions’ entrepreneurial failure was final in 1986 when most of their businesses had to be sold. Even Ernst Breit, one of the former presidents of the DGB (German Confederation of Trade Unions), concluded that “unions are not fit to be private entrepreneurs”.⁶⁷ Nonetheless, for over 40 years, the unions succeeded in keeping the employers at

⁶⁶ See the article Hank (1999), p. W1.

⁶⁷ Quoted in Hank (1999), p. W1: “Gewerkschaften sind als Unternehmer nicht geeignet”.

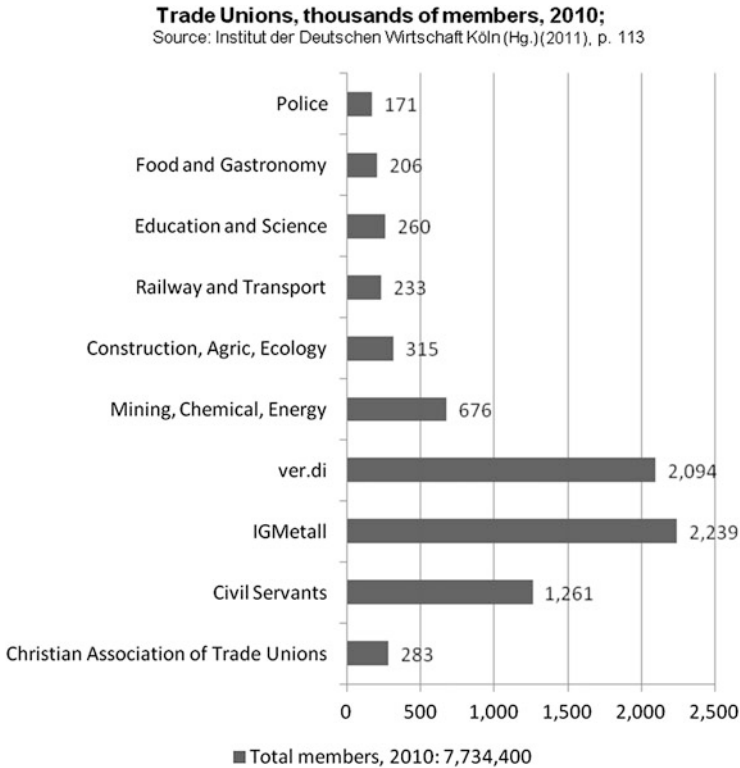


Chart 4.9 Trade union members, 2010

bay and put their decisive mark on the Social Market Economy, turning it into an original economic model.

The main aspects with which the unions influenced the German model of Social Market Economy are to be found in the “Federal Constitution”, the “Act of Collective Work Contracts” (**Tarifvertragsgesetz**)⁶⁸ and the “Co-decision Act” (**Mitbestimmungsgesetz**).⁶⁹ In order to paint a relatively full picture of their inputs, it is enough to examine the “principle of autonomy of collective bargaining” (Tarifautonomie) and the “principle of co-decision” (Mitbestimmung).

Like many other Social Market Economy principles, the **principle of autonomy of collective bargaining** as a “third-level” principle is also rooted in the Federal Constitution. Article 9, paragraph 3 stipulates that any person has the right “to form

⁶⁸ Comp. Körtgen (1998), pp. 18–ff. Körtgen discusses the nature of the collective wage bargaining both from its nature in Germany (pp. 15–32) and its eventual applicability at European level (pp. 65–96).

⁶⁹ Comp. Niedenhoff (1979), p. 12.

associations to safeguard and improve work- and economic conditions”.⁷⁰ In concrete economic terms, this means that trade unions and employers’ associations have the right to set the level of salaries, of annual increases taking into account the yearly inflation rates, through bargaining and common agreement, but with no interference from the state or federal government. Moreover, based on this principle, other benefits relating to working conditions, such as financial reimbursements for commuting over longer distances (Pendlerpauschale), are also subject to negotiation. These appendages to working benefits are measured in money and are included in the yearly collective bargaining between employers and trade unions.

These comprise collective negotiations on salary levels, working conditions and training in the workplace. Unions negotiate in the name of the salaried workers and the employers’ associations, in the name of the employers. According to the principle of “Tarifautonomie” and the Collective Work Contract Act (Tarifvertragsgesetz), the parties have to negotiate wages and labour conditions⁷¹ and then to sign a collective agreement, usually valid for one year for a certain region and a specified economic sector (e.g. metal processing). Should the unions want improved pay and work conditions, negotiations for the collective agreements normally take place at the beginning of every year, between January and March. The bargaining “technique” goes as far as street protests or strikes, should the need arise. This is the reason that most strikes in Germany take place at the beginning of every year, as we can see from the media. What is original in this system is that the salary level negotiated for that year in an economic sector or in a certain region is usually adopted as reference level by all companies which are members of the trade union associations and in all the regions in Germany where that sector exists. This is how a regional result gets practised throughout the country in collective and also in individual bargaining for that particular economic sector. The federal government’s involvement comes down to sometimes requesting that the minimum level of salaries in a particular economic field, in a particular region, is the first negotiation result achieved during a round of bargaining of that year. This declaration is made with the help of the employment office in that particular state and is meant to shorten the bargaining period in order to avoid disruption of work due to strikes.

However, not all companies are obliged to be registered into employers’ associations, so the negotiated level of payment and benefits will not be compulsory for them. Also, the number of non-member companies not agreeing to enter into these binding negotiations was in 2009 about one third of all companies of a sector or region, as seen in Table 4.1. Provided they find employees, the non-member companies are able to keep their employees’ salaries at a lower level than the reference one for their sector and their region. It was the opposite, until recently, for

⁷⁰ See Grundgesetz für die Bundesrepublik Deutschland, art .9 par. (3): “. . . zur Wahrung und Förderung der Arbeits- und Wirtschaftsbedingungen Vereinigungen zu bilden. . .” http://www.bundestag.de/bundestag/aufgaben/rechtsgrundlagen/grundgesetz/gg_01/245122 accessed June 2, 2014.

⁷¹ See Hermann (1995), p. 114.

the Swedish model: there were no salary and benefit levels other than the centralised one. On the other hand, if a company's owners are not part of the employers' associations, but are unfortunate enough to deal with a powerful union inside their own business, in Germany this union may be able to dictate its own level of salaries and benefits to the management, at a higher level even than the one adopted by collective bargaining. It is the other way round for every trade union: they all have the freedom to ponder which situation is more favourable to them—going it alone or joining the union association in that particular region and economic sector.

Currently, the most powerful trade union association is the Industrial Trade Union in Metal (Industrie Gewerkschaft Metall—IG Metall) of the metal processing industry. The most powerful employers' association is the Federal Association of German Employers (Bundesverband Deutscher Arbeitgeber—BDA). They are mostly responsible for initiating salary indexation or non-indexation talks every year, depending on the lead inflation rate set by the Bundesbank, respectively, the European Central Bank for that particular year.

The other third-level principle imprinted by the unions into the Social Market Economy in Germany is the **principle of co-decision**. It refers to the legally guaranteed right of unions and their representatives, respectively, to partake in consultations and sometimes in the making of decisions by the boards of directors and chief executives of companies. The procedure is known as “**Mitbestimmung**” meaning co-determination, co-decision and co-participation. This is an extension of corporatist beliefs, according to which a company is not just a framework designed to help owners make profit but also an association where employees have the opportunity to develop their individual personalities, build their own careers, follow the course of their personal evolution and also integrate into a group. “In the Social Market Economy a company is not just a technological and commercial unit, (but, o.n.) is also a community of people, and the relationship between employer and employee is places under the aegis of a social partnership”.⁷² As we can see, unity and the social side of any economic activity are expected once again to be the main focus of identity of the Social Market Economy. **Co-decision** has a supervisory role on the management of the company, but this is only secondary; its primary role is related to social and personnel aspects. “In its widest sense, co-decision is the participation of employees, through their representatives, in collaboration with employers and their representatives, to decision making regarding regulations and measures pertaining first of all to matters of social and personnel aspects, or to the company's economic management”.⁷³ This is the spirit and the purpose of co-decision.

⁷² See Müller-Armack (1988), pp. 14–15: “Der Betrieb ist nicht nur eine technische und kaufmännische Einheit, sondern eine Personengemeinschaft. . . (und, o.n.) . . . das Arbeitgeber—Arbeitnehmer Verhältnis in der Sozialen Marktwirtschaft, unter das Leitbild der Sozialpartnerschaft gestellt wird”.

⁷³ See Niedenhoff (1979), p. 5 where the co-decision researcher Weddigen is quoted: “Mitbestimmung im weitesten Sinne ist die Teilnahme der Arbeitnehmer durch ihre Vertretungen in Arbeitsgemeinschaft mit Arbeitgebern und deren Vertretern an Beschlüssen über Regelungen

In practical terms, it took decades for the legislative framework on the forms of co-decision between lands and companies to take a final, somewhat homogenous and consistent shape. Between 1968 and 1976, about sixty practical models of co-decision existed at the same time. Currently, there are three main legally established models for employee manifestation within company boards: co-participation, co-determination and co-administration.

The specialised body in these matters is the **Company Board (Betriebsrat)** made of members who are representatives of the employees. The Company Board has been created by the Company Constitution Act (Betriebsverfassungsgesetz), an act dating back to 1920 and 1952 and whose last main renewal was in 1972. Employees have thereby the right to elect their representatives and also to be elected as representatives in the Company Board. This board is a broader company body, a “people’s board” so to speak. The Company Board defends the interests of the employees in meetings with the Supervisory Board (Aufsichtsrat) and the Board of Directors (Vorstand) regarding either social or personnel issues or even strategic directions to be taken by the company. Calculating the number of members in each group is done according to certain fixed formulas taking into account the number of employees in a company.⁷⁴

Co-participation is the first stage of the co-decision mechanism. It too has, by virtue of the “Co-decision law”, several stages of intensity that can be applied. It may take place when the business owner’s and the management’s obligations are limited to: (1) simple briefing the Company Board on a decision that was already made by the company executives, but was not yet put into practice (the right to be informed after a take decision), or (2) hearing the Company Board’s opinion on a previously announced but not yet implemented decision in one of the company’s fields of activity (the right to be heard), or even (3) consulting by the Company Board before it making a decision (the right to be consulted). In the case of co-participation, the Company Board cannot overrule the top management’s decision.⁷⁵

A deeper level of employee involvement in company management is **co-determination**. This has profound consequences on the company’s development. According to the law, co-determination compels the owner or the management to seek the consent of the Company Board in order to make certain important decisions in the company. Co-determination has more to do with development strategies and paths, not necessarily common operative decisions of running transactions. In other words, the Company Board has, in this case, a veto over a decision made by the owners or the top management but not yet implemented.⁷⁶

und Maßnahmen, welche Fragen, vor allem sozialpolitischer oder personalpolitischer Art oder Angelegenheiten der Wirtschaftsführung betreffen”.

⁷⁴ Comp. Halbach et al. (1998), pp. 369–484.

⁷⁵ Comp. Niedenhoff (1979), pp. 7–24.

⁷⁶ Comp. Niedenhoff (1979), pp. 7–24.

Further support activities by the Company Board are that it may help the employee in his/her relations with the company's personnel department, helping him/her in obtaining his/her own company file, for example. It is important to note that, in the case of restructuring, the employee benefits automatically from the famous and strict legal right of “**protection against (abusive) dismissal**” (**Kündigungsschutz**)⁷⁷ without being tricked out by the personnel department. It is essential to note that, in the case of co-participation and co-determination, the Company Board and the Board of Directors and, respectively, the Supervisory Board face each other as separate legal entities.

There is another level of co-decision: **co-administration**. In this case, employees co-administrate the company through their Company Board representatives in the company's Board of Directors. While there is a technical and administrative body within the company, the Board of Directors is the representative of the entire organisation, including members outside the company itself. It is elected and appointed by the General Shareholders' Assembly and controls the activity of the company's upper management, meaning the executives, from a financial and accounting point of view especially. For example, German legislation stipulates that the Boards of Directors of public limited companies and of limited partnerships with shares have to admit to discussions a certain proportion of employee representatives. This proportion depends on the size of the company (more than five, and the other types of company sizes, as defined by law, up to the bigger types of companies, but which go up to less than 2,000 employees, etc.).⁷⁸ For more liberal business owners of smaller companies, a percentage of a third of the seats would be a very high proportion indeed.

That is the reason for which it is more difficult in Germany for speculative businesses to keep afloat and “come in” and “go out” of the country as soon as the profitability rate changes.

The principle of co-administration was also applied to the Privatisation Agency (Treuhändanstalt) for the former East German economy. Trade unions were represented in the Board of Directors of the Treuhändanstalt and had, in certain cases, not only the right to be present at discussions and when decisions were made but also the right to vote on some of them. This corporatist model was based on the desire to ensure communication with the employees in order to help them understand that privatisation or cutbacks were done for them and not against them.⁷⁹ Obviously, this model suits the German consensus-based society more than it

⁷⁷ Comp. Halbach et al. (1998), pp. 190–221.

⁷⁸ Comp. Niedenhoff (1979), pp. 10–19.

⁷⁹ For instance, the German principle of co-decision was recommended by the German federal government to the Ciorbea and Vasile Cabinets of Romania in 1997–1999, once the privatisation laws no. 87 of 1997 and 99 of 1999 were adopted. Chancellor Kohl's special envoy for privatisation matters was the president of the Board of Directors of the Treuhänd, Dr. Joachim Grünwald. He recommended that as much as half of the main union federations in Romania be represented in the Board of Directors of the Romanian State Property Fund (National Privatisation Agency), which indeed happened after law no. 99 of 1999 was passed.

would suit a free or a more protest-based society. In Germany, unions tend to conform or to integrate Board of Directors decisions, rather than try to hinder them. For comparison purposes, we would like to mention that between 1996 and 1999, the Board of Directors of the Romanian State Property Fund acted in a very different way: during that time of fast-paced transition to a free-market economy system, there were no union representatives, only political (parliament and government) and academic representatives in the Board of Directors. Unions were not permitted first-hand access to information, which is why they began opposing the privatisation policies.

In the Social Market Economy system, mechanisms of controlling private power are strong not only outside the company but inside it too. Along with co-participation, co-decision and co-administration, there is a fourth principle of socialisation of the economic decision: it is what is known as “three-party talks” between the government, employer unions and trade unions. But even in Germany this principle is rarely applied, and with varying intensity, depending on the political orientation of the government. Tripartite talks are usually called in the German-speaking lands as “Alliance for Labour” (Bündnis für Arbeit) and during the chancellorship of Gerhard Schröder were meant to create consensus among the three parties to the talks, in order to increase employment levels across society.

Co-decision in private companies employing between 6 and 1,999 permanent staff is based on the **Company Constitution Act** (Betriebsverfassungsgesetz) of 1952, amended to a considerable extent in 1972.⁸⁰ Therefore, this law covers most of the companies in Germany. Companies with over 2,000 employees as permanent staff are also covered by this law and the **Co-decision Act** (Mitbestimmungsgesetz) of 1976. For the coal and steel industry, there is a special regulation, adopted as early as 1951, called the Mining Co-decision Act (Montan-Mitbestimmungsgesetz) of 1976. For public administration, the Public Employee Representation (Personalvertretungsgesetz) Act of 1955 applies.

The third-level principles of “wage autonomy”, “co-decision” and “three-party talks” provide a number of ways in which employees can participate, from the inside and outside, to the management of the companies and institutions they work in. Their participation, even if this means limitations or at times even hindrances to the business owners, can nevertheless bring more creativity of all participants to the labour market because these principles suit the type of mainstream mentality existing in Central Europe.

These three principles are meant to and can lead to improved, more open and more honest internal organisational communication and to less tense working relations than there would be if unions did not participate in the management process at all. This applies especially in bad economic times, and it is what employees expect from their leaders after all. Nevertheless, more talking is also time-consuming, and this investment in time has to be recovered by higher productivity in other areas of the business cycle. Participation is expected to lead to more

⁸⁰ Comp. Halbach et al. (1998), pp. 369–487.

responsibly fulfilled duties and to decisions made for the **common good**. Still, when unions participate in the economic decision-making process, owner-oriented decision fades considerably thereby making the company less dynamic and less able to absorb shocks or adapt to fast change than purely owner-driven companies. I would say the Social Market Economy style is a more prudent rather than a more dynamic style.

4.2 Social Order and Its Institutions

4.2.1 *General Principles*

The roots of social security could be quite strong if we took more seriously its roots in the Christian teaching through the Bible. For example, the year of debt cancellation can be deducted from the clear and precise exhortation: “. . .At the end of every seven years you must cancel debts.² This is how it is to be done: Every creditor shall cancel any loan they have made to a fellow Israelite. They shall not require payment from anyone among their own people, because the LORD’s time for canceling debts has been proclaimed.³ You may require payment from a foreigner, but you must cancel any debt your fellow Israelite owes you. . .”⁸¹ This statement is a hit at the core of the monetised free-market economy dominated by banks. This biblical request can in no way be put in practice as there is total conflict between sound business planning, which requests at least 5 years of investment before reaching any sustainable profitability, and the seven-year cycle evoked by the Bible.

Thus, those modern free-market economies which stand in countries based on Christianity, like in Germany, around the Rhine and in most of the Central European countries, are more or less Social Market Economies. Other areas of the world, where the secular modern system produced other mechanisms of social protection than those derived from biblical principles, already experience or are expected to experience the socially disruptive effects of the free market. Without systemic and legislation-based social security in practice, the rich will get richer and the poor poorer. In such countries, wealth inequality not only increases within one generation but easily becomes cemented across generations.⁸² Wealth attracts more wealth, money attracts more money, and where there is little money, this money tends, by the nature of the egoism and interest-driven world we live in, to go to places where more money is located and leave the areas with little money. This state of affairs we see evoked from time immemorable, like in another biblical quotation: the Gospel of Mark 4, 25.

⁸¹ See Deuteronomy 15, 1–4 in Bible. New International Version, accessed December 17, 2011.

⁸² Just think, for example, of the caste system in India.

In order to counter this systemic decayed state of the natural free system, we need regulation. Somebody has to put in place a social protection system in order to counter the natural inequality effects produced by the free-market system. Not only we detected but other experienced élites did as well. Let us just recall here the quotation in the daily *Financial Times* of October 23, 2008, by former Federal Reserve chairman Alan Greenspan. He acknowledged that he was wrong by having acted on the assumption that the free market regulates itself. This assumption and hypothesis has proven to be false even in his own view.⁸³ Other economists, like Joseph Stiglitz, think that Greenspan did not believe in regulation as economic governance policy. Other US economists, like Eichengreen, indirectly blame Greenspan for the economic and financial crisis: “At the root of the crisis lay financial irregularities unchecked by adequate regulation”.⁸⁴

A quite practical proof of the lack of self-sufficiency of a national economy left at the free will of market comes from the USA itself. In the summer of 2013, McDonald’s restaurant chain employees in North Carolina went on strike. Their wages for full-time jobs were so low that they claimed not to be able to live off them and were in a position of having to ask for social security payments from the state. This is one of the prices of deregulation above a certain level in favour of the free-market economy.⁸⁵

However, it is clear that more regulation burden will increase administrative costs both for companies as for the state as supervisor. Thus, productivity would decrease and the comparative advantage of capitalist free-market systems would be diminished.

This practical need to address the topic of structures for the social order has been enshrined in Germany in the provisions of the Federal Constitution and has a general character. We have seen that the Federal Constitution does not impose a specific type of economic system. It does however give the lawmakers the possibility of pursuing a social and economic policy at the federal level suitable for a particular moment. In this sense, the *Schuldenbremse* has been incorporated into the Federal Constitution after the economic and financial crisis in 2007–2009 and prescribes directly only that a few social rights are recognised. It guarantees the freedom of association, the formation of unions and the free choice of profession and workplace and also guarantees private property.

What is in fact stipulated by Article 20, paragraph 1 of the Federal Constitution is: “The Federal Republic of Germany is a democratic and social federal state”. Then, the *Länder* Constitutions’ basic principles are implicitly subordinated to the federal order. Article 28, paragraph 1 sets limitations for *Länder* Constitutions: “The constitutional order in the *Länder* must conform to the principles of

⁸³ See Beattie and Politi (2008) I made a mistake, admits Greenspan. In *Financial Times*, October 24, 2008. <http://www.ft.com/intl/cms/s/0/00b1896c-a164-11dd-82fd-000077b07658.html?siteedition=intl#axzz32v7ZbRMv> accessed May 26, 2014.

⁸⁴ See Eichengreen (2011), p. 98.

⁸⁵ Comp. Frank (2014).

republican, democratic, and social government on the rule of law, within the meaning of this Federal Constitution”.⁸⁶ These provisions implicitly address the Constitutions of the 16 German Länder which have to make sure that the general lines given by the Federal Constitution are being implemented. In this respect, even if a large part of public services, such as policing or education, are performed in a different way in each land, the social order should be homogeneously in line with the federal social consensus.⁸⁷ The way in which these rights are put into practice is left up to the states.

There are many ways in which social order, as the second pillar of the model of the Social Market Economy, can be put into practice in Germany. But these many ways all rely on a series of principles which we will nominate here below.

We have seen that the level-two principles at the basis of social order in the Social Market Economy are **social justice** and **the common good**. Implementing these principles through legislation and specific institutions is done according to the legislation in force, both national and international, that Germany has adopted and is party to. These are the level-three principles, i.e. more focused on practical implementation than on philosophy, of the social order in the Social Market Economy: social income redistribution and individual and collective social security.

The main purposes of **income redistribution** are the equality of chances among citizens and putting a similar burden on each taxpayer, according to their revenue. Income redistribution in Germany is done with the purpose of accomplishing the “formed society” which is, as we have seen, another name for nation-building processes.

Then, the **individual and even collective social security** have been put in place in order to lower the structural dependence of social entities (families, individuals or companies) on social assistance, social security or any sort of subsidies. Social or business entities are secured when they are independent in practice. In other words, they are encouraged to provide for themselves in the social arena. Moreover, the collective bearing of individual risk should also be taken into account. Social order, with its social security component, makes it possible to limit calculable risks. The consequences of individual risks are made bearable by the social entity by transferring a part of the burden of individual risk over to the other social entities like the

⁸⁶ See Grundgesetz für die Bundesrepublik Deutschland, art. 20 par. 1 “Die Bundesrepublik Deutschland ist ein föderaler, demokratischer und sozialer Bundesstaat” and art. 28 par. 1 “Die verfassungsmäßige Ordnung in den Ländern muß den Grundsätzen des republikanischen, demokratischen und sozialen Rechtsstaates im Sinne dieses Grundgesetzes entsprechen”. http://www.bundestag.de/bundestag/aufgaben/rechtsgrundlagen/grundgesetz/gg_02/245124. accessed June 2, 2014.

⁸⁷ According to several German politicians, a specific land mentality and identity have become more obvious over the last 30 years. By this we mean the organisation of the Länder within the borders of the zones set up in 1945 (see map 30.1, p. 965 in McKay et al. (1991)) and the 16 Länder as they can be seen by accessing the homepage of the Upper House of Parliament, www.bundesrat.de. These Länder did not exist as such before 1933. The land borders were drawn by taking into account the historical evolution of German principalities too).

state. The state is entrusted with the “tasks of pursuing redistribution and securing insurance”.⁸⁸ This is accomplished through compensatory financial services run by the state. In the Social Market Economy, only a small part of society is left by the lawmakers to fend for itself, and these are mainly the persons whose income is superior to some nationwide adopted ceilings. Other social categories—the majority—whose incomes are below these ceilings are obliged by law to pay into a minimum of social insurance.

Social security and redistribution are intertwined and are inextricably linked at least as long as it still is the government who administrates social security, through the taxing redistribution and compulsory social security cycle.

It is the perception of what social security should deliver as being “dignified to human life” which is the starting point from which the amount of financial resources needed as income is estimated. The situation is similar to that of outfitting an army: the perception of threat is the starting point for establishing the need for armament and the strategies for defence.

The perceived need for social order for the Germans can be inferred from the social order legislation and social consensus existing at the starting point of Social Market Economy in 1948. But even this legislation from 1948 could stem from some older tradition going as far back as the Second German Reich.

The first piece of social legislation was the Health Insurance Act, adopted by Bismarck’s Reichstag as early as 1883. Other pieces of legislation of that time followed to complete, broaden and amend it. Currently, the grounds of social order are defined by the **Sozialgesetzbuch (Social Security Code)** with an Allgemeiner Teil (General Part) and a Besonderer Teil (Special Part). Since 1976, when the first edition was issued, the Social Security Code has been constantly updated and comprises the most important functions of social security. The General Part lists the social rights of individual members of society and it is, consequently, a sort of German Social Charter. This is where social security, social compensation and promotion rights are defined. The circumstances, content and amounts payable are established for each respective field. Social security rights can mean the right to education and professional training, social security and the protection of young people and of family life.⁸⁹

These pieces of legislation had to be amended and updated because experience gained with them, and also international treaties containing social provisions have been ratified by Germany in the meantime. So, for instance, the Universal Declaration of Human Rights of 1948, the **European Social Charter** adopted by Germany as a member of the Council of Europe in 1964 and the **UN International Labour Office** conventions were added to national legislation. Obviously, we must not forget EU social conventions, which by now we consider to be national legislation, as is already the case for every other EU member states.

But—there is most of the time a “but”—legislation is only the expression of the victory of its supporters in the parliament and of the consensus within a particular parliamentary democracy, Germany, in our case.

⁸⁸ See Neumann and Schaper (1998), p. 51: “. . . das Verteilungsziel und das Sicherungsziel”.

⁸⁹ See Neumann and Schaper (1998), p. 49.

One of the positions adopted by the social consensus, consolidated and generalised since the times of Bismarck, is used as a basis for the social order (second pillar) of the Social Market Economy. It talks about the “**absolute social minimum**” of solidarity. We would categorise this “minimum” as a level-one principle of the second pillar of the Social Market Economy, according to which the government is obliged to defend its people against starvation and ensure for them a culturally interpreted minimum living standard, where, because of unfavourable momentous circumstances, they can no longer support themselves. “There is the consensus that. . . the national community is obliged to save people from starvation and to secure their subsistence minimum”.⁹⁰ Obviously, putting this principle into practice means that a minimum income has to be guaranteed as long as the economy is going to be driven by money. This minimum implies many political positions at a national or international level, for example, steered or steerable immigration; otherwise, respecting it would be impossible even in the medium term, not only in the long term.

Some important items and principles regarding social security remain controversial although they are established as principles. Among these is the **social minimum** amount of money given by the government as social aid for subsistence for those actors on the market and social stage who became stranded. This is a second-level social order principle. Ideally, from a free-market economy point of view, they should be provided with monetary resources not to be higher than the minimum amount required for subsistence (Sozialhilfe). The government sets this amount on the basis of market price research and indexes this time and again, according to the inflation rate. In the spring of 2011, this minimum was set at a monthly €365 net, plus coverage of the rent for a flat of a certain minimum size, plus public health insurance, plus public pension insurance. Here, the size of the flat and the amount covered for the rent depend on the local communities who decide according to the level of costs in their regions. There is a whole lot of debate going on, on how high the social safety net should be set: at what point to save the stranded ones so that this is not too late for their future employability on the labour market and on the other hand not to provide them with too much monetary resources in order to keep them motivated enough not to become lazy and stop taking up initiatives.

The political principles concentrated under the name of **ordoliberalism** tend to be less favourable to having a high level of social security grants by the public sector to the individual or private households. They stress on “freedom” and state that income redistribution policies should focus on the idea of “civil and political freedom [and] against the nanny state and the erosion of initiative and mature citizen self-help through public welfare”.⁹¹ This argument seems sensible if these political élites wish to be seen as dealing responsibly and economically efficient

⁹⁰ See Hermann (1995), p. 58: “Einigkeit herrscht . . . daß die staatliche Gemeinschaft verpflichtet ist, die Menschen vor dem Hungern zu bewahren und Ihnen das Existenzminimum zu sichern”.

⁹¹ See Neumann and Schaper (1998), p. 53: “Bedeutung der bürgerlichen und politischen Freiheitsrechte, wenden sich gegen staatliche Bevormundung und wohlfahrtsstaatliche Aushöhlung der Initiative und Selbsthilfefähigkeit des mündigen Bürgers”.

with public money. But we should not forget that the systematic policy of public indebtedness was run by ordoliberal driven political parties. The process of taking up debt not only by the state but also by private consumers and companies, especially after 1971, was made simple and encouraged. It was used to promote political interests such as nation building, social homogenisation and national unification. For example, the German reunification was financed through new public debt which “exploded” under Chancellor Kohl, running a conservative–liberal government for four consecutive mandates.

Then, in their public policies, conservative–liberal groups focus on **the principle of subsidiarity, a principle derived mainly from Catholic social teaching. It is a third-level principle of the social order.** According to it, families should be supported by the government only if they have no means to support themselves. In other words, “every man is on his own” and should rely on government help only after he/she or the respective social entity is incapable of relying on themselves for support.

On the other hand, within the same camp, other liberalists and certain left-leaning conservatives support a higher level of social assistance. They support granting a subsidy that completes household income up to an amount between the minimum subsistence threshold and the income which the respective entity enjoyed before they lost their jobs or original income. This kind of subsidy received the status of social protection principle and is called *Prinzip der staatlichen Fürsorge* (**principle of “government welfare”**). This principle applies provided there is a need.⁹² It is a fourth-level principle of the social order. One of the many such social support schemes is, for example, child allocation. If social protection is granted according to this principle, it is first necessary to calculate the monetary need. In itself, this cannot be an impartial operation; therefore, already at this point, the system is imperfect. Thus, even if the result of the calculation is performed correctly and impartially, we still are in danger of arbitrarily wasting taxation money. The reasons are manifold. One of them can be that the efficiency of the political principle depends also on the logistic part, namely, on updating the personal data of the recipients who might move from a town to another or might have improvements or deteriorations in personal life. A person or a family is entitled to government welfare if their low income or few possessions prevent them from generating enough money for caring for themselves. For example, the principle of government welfare is the root of financial or material aid for promoting professional improvement or specialisation, housing subsidies and other relatively small subsidies, such as children’s allowance. Government welfare is in line with the Christian social teachings of the Roman Catholic and Protestant Churches. These profess the idea that a limitlessly free-market economy must be strongly rejected, however, that a market economy imbued with social solidarity features,

⁹² Comp. Hermann (1995), pp. 58–59, and Seffen (1979), pp. 11–12.

which tame selfishness and the ever-increasing desire for profit which usually degenerates into greed,⁹³ is acceptable and even desirable.

On the other side, the left-wing schools of thought in Germany, such as the social democrats and socialists, lean towards a social order that “improves and, when possible, cancels the negative effects of the capitalist system of the market economy for the employees and lower social classes”⁹⁴. According to this perspective, social security systems should be set up in such a way that, at least in the case of major shifts in a person’s life, such as unemployment, that person’s income and living conditions should still be the same as those before the problem occurred. Such a soft social protection policy is applied according to the **principle of government sustenance (Prinzip der staatlichen Versorgung)**⁹⁵ which applies regardless of the fact whether there was a previous contribution or not by the recipient. It means to receive help from others. It imposes itself as another level-four principle of social order by centre-left political groups and parties. The beneficiaries in this case have the right to receive financial subsidies without having previously contributed to any insurance fund in that particular field. Still, this principle is only applied as an exception in Germany, and not as a rule.⁹⁶

Even more to the left of the political spectrum are left-wing groups and parties, such as the new Die Linke (Left Party) or the communists. They believe that there exists a collective responsibility for the economic or social state which certain individuals and households come to have. Otherwise put: “the individual is not responsible him/herself for his/her social state”⁹⁷. This statement can only be partly true. Although there are huge pressures on the individual to participate in economic and social life by doing things in a certain way, it still is their own individual choice whether and to what extent they heed to such pressure. Germany has never applied such a social policy, because parties that promote such a doctrine—the PDS, the Linke and the Kommunistische Partei Deutschlands (German Communist Party)—or social model are a small minority in the parliaments. Still, protest parties like the recently founded Piratenpartei or other most untraditional German parties such as the Linke got more votes at the elections in 2009 and in the meanwhile are a steady presence in the land parliaments or, respectively, the Bundestag.

⁹³ Just think about the suddenly visible shameless greed of many top-level bankers who insolently continued to pay themselves bonuses across most of the banking sector in the Western world, although their banks had gone bankrupt (from an accounting point of view) by the time the financial and monetary crisis in 2007–2009 appeared and although these banks had been bailed out with public taxpayers’ money.

⁹⁴ See Neumann and Schaper (1998), p. 55: “eine Sozialordnung anstrebt, die die negativen Effekte des kapitalistisch—marktwirtschaftlichen Systems, für die Arbeitnehmer und die unteren sozialen Schichten abmildert und möglichst beseitigt”.

⁹⁵ See Hermann (1995), pp. 58–59, and Seffen (1979), pp. 11–12.

⁹⁶ See Neumann and Schaper (1998), p. 143.

⁹⁷ See Hermann (1995) p. 59: “Der Einzelne ist für sich und seine soziale Lage nicht selbst verantwortlich”.

Let us now look at the application of the two third-level principles of the second pillar of the Social Market Economy in Germany: the redistribution of income and social security.

4.2.2 Principles for Taxation and Social Income Redistribution

In any country, taxes are collected from all kinds of sources and with great frequency: VAT, payroll, profits, capital taxes, land and building taxes, vehicle, wealth, dog taxes, tobacco and alcohol taxes, gambling and even social networking taxes and so on. In 1992, when the Western economy was not yet burdened by the unification processes, in Germany about 65 % of the total value of taxes collected came from VAT and payroll tax.⁹⁸ By 2010, the same sources delivered ca. 71 % of total tax revenue (see Table 4).

The principles according to which taxation and income redistribution should be applied, were defined by Max Weber before the First World War, but could become a reality only after the Second World War. These principles define from whom, how much and when to take and to whom, how much and when to give.

There are at least four fourth-level principles: equality, maximum realisation, need and differentiation. The finance ministries of the German Länder apply them in their taxation policies and in the specialised legislation. The degree of social acceptability of these principles varies, because there is a link to the perception of utility which is an issue of national identity, style and preference. Focusing more on one or the other of the principles is the consequence of the degree of acceptability.

The principle of equality (Egalitätsprinzip) is built on the motto: “the same to everyone”.⁹⁹ Maybe this is not the best quotation for it, as it might be associated to the motto “Give to each one, his own” (Jedem das Seine) used in concentration camps run by Nazis during the Second World War. The principle does not specify exactly what type of funds should be collected from which social category; however, a degree of equality is expected to be perceived by the recipients. Also, the principle does not stipulate to whom the funds should be allotted, if they should be divided evenly or not. The purpose of this principle is to achieve justice and social cohesion as understood by the formed society. From this perspective, the principle of equality is popular and can provide a feeling of being “safe”.

The principle of equality has a low popularity because it can be applied only by taxing those who generate profits, even though often tax money is used to push the economic cycle according to the Keynesian-style model, i.e. through investments made or subsidised by the government. The reason for the dislike is that policies

⁹⁸ For exact figures expressed in Deutsche Mark, see Velte (1993), p. 3.

⁹⁹ See Neumann and Schaper (1998), p. 57: “Jedem das Gleiche”.

that rely on this principle have the negative side effects of lowering motivation of entrepreneurs for achieving a larger profit and it stunts productivity growth.

The principle of maximum achievement (Leistungsprinzip) bears the motto “for equal accomplishment, equal pay”¹⁰⁰ meaning everyone should be recognised in the same way for the products or services they delivered, i.e. the value of what they achieved. Equal recognition of equal achievement ideally leads to a high degree of individual freedom, a better distribution of material and financial resources and economic growth.

Whether this can be implemented as Neumann puts it is a rather difficult question for the simple reason that not all economic achievements can be monetized, i.e. expressed in money. This view on things, i.e. on income resulting from the mechanisms of the free market and from supply and demand, is supposed to be honest and fair which is not always the case. This has been less true in the last decade where the cases of corruption of awarding contracts, not only in Germany but more across the rest of the Western world, have multiplied considerably.¹⁰¹ Therefore, corruption at high political and administrative levels undermines not only this principle, which is correctly designed to ensure ethical standards at the high levels of Western productivity, but distorts the faith of achievers in the expected and correct recognition of their achievement. Thus, it is believed that their redistribution should not necessarily be made by the political authorities but that it could be left up to the market as well, provided strong political or economic actors would not intervene within market mechanisms. But unfortunately they do intervene.

Another more “social” **principle is the principle of the level of needs (Bedarfsprinzip)**. The theory says that it should guide itself by the motto: “to everyone according to his/her needs”¹⁰² and thus sounds more like a communist–socialist strongly leftist principle. In this case, the first difficulty encountered is establishing the difference between the socially acceptable degree of human need and the real individual need. The second difficulty is the bias of the authority compelled to figure out where the need exists and where it does not. Public institutions, which on the one hand have to be objective towards all citizens and on the other hand have to be personal enough in order to understand the individual

¹⁰⁰ See Neumann and Schaper (1998), p. 57: “Wenn gleiche Leistung, dann gleiches Einkommen”.

¹⁰¹ As an example, just think about the baffling condemnation in 2011 of former President Jacques Chirac to two-year jail for employing party staff in the Paris city administration during the time he had been mayor of Paris. In Germany, only the tip of the iceberg had been touched in 2009 and 2010 when the Federal Tax Office bought a CD-ROM with information of German tax evaders from former bankers in tax havens like Switzerland and Lichtenstein. Among the evaders are highly successful businessmen like the former Head of the Deutsche Post, Klaus Zumwinkel. Another example is former Italian Prime Minister Silvio Berlusconi, forced to finally resign after years and years of corruption charges and manipulation of public opinion through his media empire.

¹⁰² See Neumann and Schaper (1998), p. 57: “Jedem nach seinem Bedarf”.

need and tailor its response adequately, do not have an easy task of defining the need and tuning the response to it in an equitable way.

This principle is applied with the purpose of correcting adverse effects of the principle of maximum achievement. It is implemented, for example, in the case of subsidies for specific goods and services, depending on the need, for example, rent subsidies for individuals, or health services depending on the medical condition of the individual. The principle of need appears at times to be antagonistic to the principle of maximum realisation. However, the intensity of this conflict only depends on the size of the social correction. The social acceptability of this principle is different from one social category to another: the needy are for it, but the wealthy are against it, because the social authority in charge of redistribution states that the latter do not need subsidies, as they have their own “personal fortune”.

Moving further we have to evoke the **principle of differentiation**. It is a compromise in the sense of the conflict between equalisation and economic efficiency. It is designed to abide by the motto: “to the poorest as much as possible, but at the same time looking for a minimum of income differentiation (among the taxpayers, o.n.) (maximin rule)”.¹⁰³ This is the principle that pursues social homogenisation directly. And some politically driven social homogenisation is acceptable, because the stronger the strong become, the more their wealth will attract more wealth around it. Here, we can connect again to the Christian teaching by looking at what is written in the Bible: “. . . Whoever has, will be given more; whoever does not have, even what they have will be taken from them. . . .”¹⁰⁴

With regard to taxation, there is a special element in a Social Market Economy and especially in Germany: the somewhat duplicitous relationship between the state and the church. On the one hand, we have a secular state, and on the other hand, there is a deep financial institutionalised cooperation between the church and the state. The link is institutionalised and enshrined in strict treaties. These originate in the Napoleonic secularisation in Germany in 1806 when the church and the monasteries were expropriated by the state who took on the task of taking due care of church revenue and salaries of the clergy.

The **church tax (Kirchensteuer)** is based on the national character (Landeskirchen) awarded to the Roman Catholic and Protestant Churches. In the name of the churches, the government collects through his tax offices the church tax from their members. This is leaning on the biblical principle of 10 % tithes but is smaller than it in two ways. First, it is only 9 %, and second, it is applied not on the gross income, but on the value of taxes due to the state by each church member. In order to be exempt from the church tax, one would have to officially leave the church, which can only be done through an application in front of the local tribunal,

¹⁰³ See Neumann and Schaper (1998), p. 57: “Den Ärmsten so viel wie möglich, bei minimaler Einkommensdifferenzierung (Maximin-Regel)”.

¹⁰⁴ See the Gospel of Mark 4, 25 in Bible. New International Version, accessed December 17, 2011.

not a very simple procedure. Otherwise, church taxation is automatic, unlike in France, for example, where there is no such tax.

The way these principles are applied in collecting taxes shows a high complexity of the German taxation system. It also shows the high degree of decentralisation of government institutions: the federal, regional and local levels in the Social Market Economy in Germany. The federal government and the sixteen Länder governments as well as many local communities each have their own taxing procedures and levies.

One example of specific community tax is the so-called business tax (Gewerbesteuer). As a percentage applied to the business earnings, it is different to every local community across Germany.

All taxes are levied by tax offices as bodies of the finance ministries of each of the respective Länder. Then, the 16 land legislative bodies or parliaments (the Landtags) and the federal legislator (the Bundestag) have the freedom to focus on one or on the other of these principles when establishing in legislation taxing limitations and percentages. State governments and parliaments can subsidise and favour a certain category of taxpayers, depending on the economic and social policy in that land.

Another example of such tax “favouritism” is the system for **preferential couple taxation** on the total income of a household (Ehegattensplitting) instead of separate taxation of each of the two in the couple or a household. As it is part of the system of overall taxation, the spouses are stimulated to declare their income jointly because the taxes are lower in this case than if they were taxed separately. Thus, there is a financial incentive for groups to stay together, as a family or a household, and is part of the national policy of forming groups. This principle is stipulated in the **Income Tax Act (Einkommensteuergesetz)**.

Given its complexity, the taxation system is not very flexible and probably not so prone to instabilities stemming from the domestic economy and also from the international globalised world. Up to the economic and financial crisis in 2007–2009, these principles were useful for reaching a relatively high degree of social justice at a federal level and creating structural policies appropriate for each land. However, during the last decade, its effects on social unity and social justice have become smaller, as the economic and financial crisis in 2007–2009 and the gradual decay of ethical behaviour across the Western world started to produce effects on the Social Market Economy of Germany as well. One example here is the protest movements such as “Occupy Wall Street” which spread after 2011 over to Western Europe and also Germany.

4.2.3 Social Security in Practice

What a security system offers is the promise that, should a risk turn into reality, the person or company or entity that is affected by it will benefit from certain compensatory services, usually financial. Insurance, be it public or private, does not

eliminate or lower risk. It only transfers the effects of the risk turned reality from the individual or company affected to the group or to all the contributors of the insurance company where the affected entity is a member. Thus, we have hereby opened a discussion on economic security and insurance and one on socialisation and consensus in a group.

But first, let us have a look at the types of insurance and the actors on the insurance market.

Generally speaking, there are two sorts and three types of insurance actors. The sorts are private run or state run, and the types are insurers, reinsurers and the state. The first delivers **private insurance** services for individuals, groups or companies. This type of insurance is provided by big companies, such as Allianz AG, a general profile insurance company, or HDI Gerling AG which specialises in industrial insurance. The second type of private insurers are **reinsurance companies**. They insure the insurance companies themselves, such as Münchner Rückversicherungen AG. The third kind of insurance is run by the government to the benefit of physical persons only. This is usually known as statutory social security (gesetzliche Sozialversicherung). Other than private insurance, the insurance delivered by the state is compulsory in Germany.

Statutory social security benefiting natural persons are financial funds collected from social contributions and managed by the government. It is divided into five categories and is not applicable to everybody. It is only for people earning more than a minimum income and for those earning below a maximum income. These social security categories are: the statutory pension fund (gesetzliche Rentenversicherung), the statutory national health insurance system (gesetzliche Krankenversicherung), the statutory national accident insurance and occupation safety system (gesetzliche Unfallversicherung und Arbeitsschutz), the statutory public unemployment insurance system (gesetzliche Arbeitslosenversicherung) and the statutory medical care insurance system (gesetzliche Pflegeversicherung).¹⁰⁵ In addition, there are other categories of insurance, but they are rather marginal and are not representative for the entire system. The amounts spent for each category are listed in Table 4.2.

The most frequent source for generating this flow of funds into social security appears when we have a work relationship between employer and employee. The mandatory contribution transferred every month into the employee's account with the publicly run insurance funds is financed by applying several percentages on the income and payroll. Here, the employer and employee have to contribute in equal shares, according to the "same interest 50–50" principle. Sometimes, in order to cover temporary cash shortages, the insurance funds are subsidised from the federal, land or local budget.

The authorities verify the correct implementation of social security, but also the legitimacy of other kinds of social security. For instance, protection against wrongful dismissal is watched upon through specialised institutions. These are the "Social

¹⁰⁵ Comp. Neumann and Schaper (1998), pp. 158–223.

Table 4.2 Germany's social security expenditure, 2000 (provisional) and 2009 (estimated)

		2000	2009
		€, bn	€, bn
Overall social expenditure		644.9	753.9
Of which the most important are:			
Pension insurance		217.4	250.2
Health insurance		132.1	168.6
Nursing insurance		16.7	20.3
Accident Insurance		10.8	11.4
Work subsidy and unemployment insurance		65	85.9
Pensions for civil servants		33.5	40.5
Elderly aid for agricultural workers		3.3	3.0
Wage payment during leaves		25.1	27.9
Child allowance		31.7	39.3
Education allowance		3.7	4.7
Social compensation, incl. for war victims		5.1	2.3
Housing allowance		4.3	1.7
Allowance for teenagers		17	20.7
Social aid		25.7	24.6
Social expenditure per capita	€	7,848	9,217
Social quota	% PIB	31.8	31.5
Social budget financing stems from:		Percent	Percent
Companies		27.7	26.3
Federal state		22.5	24.5
Länder		11.7	10.4
Local communities		9.5	9.8
Social insurance		0.4	0.4
Private organizations		1.5	1.4
Private households		26.7	27.2
Rest of the world		0.1	0

Source Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 75 Institut der Deutschen Wirtschaft Köln (Hg.) (2002), p. 75

Security Courts and Labour Courts".¹⁰⁶ These Courts have several levels of competence. The highest level is represented by the **Federal Labour Court** (Bundesarbeitsgericht) and the **Federal Social Security Court** (Bundessozialgericht). They run workplace litigations, for instance, between employers (companies or public institutions) and employees.

The government abides by a series of more concrete principles in the legislation it adopts for the day-to-day running of the public insurance funds or private insurance companies. It does so through the Federal Ministry of Labour (Bundesarbeitsministerium), the Federal Ministry of Finance (Bundesfinanzministerium) and the Federal Ministry of the Economy (Bundswirtschaftsministerium).

¹⁰⁶ See Neumann and Schaper (1998), p. 51: "Sozial- und Arbeitsgerichte".

The principles applied to physical persons in order to implement the public insurance system are level-four principles.

The principle of self-administration and para-taxation (Selbstverwaltung und Parafiskalitätsprinzip) is based on the fact that “para-taxation shows a certain amount of independence of the Social Security Funds from public budgets and taxes, through the mechanism (o.n. of members’) contributions. This delimitation of the budget of the Social Security Funds provides a certain autonomy for the insurance providers and limits. . . political intervention”.¹⁰⁷ What is obvious here is the desire to keep political interference in everyday management of economic issues to a minimum. The self-administration of social security funds provides the opportunity of taking not only the beneficiaries’ interest into consideration but also those of the bearers.

The next principle is **the compulsory insurance principle (Pflichtversicherungsprinzip)**. It applies to all of the 27.710 million people who were in professional life in 2010 and who benefit from social security.¹⁰⁸ The compulsory nature of this type of insurance is not compulsory valid for people who earn a yearly income above a certain pre-established level and for jobs (normally secondary jobs) who generate up to €450 monthly (mini jobs).¹⁰⁹ It is assumed that those who earn monthly above the cap level for their main job already have an accumulated wealth large enough to pay for all their medical care, pension, unemployment, etc. needs. The maximum limits of incomes to which the percentage is applied to calculate the contribution are different for unemployment, pension, health care, medical care or accident security.

Moving further to classical “damage insurance”, for establishing the moment when an insurance case is applicable when a damage has created an applicability of the compensation stipulated in the insurance contract, **the causal and final principles (Kausal- und Finalprinzip)**¹¹⁰ have to be determined to have both taken

¹⁰⁷ See Neumann and Schaper (1998), p. 143: “Parafiskalität verweist auf eine gewisse Unabhängigkeit der Sozialversicherungen vom staatlichen Haushalts- und Steuergebaren durch das Beitragsverfahren. Diese Ausgliederung des Haushalts der Sozialversicherung, verschafft den Sozialversicherungsträgern eine gewisse Autonomie und reduziert (. . .) die politischen Eingriffe”.

¹⁰⁸ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 13, Table 1.12.

¹⁰⁹ This category of work relations is known as “geringfügige Beschäftigung”. According to the law, in order to fit into this category, one must not work for more than 15 h a week and must earn less than 450 euros net a month. Otherwise, social security becomes compulsory: first, in an intermediary category called “Gleitzone” between €450 and €800 and then the normal category of full social security levels. The advantages of this kind of work relationships are that they allow individuals to earn some extra (pocket) money for themselves and allow employers to often cover certain seasonal needs of additional staff. Hotels and restaurants, for instance, usually resort to this type of work relations and many students can earn some extra money this way. Compare also Neumann and Schaper (1998), p. 145.

¹¹⁰ Comp. Neumann and Schaper (1998), p. 145.

place. This principle stipulates that first of all it is compulsory for a security fund to establish the cause of the damage. For example, in the case of unemployment benefits, in order for the person who lost his/her job to get what he/she paid a contribution for, the local employment office, as administrator of unemployment funds, will apply the causal principle. This means that the office has to be convinced that the applicant has not lost the job for lack of discipline or simply by abandoning it, but due to reasons beyond her/his power. Then, in order to establish the amount appropriate for compensation, the security fund applies the final principle. According to this, the social security fund must give meaning and purpose to the status of being a security bearer, i.e. feels practically that she/he is an insurance bearer. Therefore, the fund decides whether the amount of the compensation is high enough for the beneficiary to gain a minimum of social satisfaction.

Just think of the case of damage compensation after a car accident. It is not just about paying an amount that is proportional to the value lost, or to partially return what was lost. The point of the German model is to ensure a certain degree of social peace, of contentment, thereby instilling the perception of social justice among society “members”.

According to the **principle of conformity to order (Prinzip der Ordnungskonformität)**,¹¹¹ the social security fund has to take into account both market economy and social justice in equal proportions, as equal building blocks of the Social Market Economy. Before deciding whether or not to give compensation, as well as its value, the security fund has to weigh both parts of the economic system: market economy and social order. It is up to the social security fund to estimate when the interest of both parties to the system is optimally respected. For example, in a liberalist perception, the legal protection of an employee against dismissal (Kündigungsschutz) does not conform to the market economy, but on the other hand it respects social order.

Solidarity and the solidarity principle (Solidarität und Solidarprinzip)¹¹² is a level-three principle which is also applicable as a level-four principle in the management of a social security fund. There are two ways in which this can be done. First of all, the solidarity principle is evident from the fact that there is sharing of a great number of risks which are unequal, in the sense that they are smaller than the number of bearers; the bearers are separated only into a few risk categories. In every category, there is only one level of financial contribution charged to each contribution payer into the category. Thus, this kind of solidarity contains one inevitable injustice: getting the same amount out like somebody who was insured for more risks than oneself.

For a fairly long time now, private insurance funds have been more flexible than public funds. The reason is that they can deliver a “personalised/tailored” insurance policy. The advantage here is lower insurance costs for the bearer and better services provided by the company. However, if other risks appear and they are

¹¹¹ Comp. Neumann and Schaper (1998), pp. 146–149.

¹¹² Comp. Neumann and Schaper (1998), pp. 149–151.

not stipulated by the policy, then compensation for them is a lot more expensive than for those who are insured by public social security funds. For instance, with medical insurance, private insurers calculate premiums according to risk category and coverage category.¹¹³ However, the major difference between private and public health insurance is to be seen during pension time of an individual. Whereas in the private system he/she has to pay the full contribution calculated on the basis of the medical risk, in the public system it is applied as a percentage applied to the available income, regardless of the medical risk. Therefore, it is advisable for those who have less income to stay in the public system, whereas those with higher income which is also guaranteed during pension age to stay in the private insurance system.

Second, the solidarity principle applies also in the case of the retirement insurance of the **pay-as-you-go system (state-run system named “Umlageverfahren” or “intertemporale Umverteilung”)**, as is the case for the intergenerational contract for pension payment¹¹⁴. However, it appears that, because the population is ageing and because of demographic decrease, the pay-as-you-go system will cover progressively less of the pensions; therefore, people started moving already in the 1990s to the private pension insurance. Unfortunately, since 2007–2009, the status of public and even private finance of most Western states has been discovered to be unhealthy, resulting in a blow of discreditation for the private pension insurance system.

The way in which taxation and income redistribution, as well as social security and private insurance, are put into practice is extremely important for the stability and credibility of the second main pillar of the Social Market Economy in Germany. By doing this in a “healthy and sensible” way, it can lead to more social peace than that generated by even a sound and productive functional market economy. But if these social security principles, when applied individually, do not lead to social consensus, then the second pillar will guzzle what the market economy produces as the first pillar of Social Market Economy, thereby lowering the overall efficiency of the system. Still, Germany has a third pillar of the socio-economic system, one that bears an extra balancing weight: ecology.

4.3 Environmental Protection, Sustainability and Institutions

The issue of the ecology and the environment in the Social Market Economy takes both the market economy part (right pillar) and the social order part (left pillar) into account. For this reason, this third part (central pillar) can be regarded as the

¹¹³ For example, some bearers do not cover all medical hospitalisation services for internal diseases, but cover dental services fully.

¹¹⁴ Comp. Neumann and Schaper (1998), p. 150.

balancing factor between the other two main pillars of the economic and social organisation between these pillars we have presented so far.

It is the outward effects of industrial economic activities which give rise to the need for environmental policies. This is especially the case for industrialised countries with a large population and a comparatively small territory, such as Germany and the other German-speaking countries like Switzerland and Austria. The pressure for implementing environmental policies is greater for them than for other countries which have plenty of raw materials and geographical surface. In the West, a somewhat special case is Great Britain where, even if on the island it does get “a bit crowded”, there is no systematic environmental policy to the extent of the one in Continental Europe and Germany. The reason for this difference could be drawn from history and the existence of the Commonwealth, which compensated and outpaced the need for space.

Turning natural and extracted raw material into valuable consumer “goodies” through production is, more than in services, a source of auxiliary and toxic substances, residue and waste. These are collateral damage of the production process, just as civilian victims are, in the view of certain rather cynical military strategists, “collateral loss of life”, not inevitable in modern warfare. In the case of industry though, what is lost is not human beings, but the clean environment. The latter is contaminated by waste deposits in the soil, residual water dumping, toxic gas in the atmosphere and sound pollution. In the case of large and lasting industrial production plants, it is easy to see how pollution leads to supplementary costs added to the direct production costs. This means the loss of fauna and flora in forests, air and water. This change in fauna and flora creates an imbalance in the ecosystems which in its turn leads to chronic diseases in the humans involved in the industry.¹¹⁵

An essential trait of **pollution is its international global nature**. Pollution does not stop at national borders, whether it is in rivers, air or even in the soil. The damage suffered by a neighbouring country can be a source of international tension, because of expected compensation demands from those who were unfairly and maybe unexpectedly harmed.¹¹⁶

If we are to be consistent with corporate social responsibility expectations, all of these costs, whether they are national or international industrial costs, must be regarded and calculated as macroeconomic loss for that particular field.

¹¹⁵ A sad example of pollution are the mining industries. These damage not only the soil around the minefield, but much more the groundwaters (e.g. the controversial project of washing gold with cyanides at Roşia Montană in Romania, where the largest gold reserves in Europe are, by the Canadian mining company Gabriel Resources) and the health of the staff.

¹¹⁶ Recall the pollution accident of an Australian mining company operating a gold mine in Northern Romania in early 2000 and the subsequent pollution of Romanian rivers flowing then into the river Tisa in Hungary and further into the Danube and finally the Black Sea. Thus, all the countries east of Hungary suffered directly due to that accident. See the contribution of the Romanian NGO “Coaliția pentru Mediu” on this issue at <http://coalitiapentrumediu.ro/art-1-3-romania-este-un-stat-de-drept-democratic-ecologic-si-social/> accessed April 16, 2014.

Before the time when environmental policy became an essential pillar of Social Market Economy, such costs were named “**external**” to actual production in the balance sheets of companies. For example, according to calculations made for the West German economy for the year 1985, the total annual loss generated by environmental damage was just around 103 billion DM according to some calculations. This amount was made up of losses from air pollution, from water pollution, from soil pollution and from sound pollution.¹¹⁷ In order to avoid these yearly losses, the industrial sector and the government began investing in clean technology or in pollution-reducing measures starting approximately in the early 1970s. This means that from public money, the state took initiatives and pursued projects which had the effect of reducing the loss of turnover in certain sectors. A quite common example is the building of noise-diminishing walls along the railways within the cities. These walls, normally 15 feet high, protect the estates and houses along the railway, and thus their market resale or rental value is not as diminished as when the wall was not there.

Concretely, if in 1991 the total annual expenditure in environmental protection enacted by the state was 23.41 billion euros for that year, by 1998 probably due to the positive outcomes registered each year up to that point, the expenditure in 1998 by the state and productive industries was then ca. 16.75 billion euros for that year.¹¹⁸ Furthermore, in 2007 before the financial crisis had started to bite, the state had spent (running costs, plus new investment) in waste removal, water protection measures, noise-diminishing projects and maintenance of air cleanliness, namely, only 7.69 billion euros.¹¹⁹ In addition to these investments, there are to be counted also the investments made by the productive industry itself, a figure which brings the amount invested in Germany to approximately the double as the figure mentioned here.

It was in the 1990s that some major changes in environmental policy came through which enabled the success in reaching the clean environment we have now in all German-speaking countries. Through amendments brought to the **Accounting Standards Act (Bilanzrichtlinien)**, investments in the environment could be booked as cost factors in the calculation of product and industrial technology profitability in the company balance sheets. According to Eucken’s initial proposal, when calculating the cost price, one must take into account these extra external costs when the company is not completely integrated into and respecting its physical, social and national context. At that time in the 1930s and 1940s, the damage produced to these natural environments was not included as direct costs in the structure of the production cost. **Internalising external environmental costs**¹²⁰

¹¹⁷ See Lange T (1998) p. 184 where he quotes Wicke’s calculations. These amounts also include decreases in turnover in the fields of fish farming and agriculture, the cost of water detoxification in order to make it drinkable, as well as the drop in turnover for leasing homes in sound-polluted areas, expenses related to cleaning building facades in areas with air pollution, etc.

¹¹⁸ See Institut der Deutschen Wirtschaft Köln (Hg.) (2002) p. 88, Table 8.6, without the construction sector.

¹¹⁹ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 91, Table 8.9.

¹²⁰ Comp. Lange (1988) pp. 182–185.

was started not by private and democratic initiative of companies but by coercion by law and was at the initiative of the government. By enacting macroeconomic constraints, by implementing pollution quotas and national and Länder legislation and by other coercive measures, flanked by its own investment activities mentioned above, the public authorities succeeded in starting the environmentalist trend in the Social Market Economy in Germany.

Internalisation of environmental costs is the first level-two principle of ecology. In the end, the success of internalising all costs will in fact be an indicator of the extent to which the government can exert control over all the existing natural resources in its national territory.

Still, as the movements of water and air cannot be steered by any government, pollution is a cross-border phenomenon,¹²¹ condemned to internationalism and even globalism, and must therefore not be overlooked by any country. Even at national level, it is not only a regional or local issue, it becomes a national issue. Therefore, in the case of any country, it must treat it as a national and international issue at a central level. As a consequence, any environmental policy will automatically lead to an increase in communication and social consensus across boundaries and across economic sectors and types of human activities. Thus, as previously stated, ecology plays the balancing role among the pillars supporting the system.

At the beginning of any environmental policy, the protection of the environment can only be achieved through coercive methods. These apparently bring prejudice to the principle of freedom, but only apparently. Because it is coercive, a policy relying solely on environmental morality is doomed to fail, as human nature is predisposed to making profit in all possible ways, including by polluting, if it is allowed or cost-effective. On the other hand, a polluting way to manufacture is also doomed to fail as it will have to stop at the point when the “whole earth” will have been affected by the adverse effects of this technology.

Moving now onto the introduction of environmental costs into the microeconomic dimension of businesses, the term used by Eucken, the father of the Social Market Economy, for calculating the profitability of a product is “**business mathematics**” (**Wirtschaftsrechnung**). Business mathematics is placed at the basis of the theoretical economic system imagined by him. According to this concept “companies are compelled by the State to take environmental pollution into account when making business calculations, [thereby, o.n.] internalising external costs”.¹²² The idea is that, without internalising all production costs, too many polluting products will be placed on the market. This is not because they have better quality but because they are cheaper than non-polluting ones. Consequently, polluting

¹²¹ Think of the nuclear accident in Chernobyl, Ukraine, in 1986. Think also, why not, of the atomic waste shamelessly dumped by developed countries like Switzerland to poor countries or failed states like Somalia. For the latter case, see various Spiegel TV documentations.

¹²² See Lange (1988) p. 182: “Die Unternehmen werden vom Staat gezwungen, Umweltbelastungen in ihrer Wirtschaftsrechnung zu berücksichtigen...die externen Kosten werden internalisiert”.

companies become more financially competitive than non-polluting companies and that harms the principle of ethical competition and the real freedom to enter and exit the market. This should not be allowed to happen in a country run by an environmentally aware government.

In the first stage of applying environmental protection laws, these make the involved products more costly by decreasing profits of the respective companies. Therefore, the companies moving from polluting to ecological production technologies will no longer have money to create more manufacturing jobs in that previously polluting sector, risking the loss of their competitiveness edge. Thus, environmental subsidies which save polluting companies from going bankrupt do not conform to free-market economy principles. Subsidies help them make the transition to non-polluting technologies. But, on the other hand, by purchasing and using environmentally friendly machinery, these companies are indirectly helping to create jobs in those industries producing that ecologically friendly machinery they need. As a result, at a macroeconomic level, from the point of view of the government, by applying environmental policies and subsidies for this transition, in the medium term, what happens is that jobs are not lost, but transferred to a different sector of the economy (Chart 4.10).

For example, when the **Renewable Energy Act** (Gesetz für erneuerbare Energien) was adopted on April 1, 2000, a new economic field appeared in Germany, wind energy production, generated by wind turbines. This new energy sector had reached, already back then, over 35,000 employees across the whole sector, i.e. the same size as all the Ford plants in Germany put together or as the banking corporation Commerzbank AG. Until August 31, 2002, Germany had over 12,000 wind turbines installed. Together, they surpassed the world record of 10,000 MW of wind energy produced. The energy they produced already by then could supply a city of the size of Berlin. The proportion of consumed renewable energy of the total energy consumption in the whole of Germany changed from 1.9 % in 1995 to 5.3 % in 2005 and reached 9.4 % in 2010.¹²³ This is how environmental policy has been successfully instrumentalised to create a new economic sector in its own right. Not only this, but through environmentally friendly investments, not only that jobs were not lost, but instead a new industry sector has been created: environmental energy technology and machinery.

Systematic policies in this field in Germany began being introduced in 1971. Along with cost internalisation, these policies focused on two other principles: **the costs-by-cause principle (Verursacherprinzip)** and **the common burden principle (Gemeinlastprinzip)**.¹²⁴ These are level-two principles of the third pillar of the Social Market Economy.

According to **the costs-by-cause principle**, the person who causes damage to the environment is charged with removing the effects and avoiding repeating the

¹²³ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 93.

¹²⁴ Comp. Lange (1988) pp. 185–188 and Olsson and Piekenbrock (1998), pp. 382–383 and pp. 158–159.

Air Pollution 1990 - 2009, in thousands tons, resp. million tons

Source: Institut der Deutschen Wirtschaft Köln (Hg.) (2002), p. 89 and
 Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 92

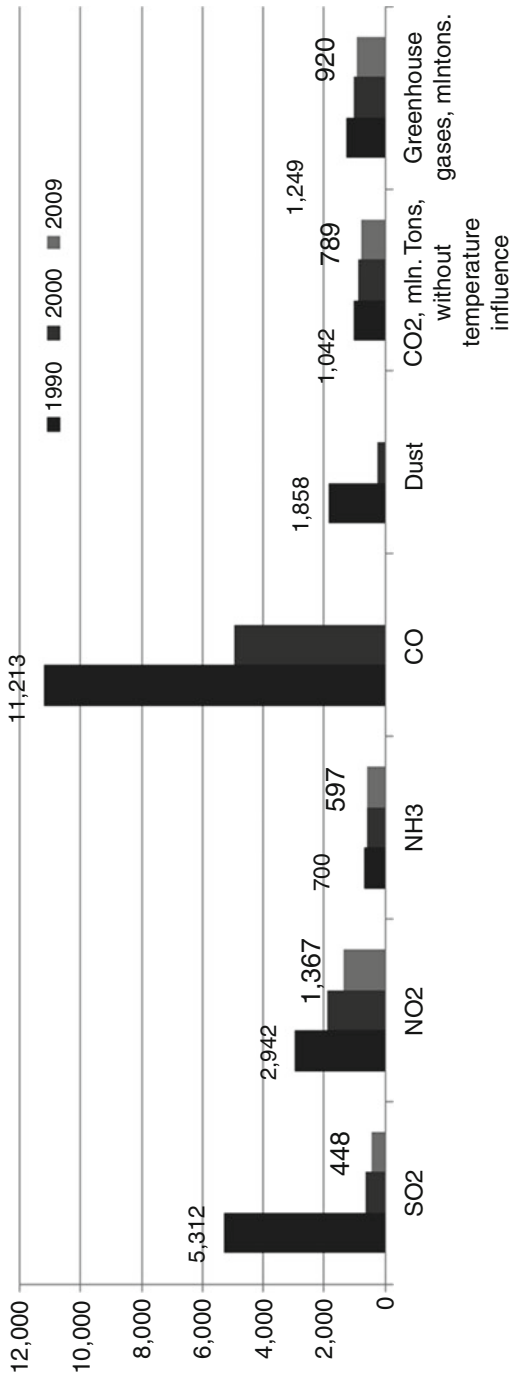


Chart 4.10 Air pollution volumes, 1990–2009, thsds. tons

damage in the future.¹²⁵ In other words, you pollute, you pay up. The difficulty, however, is measuring the level of pollution. The dilemma here is: where do the effects of pollution stop? When is the effect of pollution removed? Take, for example, air pollution: is the polluted environment the city, the land, the country, the continent? Can it be removed or can it only be avoided so that future pollution does not appear any more? On the other hand, in other areas, removing pollution is more measurable, like in the case of soil.

The answers to these difficult questions can only be of a global dimension, depending on the consensus achieved. Thus, applying penalties on those who produce pollution is a bit arbitrary with respect to the height of these penalty payments.

According to **the common burden principle**, the cost of pollution is to be shared and borne from common or community budgets.¹²⁶ The functioning of this principle is based on the number of people interested in bearing the pollution in common. For instance, a waste water treatment plant functions according to the costs-by-cause principle if its operating costs are divided among the water polluters; but it functions according to the common burden principle if the operating costs are borne by the local community budget. Of the two, only the costs-by-cause principle respects the free-market economy mechanism as foreseen in the internalisation of cost model proposed by Walter Eucken's ordoliberal model. If the share in the common budget of the polluting plant would not be considered a local tax (social order) but a production cost (market economy order), then the "common burden principle" would also obey the free-market economy order; otherwise it is rather to be seen as heeding to the social order par.

The main levers of environmental policies adopted by the federal government or the land government are the level-three principles: **banning, compulsory pre-
scripts, pollution taxes, emission trading, incentives and capping.**¹²⁷

Capping¹²⁸ is more often used to limit toxic emissions at a federal level and local level. These limitations consist in emission ceilings. Permission is limited to using only certain production and/or treatment technologies, or to use only certain raw materials, in order to meet the pollution ceilings. The disadvantage of this method is that it restrains technological progress and innovation by limiting the creativity of the engineers and management and creates dependence on certain technology and raw material suppliers. Ultimately it also carves up the competitive edge of the respective company.

The simplest way to stimulate a company to have an environmentally friendly production process is through **taxation.**¹²⁹ Imposing taxes means to make the use of

¹²⁵ Comp. Hermann (1995), pp. 225–229, and Lange (1988) pp. 185–188.

¹²⁶ Comp. Hermann (1995), pp. 225–229, and Lange (1988) pp. 185–188.

¹²⁷ Comp. Weidner and Jänicke (1998), pp. 204–206, Lange (1988), pp. 187–188, and Hermann (1995), pp. 228–229.

¹²⁸ Comp. Weidner and Jänicke (1998), pp. 204–206, and Lange (1988), p. 188.

¹²⁹ Comp. Weidner and Jänicke (1998), pp. 204–206, and Lange (1988), p. 187.

a clean environment more expensive for that company. Either through federal or land law, the company is obliged to pay a certain tax for each pollution unit (Schadstoffeinheit) it emits. The stimulant is that the higher the tax, the more interested the company will be to be environmentally friendly. The difficulty which lay with the legislators is establishing the height of the tax, as they should not wish to halt the production of that particular good if the tax would be too high, but only to compel the company to transit its production process to a more eco-friendly one.

Starting in 1969, Germany's environmental policies have become a field in themselves and a public reality. As we know and will see again in the next chapter, in the first two decades, economic policies focused exclusively on rebuilding the economy. Systematic pollution only became a tangible reality after the success of reconstruction had come as a result of intensified industrial activity over decades. Thus, it was only along with the SPD and Willy Brandt's government programme after the 1969 elections that environment-friendly policies became a separate chapter in government policy list.

The **first environment-oriented** programme of any (German) federal government was presented in September 1971 and implemented until 1980.¹³⁰ It put forth several fundamental ideas; among them is the costs-by-cause principle, taking macroeconomic capacity into consideration, promoting environmentally friendly technologies, intensifying environmental research and promoting public awareness on the issue, including by cooperation among Länder and international cooperation. In time, these environmental policies began to rank as high as social policies and as national and even come gradually to be perceived as having relevance with respect to international security.

1971 was a crucial year from at least three points of view: worldwide the reform of the Bretton Woods monetary system was put in place with the abandonment of the gold standard and the passage to free floating exchange rates, then the onset of the first oil crisis and the onset of environmental policies in a major industrialised country, Germany. In that year, the Social Market Economy, as we come to know it now, began to take its final shape by several measures which followed within a decade. The **Council of Environment Experts (Rat der Sachverständigen für Umweltfragen)** was founded and the **Aircraft Noise Act (Fluglärmmgesetz)** and the **Petrol Lead Act (Benzinbleigesetz)** were adopted in 1971. In 1974 the **Federal Environment Agency**¹³¹ was established and the **Emission Protection Act (Immissionsschutzgesetz)**. Other important pieces of legislation in this field include the **Waste Water Charges Act (Abwasserabgabengesetz)** of 1976 and the **Chemical Substances for the Environment Act (Umweltchemikaliengesetz)** of 1980. A significant step forward was the foundation of the **Federal Ministry of the**

¹³⁰ See Lange (1988) p. 189.

¹³¹ Comp. Weidner and Jänicke (1998), pp. 202–204.

Environment (Bundesministerium für Umweltschutz) in 1986, which opened the way towards systematic and planned environmental policies throughout the world.¹³²

By the early 1990s, large and undeniable successes had been achieved in the Social Market Economy with respect to environmental protection. As examples, the increase of the forest surface and the improvement of the quality of inland waters and rivers can be evoked. As late as the 1980s, the Rhine, as the biggest river for Germany, the Netherlands and France, was a smelly and highly polluted river, given the many industries along it. By the mid-1990s, its water quality had improved to such a high extent that fishing has become possible again and even swimming competitions are being regularly held in it.¹³³

As a conclusion to this chapter, Illustration 4.1 shows a schematic outline of the Social Market Economy system's structure as it was created and implemented in Germany from 1948 until the economic and financial crisis started to be felt in 2007–2009. The Social Market Economy was based on the institutional and legislative reform of 1948 and 1949. The three pillars are placed on this basis. The pillars are made up of the level-one, level-two and level-three or even level-four principles, where needed. These principles have been taken into consideration when enacting the laws and building the respective institutions related to them. This legislation is then applied by the federal and land institutions. On top of the pillars, there is the chancellor, who in Germany, like the federal president as well, is both under the control of the parliament and the Constitutional Court. The Central Bank (Bundesbank), in spite of its apparently rather marginal portrayal in the sketch, is most of the time the discreet but absolutely main companion of all the macroeconomic processes in the Social Market Economy. This crisis brought with it the undermining of some important principles of the system. Some essential pieces of legislation and institutions were reformed in order to accommodate the effects of the crisis and thus negatively touched on the perception of social justice and consensus. But the system is still in place, in spite of not sufficiently being catered to by the political class and business élites.

¹³² See and comp. Weidner and Jänicke (1998), pp. 202–204, and Lange (1988), p. 189–192.

¹³³ As an example see the recreational activity of swimming in the Rhine at <http://www.schwimmen-im-rhein.de/> accessed August 13, 2012.

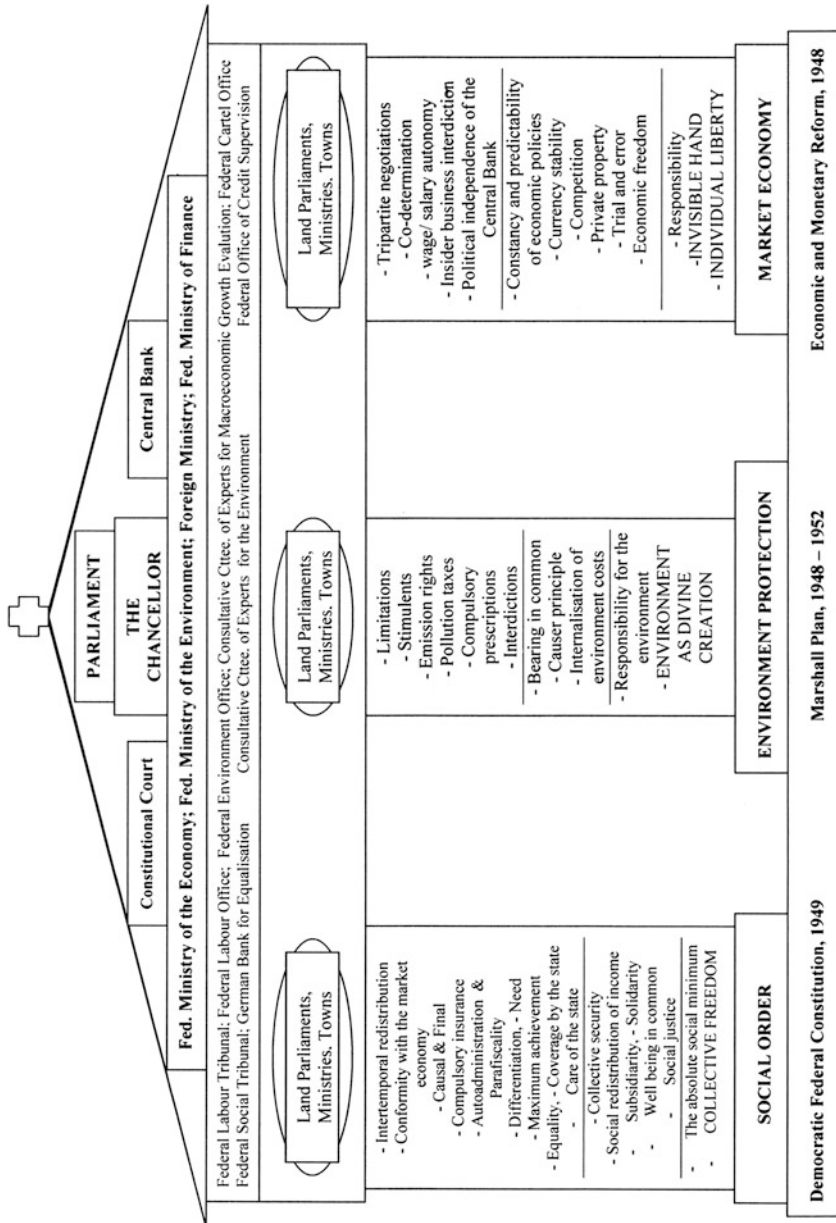


Illustration 4.1 “The villa of the Social Market Economy” in a sketch of the economic and social system as applied after 1945 in Germany

References

- Achleitner KA, Everling O (eds) (2004) *Handbuch Ratingpraxis*. Dr. Th.Gabler, Wiesbaden
- Beattie A, Politi J (2008) I made a mistake, admits Greenspan. In: *Financial times*, 24 Oct 2008. www.ft.com. Accessed 26 May 2014
- Bible. New International Version. Internet portal, www.biblegateway.com
- Bundesministerium der Finanzen (Hg.) (1999) *Unser Bankwesen*. Neuausgabe 1999. Referat Öffentlichkeitsarbeit, Bonn
- Eichengreen B (2011) *Exorbitant privilege. The rise and fall of the dollar and the future of the international monetary system*. Oxford University Press, Oxford
- Everling O, Mureşan S (2011) ESMA—Autoritatea Europeană a Pieţelor şi Titlurilor de Valoare îşi începe activitatea la 1 iulie 2011. In: EURACTIV online portal, 1 July 2011. http://www.euractiv.ro/uniunea-europeana/articlesdisplayArticle/articleID_23194
- Frank T (2014) The real cost of a cheap burger. In: *Le Monde Diplomatique*. English edition, February 2014. Paris. <http://mondediplo.com/2014/02/08fastfood>. Accessed 2 June 2014
- Grosser D (1988) Die Wirklichkeit der Wirtschaftsordnung. In: Grosser D, Lange T, Müller-Armack A, Neuss B (ed) (1988) *Soziale Marktwirtschaft. Geschichte-Konzept-Leistung*. Verlag W. Kohlhammer, Stuttgart–Berlin–Köln–Mainz, pp 35–73
- Halbach G, Paland N, Schwedes R, Wlotzke O (1998) *Übersicht über das Arbeitsrecht*. 7. durchgesehene Auflage. Bundesministerium für Arbeit und Sozialordnung (Hg.), Bonn
- Hank R (1999) Die Gewerkschaften suchen Wege aus der Finanzkrise. Fusionen als Lösungsmöglichkeit. In: *Frankfurter Allgemeine Zeitung*, Nr. 230, 10 Oct 1999, pp W1–W2
- Haucap J (2014) *Wirksamer Wettbewerb und Kartellverbot in der Sozialen Marktwirtschaft*. In EU-Trust. European Trust Institute, Dusseldorf. Online portal of. http://www.eu-trust.org/download/2014/140408_haucap_wirksamer_wettbewerb_und_kartellverbot.pdf. Accessed 2 June 2014
- Hermann A (1995) *Wirtschaftspolitik und Regierungssystem der Bundesrepublik Deutschland*. Eine Einführung. Dritte, aktualisierte Auflage. Leske + Budrich, Opladen
- Institut der Deutschen Wirtschaft Köln (Hg.) (2001) *Deutschland in Zahlen Ausgabe 2001*. Deutscher Instituts Verlag, Köln
- Institut der Deutschen Wirtschaft Köln (Hg.) (2002) *Deutschland in Zahlen 2002*. Deutscher Instituts Verlag, Köln
- Institut der Deutschen Wirtschaft Köln (Hg.) (2011) *Deutschland in Zahlen 2011*. Deutscher Instituts Verlag, Köln
- Körtgen A (1998) *Der Tarifvertrag im Recht der Europäischen Gemeinschaft – unter besonderer Berücksichtigung der Frage betreffend Die Zulässigkeit Europäischer Tarifverträge*. Inaugural – Dissertation, Westfälische Universität Münster
- Lange T (1988) *Umweltpolitik*. In: Grosser D, Lange T, Müller-Armack A, Neuss B (1988) *Soziale Marktwirtschaft. Geschichte-Konzept-Leistung*. Verlag W. Kohlhammer, Stuttgart–Berlin–Köln–Mainz, pp 182–193
- Lexikon-Institut Bertelsmann (Hg.) (1981) *Mosaik Hand-Lexikon*. Aktualisierte Neuausgabe. Mosaik Verlag, München
- McKay JP, Hill BD, Buckler J (1991) *A history of western society. From absolutism to the present*, vol II, 4th edn. Houghton Mifflin Company, Boston
- Müller-Armack A (1988) *Das Konzept der Sozialen Marktwirtschaft—Grundlagen, Entwicklung, Aktualität*. In: Grosser D, Lange T, Müller-Armack A, Neuss B (ed) (1988) *Soziale Marktwirtschaft. Geschichte-Konzept-Leistung*. Verlag W. Kohlhammer, Stuttgart–Berlin–Köln–Mainz, pp 1–34
- Neumann LF, Schaper K (1998) *Die Sozialordnung der Bundesrepublik Deutschland*. 4. Überarbeitete und aktualisierte Auflage, Bundeszentrale für politische Bildung, Bonn. Campus Verlag, Frankfurt am Main
- Niederhoff HU (1979) *Mitbestimmung. Baustein 13*. In: Institut der Deutschen Wirtschaft Köln (Hg.) (1979) *Curriculum Soziale Marktwirtschaft, Bausteine 1-14*. Deutscher Instituts Verlag, Köln

- No authors (1988) *Biblia*. Editura Institutului Biblic și de Misiune al Bisericii Ortodoxe Române, București
- No authors (1993) *Handelsgesetzbuch ohne Seehandelsrecht, mit Wechselgesetz und Scheckgesetz*. Textausgabe mit ausführlichem Sachregister und eine Einführung von Universitätsprofessor Dr.iur. Dr.h.c. Wolfgang Hefermehl. 27. überarbeitete Auflage. Stand 20. Mai 1993. Sonderausgabe unter redaktioneller Verantwortung des Verlages C.H.Beck, München. Deutscher Taschenbuch Verlag, München
- No authors. *Grundgesetz für die Bundesrepublik Deutschland*. Deutscher Bundestag, online version. <http://www.bundestag.de/grundgesetz>
- OECD (2010) *Measuring Globalisation*. OECD Economic Globalisation Indicators 2010. OECD Publishing, Paris <http://dx.doi.org/10.1787/9789264084360-en>
- Olsson M, Piekenbrock D (1998) *Kompakt-Lexikon Umwelt und Wirtschaftspolitik*. 3., aktualisierte Auflage. GABLER Lexikon-Redaktion (Hg.) für Bundeszentrale für politische Bildung, Bonn
- Schröder G (1999) Wettbewerb sichert Wohlstand. Soziale Marktwirtschaft, Demokratie und Werbung gehören zusammen. In: "Vorwärts" Die Zeitung der deutschen Sozialdemokratie. Gegründet 1876. Regionalausgabe Nordrhein-Westfalen, Juli/ August 1999. vorwärts Verlagsgesellschaft mbH
- Seffen A (1979) Soziale Sicherung—Teil der Sozialen Marktwirtschaft. Baustein 12. In: Institut der Deutschen Wirtschaft Köln (Hg.) (1979) *Curriculum Soziale Marktwirtschaft*, Bausteine 1–14. Deutscher Instituts Verlag, Köln
- Statistisches Bundesamt (Hg.) (2001) *Datenreport 1999, Zahlen und Fakten über die Bundesrepublik Deutschland*. Bundeszentrale für politische Bildung, Bonn
- The Economist (2011, July 9) Debt reduction. Handle with care. "Dereveraging" will dominate the rich world's economies for years. Done badly, it could wreck them. Leaders section (with July 7 date in online edition), Print edition, London
- Velte PJ (1993) Die Staatsaufgaben und ihre Finanzierung. In: Bundeszentrale für politische Bildung (Hg.) *Informationen zur politischen Bildung*. Heft No. 241/ 1993. Steuern und Finanzen. Franzis Print, München, pp 3–4
- Vergopoulos K (2014) Capitalism is going nowhere. In: *Le Monde diplomatique*. English print edition May 2014 No. 1405, pp 14–15
- Vogel O (1979) Ordnungsprinzipien der Sozialen Marktwirtschaft. Baustein 1. In: Institut der Deutschen Wirtschaft Köln (Hg.) (1979) *Curriculum Soziale Marktwirtschaft*, Bausteine 1–14. Deutscher Instituts Verlag, Köln
- von Nell – Breuning S.J. O (1979) *Soziale Sicherheit? Zu Grundfragen der Sozialordnung aus christlicher Verantwortung*. Herder, Freiburg
- Wandel E (1980) Die Entstehung der Bank deutscher Länder und die deutsche Währungsreform 1948. Die Rekonstruktion des westdeutschen Geld- und Währungssystems 1945–1949 unter Berücksichtigung der amerikanischen Besatzungspolitik. In: *Schriftenreihe des Instituts für bankhistorische Forschung*. Band 3. Der Wissenschaftliche Beirat des Instituts für bankhistorische Forschung (Hg). Fritz Knapp Verlag, Frankfurt am Main
- Weidner H, Jänicke M (1998) Vom Aufstieg und Niedergang eines Vorreiters. Eine umweltpolitische Bilanz der Ära Kohl. In: Göttlik W (Hrsg.) (1998) *Bilanz der Ära Kohl. Christlich-liberale Politik in Deutschland 1982–1998*. Ein Sonderband der Zeitschrift GEGENWARTSKUNDE. Leske + Budrich, Opladen, pp 201–228
- Wünsche HF (1994) Soziale Marktwirtschaft als Politik zur Einführung von Marktwirtschaft. In: Herrmann-Pillath C, Schlecht O, Wünsche HF (Hg.), Ludwig-Erhard-Stiftung e.V. Bonn (1994) *Grundtexte zur Sozialen Marktwirtschaft*. Band 3. Marktwirtschaft als Aufgabe. Wirtschaft und Gesellschaft im Übergang vom Plan zum Markt. Gustav Fischer Verlag, Stuttgart, New York, pp 21–43

Chapter 5

Building Up and Implementing a Social Market Economy in Germany

Based on the economic results registered, the stages undergone by the Social Market Economy in Germany from the capitulation of the Third Reich on May 8, 1945, to the present day are those presented in Illustration 5.1. From this specific path taken, we can infer that the German model of the Social Market Economy is not complete and in fact never has been.

The philosophical, identity, national and corporatist principles are applied in a more or less uninterrupted historical continuity. The legislation, the market and social system institutions are an expression of these theoretical principles, which are being attempted to be adapted to fit the present times. It is a similar model to that of the Italian “aggiornamento”—updating—process of reform and modernisation.

As these theoretical principles were gradually applied in practice, the legislative system, institutions and implementation models needed permanent improvement and modernisation themselves. From the moment, a new institution was founded, for example, the **Sachverständigenrat für Umweltfragen** (Council of Environment Experts) in 1971, when the social democrats were in power (1966–1982), and until this new institution made a visible impact for the ordinary citizen, in this case decreasing pollution, it took quite a while. This impact was felt as far as long as 20 years later, when the Christian Democrats were in full swing (1982–1998). Therefore, the results of the implementation and reforms of the Social Market Economy expand from one style to another; one government initiates a measure, and the next one reaps the results. For that reason, we believe that a chronological presentation of the succession of economic events is what is necessary in order to best illustrate the structure and the way theoretical principles combine.

1945 – 1948	research and strategic decisions on the path to take for future development;
1948 – 1969	the German economic "miracle" or the creation of market economy;
1948 – 1951	takeoff: Economic and Monetary Reform, the Marshall plan, the Constitution;
1952 – 1960	building an ordoliberal industrial base, legislation and institutions;
1961 – 1969	reinforcing the "made in West Germany" success; the cold war;
1965 – 1966	incipient insecurity in economic policy
1967 – 1969	the outline of an inconsistent macroeconomic dirigisme
1969 – 1982	macroeconomic dirigisme, heightened social order, socio-liberalism;
1969 – 1973	systematic macroeconomic dirigisme, rise in unemployment, the beginning of environmentalism, the Ostpolitik;
1974 – 1982	Keynesianism, mass unemployment becomes chronic; the oil crises;
1982 – 1991	attempt to return to the ordoliberal model, the continuation of environmental policies;
1992 – 1998	the start of the economic and social reunification of Germany, EU enlargement;
1992 – 1995	West German economic contraction, privatisation of the former DRG economy;
1995 – 1998	sluggish return to growth in all of Germany, but with chronic unemployment;
1998 – 2008	a new socio-liberal synthesis, environmental reforms, structural unemployment and globalization. Agenda 2010. The Stability and Growth Pact criteria for monetary union repeatedly breached;
2008	– Attempt of a second comeback to the ordoliberal model of Social Market Economy is being disrupted by the major financial, monetary and economic global crisis. Among Euro-group countries, Germany is able to stand steadfast in this first crisis of globalization

Illustration 5.1 Stages of the social market economy as applied after 1945 in Germany

5.1 Rebuilding a Market Economy and an Industrial Base (1945–1969)

Although it is generally expected that after a war, there is always a boom especially in the construction business, in the first two decades after 1950, Germany's economic growth was huge, the highest in Europe. Still, Germany's growth was not as high as Japan's, whose GDP grew by over 290 % between 1960 and 1970. Germany "barely" reached a 180 % GDP growth for the decade between 1960 and 1970.¹ The possible cause for this difference is the almost absolute domination of the liberalist system in Japan, where, as a result of an exclusively American military occupation which had not been shared with other occupying powers, the results of the reconstruction of society on new grounds were spectacular. In Germany, however, during the reconstruction period, there was a mix of economic doctrines applied. It is not to be dismissed that German economic growth levels were influenced by the presence of several foreign powers there, who volens nolens influenced economic policy. For instance, the traditionally socialist French, and also the geographic closeness of the socialist and Soviet block countries induced ideas of socialism and socialisation into the neoliberally driven German post-war economic system under US hegemony.

The economic miracle in Germany is an impressive accomplishment, not only for the Germans but for all the other mature Western European countries. The

¹ See Kremer (1993), Schaubild 4, 5, 6, 7, 8 and 9.

creation and the success of the Social Market Economy system in Germany can be looked upon as the fulfilment and full growth, in a democratic framework, of the centuries-long aspiration of the Central Europeans and Germans to be in line with and even surpass the wealth of the other peoples of Western Europe: the French, the British, the Dutch and the Italians. There might be a reason for this: it was as late as the second half of the eighteenth century that the national German poet Johann Wolfgang Goethe brought to the Prussian court the ideals of Hellenism, Mediterraneanism and classicism. Thus, the Germans are catching up a little later than the other Westerners and, in their own style, conquering by technology and engineering.

The process of economic reconstruction and maturity of the social consensus within the democratic German Social Market Economy can be considered completed in the first 25 years after 1945. For this to happen, the decisions Germany made in the first 5–7 years after 1945 were *the* strategic decisions of post-war Western Germany. They lifted Germany's economy from that of an average Western European nation, which was at the beginning of the twentieth century, to that of a leading European nation with respect to economic power in the present day.

5.1.1 Strategic Decisions (1945–1948)

In the beginning, it was especially tough. Capitulation opened up a time of difficulties for Germany. The country saw itself fall to ruins from the peaks of world domination aspirations.

This was a time when poverty and the lack of the most elementary possessions, essential for human survival, favoured meditation on the deeper meaning of life and nations. This was a time when Christian piety was reinforced, which led to the creation of the mindset for making the strategic decisions for the future. But the toughness of the situation brought about the chance of starting wholly anew, building up a new economic and social system on a sound and healthy basis.

These decisions meant choosing the path towards a free-market economy, as opposed to a centralised socialist economy, towards refounding the democratic institutions and the reunification of the southern, western and northern zones each occupied by another of the Western Allies.

The crucial element which is unfortunately often forgotten by analysts is that the economic reforms in West Germany were made under the umbrella of political democracy and military security, including the one stemming from the nuclear umbrellas of the USA, Great Britain and France. This was and still is unchanged until now, the outermost guideline for the new system. This must not be forgotten, not even today in 2014. Not that the USA did it for free, but the Western Allies had their own interest in providing this umbrella. It was not just the military and political interest of maintaining public order in Europe, but also economic and sales interests which are a reflexion of the free economic system of the USA.

One of the more pragmatic reasons for the American military and financial contribution to the reconstruction of Europe under the Marshall Plan is USA's self-interest. After Continental European economies were virtually destroyed in the war, the USA no longer had markets with purchasing power for exporting its own products. The USA probably could have focused on other markets in the world, but the only nations able to develop purchasing power quickly enough were those in Europe. Therefore, winning the war in Europe was like a tailored glove for US interests: US banks could release credits to European countries which would then invest and soon be able to become buyers of US products. This US interest was harmoniously weaved into the fabric of ideological motifs and democratisation intentions it had for the European continent. This fabric was expanding the geographic territory where there were free and democratic political systems based on market economies. The combination of the political and economic motivations and interest gave rise to the idea of a European recovery plan.

In the "political greenhouse" atmosphere created in Western Europe and Germany, several programmes and economic mechanisms could thus be quickly put to work. The first such programme was the "**European Recovery Programme—ERP**"² known as the Marshall Plan. It was announced in March 1947 and then immediately put into practice starting in the beginning of 1948.

But what had happened to the German territories until then?

After the May 8, 1945 capitulation, in what used to be the Third Reich, several months of uncertainty over Germany's political future and that of its borders as an independent state followed. It is interesting to observe that uncertainty was soon removed and that the reunification process of the German territories was again started, but this time as a process needed to serve primarily economic and only secondly political interests.

The initial occupation and division of the Third Reich was split into five different political areas, of which only four would eventually be under German rule again: the American, Soviet, British and French zones, each with their own military government and legislation. The fifth, east of the Oder and Neisse rivers, was integrated into Poland and was to stay there.

The first step towards an eventual reunification of Germany was economic. It related to the establishment by the British Military Government of a **German economic consultation committee** in the British-occupied zone in 1945 in Minden, a small town 50 km West of Hannover. This committee soon took operations of a Central Economic Office for the British Zone.³ Not many months thereafter, it started to grow and there appeared signs of economic cooperation between the

²The European Recovery Programme (ERP) still worked at least as late as 1999 within the Federal Ministry of the Economy. Its main activities focus on supporting small and medium companies in Germany. It provided refundable loans with small interest for capital contribution for company establishment, business development, regional programmes, apprenticeship programmes, programmes for shares participations in other companies, environmental and resource management programmes and innovation and invention programmes.

³Comp. Nörr (1999) pp. 28–29.

British and American zones. Between 1945 and 1948, economic life was limited to repairing the ruins after the bombings which de facto destroyed quasi all German cities above a population of 100,000. Back then, the simple distribution, under the leadership of the British–Franco–American military authorities with the help of the territorial branches of the Central Economic Office, of essential goods necessary for survival, such as food and clothing, was the other major activity. Looking at it from an institutional point of view, a country was starting life from scratch.

Initial attempts by the Council in 1946 to revive trade and production activities were not immediately fruitful. The reasons are apparently due to the uncertainty regarding the future of the Allied economic policy, as at that point it was unknown whether and when Germany was to regain sovereignty. Also, before the economic and monetary reform of June 20, 1948, the economic legislation in force was the same which had been adopted by Hitler's regime. Since 1936, this had created and regulated an interventionist, centralised, command dictatorial economy. Further reasons for the difficult start in 1946 and 1947 are also the dismantling of the most modern production technologies existing at that time in Germany, for "export" purposes.⁴ In order to give some practical example of how theoretical legislation and politics start to work in practice, we will briefly now look at the production reboot process at the "Carl Zeiss" optical systems manufacturing plant. The plant was physically removed from Jena, from the Soviet-occupied zone of Germany, and moved to the American-occupied zone in the south-west in a new location. In the spring of 1946, a new production location was assigned to the company for its new location in Oberkochen, in the south-west of Western Germany. The allocated unit had previously belonged to another factory which had been destroyed in the war. The Zeiss company chronicle recounts how in the new location

from absolute chaos, a Zeiss factory had to be born. All (the workers, o.n.) started working and each of them took whatever work came up. First, the machinery of the previous military factory had to be removed from the workshops and the corridors. Where they still existed, hardwood floors had to be removed with hammers and pickaxes and taken outside. As the factory did not have enough tools, they were brought from home by the employees living in the area. Many broken windows had to be replaced. For the upcoming winter, the out of order heating installation had to be repaired and the coal had to be transported from the railway station to the factory.⁵

⁴For instance, although in East Germany the Jena plants were occupied by the Soviet troops, American Infantry evacuated, 430 German specialists from Jena from Carl Zeiss, Schott and Genossen Siemens plants and from the University. These specialists together with their families meant 1,300 experts and educated people leaving the city. Along with the staff, over 80,000 manufacturing sketches were taken too, as well as laboratory equipment from the Zeiss plant. Comp. Hermann Armin (1995), p. 15.

⁵See Hermann Armin (1995), p. 28, where he quotes an unpublished manuscript by Otto Ordt, from the Carl Zeiss archives in Oberkochen: "Aus einem absoluten Chaos sollte ein Zeiss Betrieb entstehen. Jeder griff zu und jeder übernahm jede auf ihn zukommende Arbeit. . . Zunächst mußten die Maschinen aus der vorherigen Rüstungsfertigung aus den Werkstätten und den Gängen. . . entfernt werden. Die Parkettfußböden, soweit noch vorhanden, mußten mit Hammer und Meißel ausgebaut und abgefahren werden. Da im Werk nicht genügend Werkzeuge vorhanden waren, wurden sie von einheimischen Mitarbeitern von zu Hause mitgebracht. . . Viele zerbrochene

These were the real-life conditions, preparatory and essential steps to be taken in a similar way by many other manufacturing plants from 1945. Work had to be put in for bare survival at first, without knowing what kind of political future Germany would receive. A critical mass of such preparations across the economy had to have taken place by when political reforms were to be adopted, if the economic and monetary reform of June 1948 and the Marshall plan were to have the desired effect.

Another hindrance for immediate economic revival after 1946 was the forced exile of skilled German economic, industry, scientific and intelligence experts to the USA and the Soviet Union. We should not forget that not only the NASA programme in the USA but also the Soviet programme too was created with the German scientists from the V1 and V2 programmes in Peenemünde such as Wernher von Braun and other thousands of scientists. Further, German intelligence supplied first-hand intelligence to the USA for confronting the Soviet Union during the Cold War. The intelligence which the German military had been gathering during “Unternehmen Barbarossa” on the Eastern front was made available after 1945 via US General Sibert who was the “tutor” of the *Organisation Gehlen*, the forerunner of the new to be established Bundesnachrichtendienst.⁶

Returning to economics, as we have seen, the decisive step for the pickup was the economic and monetary reform of June 1948. It is mostly owed to the American military government, the Council of the United Economic Zones and Ludwig Erhard’s political courage. He was the man who had been chosen and also wanted to write the next chapter in Germany’s economic history. After March 1948 when Erhard had been appointed Director of the Office for the Administration of the Economy (Direktor der Verwaltung für Wirtschaft) for the United Economic Zones, he had put together a team of specialists for a project of transition from interventionism to market economy and had apparently clear ideas about how the new system should run. Such projects were coordinated by Leonhard Miksch,⁷ a former student of Walter Eucken’s in Freiburg. But Erhard’s was one of the many reform projects brought to the attention of the Americans and the **Council of the United Economic Zones**. Apparently, over thirty independent German expert groups wanted to have their plans gain the approval of the USA. As stated by Wandel in his work on the founding of the “Bank of the German Länder” (the predecessor of the Deutsche Bundesbank), it is difficult to tell to what extent the initial project proposed by Erhard’s team was included in the Reform that came into force at midnight on Sunday, June 20, 1948. There is a simple reason for this: even before Erhard was appointed Director of the Office for the Administration of the Economy and then of the Council in March 1948, the new German Mark banknotes had been in print. This printing has been proven to have started at least as early as October

Fensterscheiben waren zu ersetzen. Für den bevorstehenden Winter mußte die nicht funktionierende Heizung in Ordnung gebracht, die Kohlen vom Bahnhof ins Werk transportiert werden”.

⁶ See Gehlen (1971) p. 139–ff.

⁷ See Hohmann and Ludwig-Erhard-Stiftung e. V. Bonn (1997), p. 10.

1947 at the **American Bank Note Company** in New York and at the **Bureau of Engraving and Printing**⁸ in Washington D.C. Nevertheless, it seems that the Council liked Erhard's team's project.

More or less 2 years after the establishment of the **German economic consultation committee** in the British and the economic cooperation with economic offices of the other zones, as well as after the announcement of the Marshall Plan, the **Council of the United Economic Zones (Rat des Vereinigten Wirtschaftsgebietes)** had been established. The Council reunited as a meeting of delegates sent by the four military governments and, from the German side, by the Länder Parliaments. The Council was under Allied rule at first, and its main mission was to plan and start a new path for Germany's people, economy and society. The Council was the institution where the strategic decision to follow the course of a market economy was institutionalised and where the monetary reform had been decided. But this needed sufficient support from the German mainstream parties, such as the CDU and the SPD. The Western Allies decided in the spring of 1948 to apply the monetary reform only to the Western Länder as they could not wait much longer until those under Soviet rule made up their mind. In the meanwhile, it had become clear that the USSR had a different reform in mind for the area under their occupation, by introducing the East German Mark and deciding that the East will go its own way. After this political decision, Ludwig Erhard's reform was given the green light.

So, in April 21, 1948, Ludwig Erhard held the opening speech for the launch of the economic programme for the Western Zones in front of the Economic Council of the United Economic Zones (Wirtschaftsrat des Vereinigten Wirtschaftsgebietes). The Soviet representatives had already retired from the Council by that time. In his speech, Erhard solemnly declared that “<current and future German economic policy shall be marked by two crucial decisions:> monetary reform and the activation of the Marshall Plan”.⁹ On June 17 and 18, 1948, the General assembly of the Council of the United Economic Zones adopted the set of related legislative measures that came into force on June 20, 1948.

The political acceptance on behalf of the Germans to truly accept the course of a market economy originated only later in an energetic speech which Erhard gave on August 28, 1948, at the CDU meeting from the British Zone. This speech succeeded to neutralise opposition within the CDU to the introduction of a free-market economy. Although a rival of Erhard, Adenauer gave half a year later himself in that “the principles which Mr. Erhard introduced to us and according to which he works and acts, are indeed good principles”.¹⁰ On the other hand, because of the

⁸ See Wandel (1980), p. 129.

⁹ See Hohmann and Ludwig-Erhard-Stiftung e. V. Bonn (1997), p. 9–10: “<die deutsche Wirtschaftspolitik heute und für die nächste Zukunft unter dem Aspekt zweier großer Entscheidungen stehe > der Währungsreform und der Aktivierung des MARSHALL planes”.

¹⁰ See Hohmann and Ludwig-Erhard-Stiftung e. V. Bonn (1997), p. 13: “. . . die Prinzipien die uns Herr Erhard dargelegt hat und nach denen er arbeitet und handelt, wirklich gute Prinzipien sind”. Comp. Völklein (1997) pp. 28–33.

negative experience of the socially blind economy during the Weimar Republic, German socialists and social democrats wished to keep the social elements and refused to negotiate or compromise at the expense of their principles. So they preferred to enter complete political opposition soon after March 1948, when Ludwig Erhard was nominated the Director of the Administration of the Economic Office, where they remained until 1966.¹¹ These factors combined led to a situation where there was no longer any inside opposition within the economic office, neither German nor Allied, against implementing the ordoliberal principles of market economy as defined by the fathers of the Social Market Economy.¹²

There are certain circles in Germany and elsewhere which tend to overestimate Erhard's role in this reform. They say, probably in order to demonstrate Erhard's political courage, that he did not consult the Allied military authorities on several new liberalisation regulations adopted. They also say that he bravely took full responsibility for these regulations. They claim that Erhard gave a proof of German sovereignty when he defended himself against the accusations of unilateralism with the famous sentence: "I did not change the regulations (which was permitted only with Allied approval), but I cancelled them (which was not explicitly regulated)".¹³ As a consequence, a few political "tiffs" were created between the Allies and the Germans.

What is certain is that Erhard got along best with the Americans, of all three military governments. He was from Bavaria, an American-occupied zone, and from Fürth, from where several of the American Jews in the US Administration stemmed from, just as Henry Kissinger does. Still it is plausible that his "well-intended dictator"¹⁴ style seems to have become known among government élites of the time; Erhard could successfully lead the initial economic reform process and the evolution of the Federal Republic of Germany between 1948 and 1966. As federal minister of the economy from 1948 to 1963 and chancellor from 1963 to 1966, he was undoubtedly one of the most important leaders of post-war Germany.

Important to note here is that in the Social Market Economy, it is the "economics" which has **primacy over politics: the democratic constitution was adopted in May 1949 as late as 1 year after the adoption of main economic legislations. The primacy of economics over politics in Germany and in the Social Market Economy countries as well** would be a reoccurring theme in post-war history. This dominance has been confirmed again and again by the political side in its speeches at business associations meetings and through policy too.

¹¹ See Nörr (1999), p. 29–30 and comp. Hohmann and Ludwig-Erhard-Stiftung e. V. Bonn (1997) and Völklein (1997).

¹² Comp. Nörr (1999), p. 30–ff.

¹³ See Hohmann and Ludwig-Erhard-Stiftung e. V. Bonn (1997), p. 10: "<Ich habe die Vorschriften nicht geändert> (was ihm nur mit Alliiertener Genehmigung erlaubt war), <ich habe sie außer Kraft gesetzt> (was nicht ausdrücklich geregelt war)".

¹⁴ See Starbatty (1997) p. 85.

5.1.2 *Start Off: First Measures and Successes (1948–1951)*

The starting point of what is today called the German model of the Social Market Economy was in June 20, 1948, Sunday, the day that the economic and monetary reform came into power and the new German economic system was established.

This new system is based on three pillars which came about within two consecutive years: the ordoliberal economic Constitution (Wirtschaftsverfassung), started by the internal Economic and Monetary Reform, then the support from abroad which came through the Marshall Plan active between 1948 and 1952 and the Federal Constitution (Grundgesetz) adopted in 1949.

The implementation of the Reform of June 1948 started after the activation of the **Marshall Plan**. The proportion of the plan Germany benefitted from, along with 16 other Western European countries, was 11 % of the total of 13 billion US dollars, meaning 1.3 billion US dollars. The plan was in place only until 1952 and the money was used to finance the import of raw materials and other merchandise from the USA, direly needed back then by the small German economy for restarting its industrial production.¹⁵ In spite of the image that the international public opinion had about the size of the destruction and the industrial dismantling after the war, in 1948, in West Germany, production facilities were over 10 % more numerous than in 1936. The difference was owed to the massive investment made by Hitler's government in the military industry¹⁶ and to the forced labour done by prisoners. Without the raw materials imported through the Marshall Plan, these facilities could never have been reintroduced into the production circuit.

Along with the Reform and the Marshall Plan, the first measures of what we know today as the Economic Constitution were a series of acts that were meant to put German creative energy to work: the Tariff Wage Act of 1949 (Tarifvertragsgesetz) and the Home-Based Business Act of 1951. The other important pieces of legislation adopted are presented in Appendix 3.

The economic effects were that right after June 20, 1948, the stores became packed with food, production exploded, the economy soared soon and afterwards the prices became stable. Industrial production grew from a level of just over 52 % in the first half of 1948, referenced to the whole of 1936 to almost 75.5 % by the end of 1948; sustained growth continued during 1950, 1951 and 1952. Thus, only by the second half of 1952, the total industrial production for that year was over 145 % of the whole reference year of 1936 (100 %).¹⁷ This growth brought full coverage of immediate consumption needs for Germany. It was a time of huge growth (somehow to be expected after a war, when the first measures are correctly drafted and

¹⁵ The OECD was originally the Organisation for European Economic Cooperation (OEEC), meant to administer the Marshall Plan. In the early 1960s, it was transformed into the OECD based in Paris. See OECD homepage <http://www.oecd.org/general/themarshallplanspeechatharvarduniversity5june1947.htm>.

¹⁶ For a more exact figure, see Grosser (1988) p. 81.

¹⁷ See Erhard (1964), p. 36, p. 62 and Table 1 p. 383.

implemented) when all entrepreneurs, no matter what field they were in, were successful in their business. Until 1951, the concept “Social Market Economy” meant market economy with “full shop windows and improvement in prosperity for all those who had a job, but not full employment and price stability”.¹⁸

What happened further was that the initial growth was accompanied, only until 1951, by a rise in unemployment. This rise was fuelled by the influx of a work force consisting of over two million East German refugees and ethnic German ex-settlers from Eastern Europe (Aussiedler) as well as escapees from Soviet concentration camps.¹⁹ Later, unemployment dropped down to the point of almost full employment by the late 1950s. The expansion of economic activity in the 1950s was so great that, along with the assimilation of the Eastern Germans, it became necessary to import labour from other countries. This was done as of 1961, when foreign ethnic groups entered Germany from the Southern parts of Europe: Turkey, Greece, Yugoslavia, Italy, Spain and Portugal. While by the economic and financial crisis in 2007–2009 many of these guest workers or their offspring decided to return to their native countries, things are different in the case of the Muslim guest workers and their offspring. Their need to uphold Muslim identities over decades of living in Christian environments prompted them to build mosques all over the country. Moreover, the integration need stemming both from the German native communities and from the Muslim immigrant communities led to the setting up of organisations for representation of interests of these immigrants. Fifty years later, these communities developed into more or less parallel societies. Repeatedly, signs of tensions between the majority community and these immigrants can be noticed when reading the press.²⁰ Thus, the need of labour force generated by the free-market system and the reconstruction process brought about a parallel community which is slowly challenging the social consensus laying at the basis of the Social Market Economy in its original form.

¹⁸ See Grosser (1988), p. 84: “volle Schaufenster und Wohlstandsverbesserung für alle, die Arbeit hatten, nicht aber Vollbeschäftigung und Preisstabilität”.

¹⁹ In German, the word “Aussiedler” describes the ethnic Germans from Eastern Europe, for example, the Transylvanian Saxons, Banat Swabians and the Zipser Germans in Bukowina. According to information from the Administration Office based in Cologne, between 1948 and 2000, the number of Aussiedler arriving from Romania alone (let alone the other Eastern European countries, the Baltic countries, Kazakhstan, Russia, Moldavia, Ukraine) to Germany was 428,500, i.e. practically half of Romania’s 1940 ethnic German population. The rest of the ethnic Germans leaving Romania went to Austria, Canada or the USA, creating new strong communities there. Emigration led to a void of qualified, educated and wealthy workforce in all the countries these Aussiedler left.

²⁰ New parties defending the interests of the native German communities appeared alongside with the NPD which is often considered to be inheritor of the National Socialists. Such nationalistic parties have a more popular approach such as the PRO NRW or a more academic style such as Alternative für Deutschland AfD.

5.1.3 *Building Institutions and Legislation: Continuing Success (1952–1960)*

What happened between 1952 and 1960 was that domestic and foreign favourable conditions, legislative measures and national and international economic policies led to a massive growth of the GNP, of the size of international trade and of the proportion of investment in the turnover. The high price stability was accompanied by a spectacular growth of net income, a growth of the size of private savings, a drop in unemployment and an increase in stock exchange transactions. Never before had the living standards of large social layers improved so considerably and so quickly.

The increase or better said quasi explosion in income and savings²¹ became tangible for ordinary citizens. The systematic construction of new homes, utilities, roads and infrastructure was the same for cities and villages throughout the country and was a first visible improvement. Then, holidays in England, France, Italy, Spain and Greece became suddenly possible as did the education of German élites in British, French and American universities.

With the exception of England, Japan and perhaps Switzerland, the high degree of social homogenisation reached through similar infrastructure in town and village, across geographical regions and through the process of mass motorisation in Germany over such a short period of time is a unique accomplishment in Europe and maybe even in the world. This is how a healthy industrial and infrastructural basis could be acquired for the real economy. Once that had happened, the German people reached a more and more an enviable economic status. These were the days known as the **German economic miracle (Deutsches Wirtschaftswunder)**.

At first, during the creation and implementation of the Social Market Economy, the process was dominated by entrepreneurship. In the decade between 1950 and 1960, the weight of the income from entrepreneurial activities and from wages and wealth (profit and private income) in the German national income increased considerably. Sociologists, macroeconomists and politicians will observe that between 1950 and 1960, the per capita income growth rate was double the growth rate for the whole period 1800–1950. National wealth had grown by ca. 200 % in 1960 as compared to 1950.²² Then, the evolution of the net value of fixed assets doubled and the evolution of investment volumes in fixed assets trebled.²³ Also shown in these charts is the booming of the construction sector, as a result of the need for infrastructure, production premises, company offices and especially homes, many of which had been destroyed in the bombings.

²¹ See Erhard (1964) chart “Spärentwicklung” opposite to p. 81. Between 1948 and 1962, savings in bank accounts and in savings banks increased with ca. 4,600 %, financial assets in life insurance with ca. 700 % and building savings with ca. 1,200 %.

²² See Kremer (1993), Schaubild 1.

²³ See Kremer (1993), Schaubild 3.

How could all of this high growth be reached?

It is certainly not only a boom which is generally expected during any post-war reconstruction. In this case, it was by a correct drafting of the pillars of the new economic system, starting with the market economy which was based on the adopted new legislation and the founding of new institutions, both based on principles we presented in Chap. 4.

With a typically German perseverance during the 1950–1960s, **eight ordoliberal principles** were applied. These principles were essential guidelines in institutional and economic legislation building, respectively, being drafted and were abided by for almost 20 years. These principles were (1) the functional price system resulting from solid competition, meaning the freedom of supply and demand with little state interference; (2) the elimination of monopolies and maintenance of a high level of competition; (3) the rigorous protection of patents, in order to motivate technological innovation; (4) monetary stability, in order to ensure the profitability of drafted business and investment plans; (5) contractual freedom and (6) entrepreneurial liability, in order to make sure that the entrepreneurs take only those decisions which they are prepared to be held fully accountable for; (7) continuity and predictability of economic policies, a key element for forecast ability of the business plans; and (8) the referee role of the government in the economy, in order to prevent private power from building up, while only focusing on the legislative macroeconomic order framework, without interfering in economic processes.²⁴

For this period, good examples are the main pieces of legislation, two acts adopted in 1957: an act against cartels and the establishment of the German Central Bank (Deutsche Bundesbank). These two had a decisive contribution to the consolidation of West Germany.

Certain economists believe that the market economy pillar of the Social Market Economy had such a successful introduction because Ludwig Erhard managed to take over so many political competencies for his position as Minister of the Economy in the Federal Government and that his post allowed him “to act as an quasi economic dictator”²⁵ during this initial period of setting up the system.

Still, Erhard was seen by many Germans as a kind and popular politician. His style of putting economic policies into place made him popular with the masses. He is reported as often giving radio speeches, simply asking the people to trust his policies and not oppose them, even if they were harsh at first. Normally, this is natural and is what should be expected from politicians: heart-felt communication with the population. The perseverance with which he permanently defended the upholding of monetary stability as a fundamental principle of the Social Market Economy, and defended the Bundesbank Act, created a situation that was the opposite of the repeated galloping inflations that had struck Germany in the past. The public saw him as an incorruptible man of predictability and the man associated

²⁴ See Illustration 2.1. For more details, comp. Watrin (1998) pp. 17–22 and Erhard (1964), pp. 14–18.

²⁵ See Watrin (1998), p. 24.

with bringing wealth back to Germany and his popularity surpassed at times even that of Chancellor Adenauer.

In spite of the excellent results he had with the economy, Erhard has had political opponents in his own party and in general in Germany, both before and after 1945. One of these was his political rival, CDU president Konrad Adenauer. Among the reasons for this rivalry was not only Erhard's success but also their diverging orientations regarding foreign policy and religion. The chancellor was a Catholic and a francophone Gaullist from the Rhineland in Western Germany, oriented towards Continental Europe and trying to move Germany towards the Catholic powers Italy, France and Spain. Erhard was an Evangelical Protestant, an "Atlantist" and an anglophile from Bavaria. His liberal orientations were more suited to the American spirit, rather than that of the "grande nation". However, an observer from outside Western Europe can see how the two orientations, as long as they go hand in hand, could give Germany a global vocation, by opening it up to both ideological spheres.²⁶

This global vocation became a reality in the early 1950s, by when West German products had conquered a constant presence on the main international markets. The phrase "Made in West Germany" literally became a brand name and an assumed guarantee for product quality, as it presupposes it even now in the second decade of the twenty-first century. The reasons for this typical quality-driven production lay probably in the German producers' subconscious centeredness in ethical values which we presented above and which were incorporated into the physical products. On-time delivery, service and exchange parts warranty and the integrated operation of production, distribution and service networks were in good shape not only in the home country but also in the countries where German companies operated. Integrated operation is possible due to good organisation and coordination to the typical German corporatist group mentality.

The German positive trade balance, in place as early as mid-1951,²⁷ appeared in the conditions of a high productivity, savings and austerity with respect to demand of wages.²⁸

Due to this fast success, but also to the Western Allies' interests to integrate the Federal Republic of Germany into the new international post-war economic and security order and to make it work as an ally of the West in the Cold War, the country became a **member of the World Bank and of the International Monetary Fund** as early as 1952.

Also noteworthy for the economic aspects of this period of the 1950s is Germany's accession to the European Community of Steel and Coal in 1952 and its signing of the Treaty of the European Economic Communities and the EURATOM Treaty in 1957 in Rome. On the political-defence side, West Germany

²⁶ See Hohmann and Ludwig-Erhard-Stiftung e. V. Bonn (1997) pp. 22–23.

²⁷ See Erhard (1964), the chart "Außenhandel" opposite to p. 80.

²⁸ Comp Giersch et al. (2000), pp. 273–274. This book was probably the first book in Romanian language written on the Social Market Economy.

was **admitted into NATO** as a full-fledged member **in 1955**. The reason for the early NATO accession was of course pragmatic, namely, that Germany had the largest population and human resource availability in Europe in the context that the organisation needed larger human forces for its infantry in its confrontation with the Soviet bloc.

Germany spoke out in favour of international development aid and of the partnership with underdeveloped countries as soon as it had joined these intergovernmental organisations. Its motivation may not have been purely charitable, but was also driven by the thought to prepare these markets in order to develop their long-term capacity for absorbing German and Western products. Furthermore, it is possible that Germany and its Western partners had recognised that development aid may be a niche opportunity for Germany and the rest of the West to convince the new states in Africa and emerging markets in Asia “to buy” the Western development aid policy. The reason was that Germany had a better image with developing countries compared to other Western countries like the Netherlands, Belgium, the UK, France, Spain or Portugal since it did not have a stained reputation of a colonial past in the eyes of the developing countries in Africa, Asia and South America.

In order to reach the development aid goals, the Federal Republic of Germany developed a financial and technological support policy named **the economic aid and development policy (Entwicklungspolitik) with a special ministry in charge of it**, but which at first was difficult to distinguish from a typical foreign economic policy.

Erhard’s 1958 5-week visit to Asia came after Germany’s exports had profited for several years from the South Korean economic boom. Still, this can be regarded not as a development aid promotion trip but rather as a state-driven sales promotion of Germany’s economic interests. This was also obvious in Erhard’s statement to the Chancellor of the Exchequer, Sir Stafford Cripps, which we saw just above and which is related to the international markets targeted by the German products.

Currently, German governments give high importance to this policy as it is an instrument of promoting German interests abroad, both in the Commonwealth of Independent States area of the former Soviet Union and in Africa and on any other continent. Currently there is an institutional wrangling²⁹ over competencies between the Federal Ministry of Economic Cooperation and Development (BMZ) and the Ministry of Foreign Affairs (Auswärtiges Amt) regarding who should be in charge and of what exactly abroad.

²⁹ Comp. Seitz (2010) where he implies overlapping institutional competencies and thus contradictions and rivalries between the two German ministries who both pursue applied foreign policy interests.

5.1.4 *Consolidation of Success and First Difficulties (1961–1969)*

The 1960s are characterised by the establishment of wealth as the norm and of a feeling of national fulfilment and salvation. The German economy boomed and the trade balance had been positive for years. So in 1961, with the support of business and political personalities, Erhard succeeds in appreciating the Deutsche Mark by 5 %. This was a hit for importers but probably not so good a move for exporters because thus products developed in the Social Market Economy became more expensive and thus less accessible on the global markets.

In this second decade of implementing the Social Market Economy, the economic structure begins to differentiate into sectors. The steady growth of the national income between 1960 and 1970 was with ca. 120 % in the processing industry and, respectively, with ca. 170 % in the “other services” sector.³⁰ The national income composed of profit plus personal wealth on the one hand, meaning entrepreneurial activities and capital, and income from salaries on the other hand. For analytical and statistical purposes, the German economy is divided by the German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung)—a consultative body to the Federal Government—into agriculture, production and services. What results clearest by looking at the two charts are the opposite weights of the two subsectors: in the industry sector, salaries are the main source of national income, while for “other services”, the dominant source for the national income is from profits and personal wealth.³¹

However, it is not only the economy that became successful during all these years; it is also social welfare which started to be put in place according to the new economic status quo. The latter had received unprecedented importance in Germany’s history and in the eyes of the normal citizen. But Erhard had tried to oppose it, calling *the need for (social, o.n.) security an illusion*.³² Nevertheless, social security was put in place such as the dynamically indexed pension. This was automatically adapted during this decade in direct relation to the inflation rate without needing updates through repeated government regulations.

In this decade, Germany began to feel a need to have its own foreign markets, not just those it shared with its Allies, such as East Asia, Australia, parts of South America and certain African countries which had belonged to the Western colonial empires. In this sense, reopening Eastern Europe as a traditionally German market was a result of Ludwig Erhard’s personal involvement. He became chancellor on October 18, 1963, and quickly gave a green light to promoting Germany’s economic interest in Eastern Europe. Agreements were signed to open Foreign Trade Agencies (Außenhandlungsvertretungen) as early as the spring of 1964 in Hungary,

³⁰ See Kremer (1993), Schaubild 6 and 7.

³¹ See Kremer (1993), Schaubild 6 and 7.

³² See Erhard (1964), p. 243: “Illusion des Sicherheitsbedürfnisses”.

Bulgaria and Romania. The first diplomatic relation between West Germany and an Eastern European socialist state was with Romania. These were resumed in 1967, more than 20 years after their interruption in 1944.³³

In this dynamic flux in which a functional market economy had already been created, when the technological and material production infrastructure had been created and West Germany was pressing ahead in the context described above, as of the mid-1960s and until the reform of the international financial Bretton Woods system in 1971 and the first oil crisis in 1972–1973, a new stage in the shaping of the Social Market Economy became visible. It was a stage characterised by insecurity, originating not only in the economy but also in the overall evolution of society. This was not only Germany's case. Throughout Europe, the emancipation and liberalisation aspirations led to the "1968 movement", the "green" student movement in the West and the Czechoslovakian "revolution" in the East.

In Germany, this spirit of emancipation from an old world characterised by age-old traditions went hand in hand with an overheating of the economy which needed labour not longer existing in Germany since full employment had been reached. Furthermore, possibly as a result of overheating, the GDP growth rate slowed down to values with 50 % lower than in the 1950s. Simultaneously, there also was a decrease in the German labour force's availability to perform any labour in general and unskilled labour in particular. Thus, the Government thought it was a good idea to open the doors for foreign labour force.

As the years approached the mid-1960s, the danger of inflation grew and the government's way of implementing economic policies was becoming incredible. These factors possibly combined and the first signs of a recession became obvious in 1966–1967, almost two decades after the economic and monetary reform had started the experiment of the Social Market Economy.

The reasons for the slowing GDP growth are interconnected. First of all, consumers, as their standards of living had risen sharply, became increasingly demanding of product quality and connected services. So, in order to increase quality, companies invested in research and development more than in the 1950s, thereby decreasing the amounts allotted to investment in machinery and technology. At the same time, the immigration of a qualified ethnic German labour force from Eastern European countries and the DRG slowed considerably³⁴ after the Iron Curtain was created and the Berlin Wall was built by 13 August 1961. In order to suit the interest of a productive economy, the work force influx had to continue to bring in sufficiently qualified people. But these people could no longer come, so a less industrially qualified work force had to be imported from Turkey, Italy, Spain and Yugoslavia as already mentioned. This labour force could not replace the Germans necessary for already demanding tasks, not to mention that there was a

³³ See the internet portal of the Ministry of Foreign Affairs of Romania, București, <http://www.mae.ro/bilateral-relations/1704#815> accessed August 13, 2012.

³⁴ See Grosser (1988) p. 88.

high demand for increased quality on the market. The latter alone would have needed a higher level of training for the work force and not a lower one.

This is how, because **demand could not be met by supply**, the unions became willing to launch in the early 1960s, a campaign to raise salaries, which the companies had no way of satisfying without setting economic planning off track. Consequently, the amount of money invested in machinery, technology and research and development decreased for the second time in a short while, this time to benefit salary funds and further increase consumption and demand. As a result, the job creation pace slowed down. The background for a possible recession was already set. The already unfavourable inside circumstances were worsened by a third simultaneous unfavourable factor: economic policy mistakes made at the beginning of 1965. During the 1965 election campaign, Chancellor Erhard made several rather **populist promises**, amounting to ca. DM 6.5 billion.³⁵ These promises were made to all social categories, comprised of farmers, pregnant women, disabled ex-servicemen, etc., thereby putting inflationist pressures on the state budget.

Moreover, and at the same time, while economic circumstances were still unfavourable, Germany cut taxes, reducing budget income in the very year of general elections.³⁶ There was even more pressure on the state budget, so the government decided to borrow more money than it had previously planned. In order to stabilise the situation, the Budget Security Act was adopted in December 1965. It partially cancelled the populist promises made only a few months before and raised taxes again. This is how the population's trust in the government diminished and how the coalition partners'—CDU/CSU and FDP—mutual trust was also shaken for the first time. Erhard resigned in 1966.

In 1966 and 1967, West Germany's GDP growth rate was for the first time negative. The investments in production assets slowed down and unemployment suddenly soared from ca. 161,000 in 1966 to over 600,000 in 1967.³⁷ Ever since then, unemployment became chronic and could be significantly reduced only once to levels tending to zero, i.e. to ca. 0.7 % in 1970, a similar level to that from before Erhard's resignation.

After this brief comeback, unemployment continued to rise throughout the 1970s and 1980s becoming structural unemployment and reflecting the typical Western overproduction crisis which characterises every market economy in any country.

Then, in the 1990s, when the population had already become used to an unemployment rate of over 6 %, a new obstacle appeared, this time from the political field: reunification with the East. The political nature of the decision to reunify Germany led to a new wave of unemployment and to chronic structural

³⁵ See Grosser (1988) p. 92.

³⁶ See Grosser (1988) pp. 92–99.

³⁷ See Kremer (1993), Schaubild 8 and 9, as well as p. 60 and 66.

unemployment from then on. Even in the West, it reached thus 6.3 % in 1991 and soared to 11 % in 1997.³⁸

If we look again at the year 1966, we can see that the new government coalition was formed under Chancellor Kurt Georg Kiesinger. Between 1966 and 1969, it was called the Great Coalition between CDU/CSU and SPD. These 3 years paved the way for Keynesian macroeconomic dirigisme. This coalition government lived with the impression that it had to act against unemployment by making investments financed from the state budget. **Two government-run programmes for employment were launched:** one through investing over DM 2.5 billion in the German Railway Company (Deutsche Bahn) and the German Post (Deutsche Post) and the other programme launched in the summer of 1967, to invest ca. DM 2.8 billion in various economic sectors and across regions. Both programmes were financed through taking up public debt.³⁹

Through these measures, the economy moved away from the ordoliberal model applied until then, and towards a new stage of Social Market Economy, that proposed by Müller-Armack and towards the Keynesian model. This transformation began in the days of the Grand Coalition CDU/CSU–SPD (1966–1969) and was reinforced under the SPD–FDP coalition (1969–1982). This shift in economic policy occurred because of the voters' different political options, of **tiredness of being too wealthy for long enough**, but also to a theoretical confusion within the political class. Another reason might be that German politicians sometimes peeped East, towards the cosmetic success of the socialist block between ca. 1950 and 1978.

For all these reasons, the evolution of the Social Market Economy in Germany took an important turn in its identity.

5.2 Macroeconomic Dirigisme (1969–1982)

There are several reasons why post-Erhard federal governments sought for solutions so deep that they ended up with Keynesianism.

As we shall see below, Grossekkettler from the Institute for Financial Research at the University of Münster states in his article on the critique of the Social Market Economy that there are specific reasons for such quests in directions other than ordoliberalism. Ordoliberalism had not been strongly enough rooted by then on the “economic doctrine market” and he apprehends that there were several reasons for this.⁴⁰

³⁸ See Institut der Deutschen Wirtschaft Köln (Hg.) (2001) p. 14. The rates presented are the annual average. It stood for 1.689 million people in 1991 and 3.021 million in 1997. As we will demonstrate below, this dramatic rise was directly connected to the German unification and to the structural changes in the East and also their disruptive effects on the West German economy.

³⁹ Comp. Grosser (1988) p. 94.

⁴⁰ See Grossekkettler (1999) pp. 75–76.

The most important reason is religion. I certainly agree with this but only as far as by religion is understood to be a coherent worldview addressing all aspects of reality which is also implemented in practical life by its followers. Religion does not mean devotedness in church-dictated practices and rites. It is important to understand that in Germany, religious motivations are considered by researchers and by the public opinion as residing even deeper than cultural motivations. It is religion that generates culture and not the other way around. When indicating the reasons for which ordoliberalism was traded for Keynesianism, Grosseckttler makes no reference to the German cultural model but to the two national churches:⁴¹ the Roman Catholic Church and the Protestant Church. He says that the leadership of these two churches could not be persuaded into accepting the ordoliberal view on the Social Market Economy. They wanted rather a focus on social justice which they preached to their congregations every Sunday. The clash between the ordoliberal doctrine and the Christian doctrines divided public opinion. We tend to believe that the ordoliberal view on the economy stems rather from a post-war imported neoliberal American view of economics and which in Germany specifically took the form of ordoliberalism. So to some extent the resistance of the historically established European Churches is understandable as they were resisting a neoliberalism developed by Neo-Protestant (Methodist, Baptist, Pentecostal, etc.) US politicians. As the support of the population for the introduction of the ordoliberal model by the élites was not enough to get it institutionalised, as soon as the opportunity arose, the search in other areas began.

The second reason for searching in areas other than ordoliberalism was that an ordoliberal economic constitution did not acquire a compulsory status as it was not integrated into the Federal Constitution, says Grosseckttler. This integration would have been possible only if the Constitution had been amended. Prof. Papier, former president of the Federal Constitutional Court (Bundesverfassungsgericht), brings forward the fact that the Federal Constitution contains no definition or guarantee of any specific economic order and leaves economic government mostly up to the government in power and the political class.⁴² This legal flexibility can be, in a way, an advantage as it leaves every government free to act in its own way, but may also leave room for erroneous methods of economic policy implementation. Papier

⁴¹ They are referred to as national churches (Landeskirchen), the same as the Orthodox Church which is often forgotten by Western analysts. They are considered the spiritual pillars of the German state and nation. In today's Germany, there is no complete—neither de facto nor de jure—separation between the church and the state. The cooperation between the two consists of the church's involvement in the spiritual formation of the German citizens and the government's direct involvement in the financial support of the church. It is collecting, through the tax authority (Finanzamt), the church tax, from every taxpayer. This tax is 9 % of the amount paid by the taxpayer (Appendix 4). Legally speaking, there are only two church tax categories: Roman Catholic and Protestant. The statute of corporate bodies under public law (Körperschaft des Öffentlichen Rechts) exists for almost every non-extremist religion and faith, but the others are not privileged enough to have their taxes collected for them by the tax authorities.

⁴² See Papier (1999), pp. 95–97.

suggests a grounding of the Social Market Economy into the constitution could be useful.

The third reason was that no measures were adopted to confer a role of “ordoliberal guardian” to the Federal Ministry of the Economy, says Grossekkettler.⁴³ Maybe it is also a fact that after Erhard and Müller-Armack, no other politicians of their political stature were available who could impose such legislation.

The fourth reason was that economist’s, academics, media, public opinion and later student support for the ordoliberal economic constitution diminished in time. This argument of Grossekkettler is probable if we think of the gradual decrease of the Western Allies’ influence on German political decision making. During that time, entrepreneurship was toppled from its leading position in society and gradually replaced by the nascent union and employee spirit. This was actually the beginning of a native German national reawakening.

The fifth reason, as Grossekkettler and other analysts see it, was that once standards of living had risen for average citizens by the mid-1960s, the pace of wealth accumulation slowed and people believed that they were over the worst, so the redistribution of wealth could recommence. This was exactly what Müller-Armack proposed when he spoke about a “second stage of the Market Economy without renunciation of its fundamental principles, increased attention has to be given to government tasks . . . such as development of the education and health system, city development, area planning, transport and environment protection”.⁴⁴

Even if these reasons are not the only explanations and do not entirely reflect what happened, they outline a framework for passionate researchers to continue seeking the truth along them. In any event, after 1966, after the ordoliberals began to be removed from the highest executive and administrative offices, the Federal Republic of Germany started applying another kind of economic policy, more in the direction of what Müller-Armack said above.

After Erhard’s resignation, a period of indecision followed between 1966 and 1969, a hesitating oscillation between ordoliberalism and Keynesianism showed up. The shift towards the latter became stronger as 1969 approached. In spite of the change in priorities for the Social Market Economy, even if unnoticed on the spot, but also in spite of the crises on international trade markets, Germany’s economy continued to grow throughout the entire social-democratic period as we shall see further.

⁴³ Comp. Grossekkettler (1999) pp. 66–71.

⁴⁴ See Müller-Armack (1973) pp. 23–24: “zweiten Phase der Marktwirtschaft ohne Preisgabe ihrer Grundprinzipien, verstärkt Staatliche Aufgaben (...) wie der Ausbau des Bildungs- und Gesundheitswesens, Städtebau, Landerplanung, Verkehr- und Umweltschutz, berücksichtigt werden müssen”.

5.2.1 *First Years of Macroeconomic Dirigisme (1969–1974)*

As ordoliberalism had not been institutionalised and enshrined in the Constitution, the Keynesian model promoted by the former Federal Minister of the Economy, Karl Schiller⁴⁵ was put into practice without too much postponing. He had done it discreetly and had already started it in 1967. Since the SPD remained the main governing party after 1969, he did not have any opposition in the government. This was a time when economic policies were based on demand stimulation through consumption and macroeconomic interventionism.

The initial theoretical base of the Social Market Economy was deviated from as of 1967. The grand coalition CDU/CSU–SPD government was convinced that an economic **policy based on the stimulation of demand** would work just as well as that based on the stimulation of supply, which had been used until then. It was believed that if consumer income rose, as well as simultaneous public spending due to investments financed by budget deficits and inflation, demand would efficiently force the economy to grow.⁴⁶

The result of these policies was that for the period between 1970 and 1973, there was a gradual decrease in the contribution of entrepreneurship as an income source in the total income in the processing industry, in spite of the overall growth of national income.⁴⁷ The income from salaries doubled during this time and the entrepreneurship income remained relatively constant. In the last years of this period, they even dropped. Things were different in the “other services” sector. Here, entrepreneurship continued to dominate.⁴⁸ Moreover, there was an almost fourfold rise in overall national income in the “other services” sector, while in the processing industry there was only a twofold rise compared to the beginning of the period.

The federal government formed after the elections of 1969 was a coalition of social democrats and liberals. SPD and FDP led by the new Chancellor Willy Brandt (SPD) intensified the shift away from the Social Market Economy as it had been known up to that point. So the form of Keynesianism applied systematically under Chancellor Brandt was named “macroeconomic dirigisme” (Globalsteuerung). Brandt’s cabinet led a governing programme with socialist tendencies: “Through macroeconomic interventionism, by adopting targets for the expected economic growth rate and for the evolution of income, the purpose was a sustainable redistribution of income to benefit the employees”.⁴⁹ Minister Schiller’s

⁴⁵ See Appendix 2, where the federal ministers of the economy after 1948 are listed.

⁴⁶ Comp. Borowsky (1998a, b) pp. 31–40 and 44–54.

⁴⁷ See Kremer (1993), Schaubild 11.

⁴⁸ See Kremer (1993), Schaubild 12.

⁴⁹ See Kremer (1993), p. 76: “Zielsetzung der neuen Bundesregierung, im Wege einer Globalsteuerung durch orientierende Zielvorgaben für das erwartete Wirtschaftswachstum und die erwartete Einkommensentwicklung[...] eine nachhaltige Einkommensumverteilung zugunsten der Arbeitnehmer zu bewirken”.

view on the implementation of interventionism was that while “microeconomic relations should be under the control of competition via markets. . . macroeconomic relations should not follow the rules of the <invisible hand>, instead they should be steered with the assistance of non-compulsory planning for the entire economy, the so-called planification (Globalsteuerung)”.⁵⁰ This vision already undermined the principle according to which the government had only a neutral role as arbiter on the market and as it had been seen until then in the Economic Constitution of the Social Market Economy.

The main implementation instrument for the new economic policy orientation was based on the principle of consensus and done through what we call today “**tripartite talks**”.⁵¹ The leaders of unions, the leaders of employers’ and government representatives got together on a regular basis and came to mutually agreed consensus views and decisions. In those meetings, the minister of the economy presented, among other things, the guidelines for salaries. He also informed the employers and the unions about the government’s future intentions, especially concerning tax policies. In ordoliberal eyes, this would be a sacrilegious interference of the government in market mechanisms, eroding the operation according **the principle of the “invisible hand”**. To some extent, this might be so, but that the government communicates closely with the employers and employees is good policy as it consolidates the effects of common action as it decreases nonconform decisions.

The target rates mentioned above were adopted not only for economic growth and salaries but also for inflation, employment and acquiring certain objectives related to the trade balance.

According to Kremer, a major mistake, although normally inevitable when applying the method of growth rate targets, was the manner in which the evolution of the macroeconomy was predicted and statistically calculated and then these results used to take politically relevant decisions. The figures used in order to determine how much the government would intervene were the overall homogenised statistics at the national level, without taking each relevant sector’s evolution into account.⁵² By using averages across sectors, the contrasting differences in different economic sectors were ignored.⁵³ Thus, for some sectors, the interventions might have been good, but for the others counterproductive and even harmful. Thus, market distortions were produced.

⁵⁰ See Watrin (1998), pp. 22–23.

⁵¹ Tripartite talks were held constantly after 1969, even during the Kohl and Schröder governments, and they usually had the declared purpose of reducing unemployment. During the First Schröder cabinet, they were known as the “labour pact” (Bündnis für Arbeit). There were similarities between the approach to tripartite talks in Minister Schiller’s time in 1969 and Minister Müller’s time in 1999.

⁵² Comp. Kremer (1993), p. 76–ff.

⁵³ See Kremer (1993), Schaubild 11 and 12 regarding the processing industry compared to the services sector.

By observing the evolution of the “salary quota” (Lohnquote) in the processing industry and in the service sector for the period 1969–1982, we can understand the reason why the implementation of macroeconomic dirigisme was wrong. The salary quota is the proportion of salary income in a certain sector, referenced to the total income in that sector. According to Kremer, in 1970 and 1983, the salary quota in the processing industry was ca. 73 % and ca. 84 % respectively.⁵⁴ In services, this proportion was completely different though: ca. 40 % in 1970 and ca. 42 % in 1983. However, the average of the values of the processing industry and that of the services sector was used by the government to calculate the amount it needed to stimulate the economy with. It decided that the level with which employees’ salaries would have to be raised in order to stimulate demand should always be around 70 %. It is clear that it is not admissible “to measure sector-specific evolution with the mould of the imaginary macroeconomic salary level”⁵⁵ even if it is an average, rightfully say some critics.

However, we could ask whether in the early 1970s the technical possibility to efficiently collect and statistically process information was good enough. To some extent yes, but not as it is today. So Kremer’s argument from above stands only partially: the mistake of interventionism is owed as much to implementation as it is to the idea itself. Without wanting to or realising it, the government disturbed the natural evolution dictated by the market, through its unwarranted intervention.

After abandoning its role as neutral regulator of the national economy and interfering in economic processes, another disturbance was brought by the government to the ordoliberal model of the Social Market Economy. This was the belief in the 1960s and 1970s among the members of the political class that **relaxing monetary stability** was somehow allowed. Heeding to the idea of financing government investments through inflation damaged the second level-two principle of the Social Market Economy model: monetary stability. After 1971, as the government’s political strictness was loosening, also due to the then newly introduced free floating system of currencies through the Bretton Woods reform, the Bundesbank also did not do its best to keep inflation under control. The Bundesbank leaders’ credo changed, says Kremer: they believed that positive growth rates for the national income could still be achieved in spite of even bigger inflation rates. This belief had a negative effect on overall economic circumstances. We will see that in the early 1980s, the Bundesbank would return to its initial convictions that only a small inflation, even zero inflation if possible, is a better solution for keeping unemployment down and a constant and positive economic growth.

The 5 years Willy Brandt was chancellor between 1969 and 1974 were abruptly disturbed in the autumn of 1973, after the first oil crisis in 1971–1972.

⁵⁴ See Kremer (1993), p. 77.

⁵⁵ See Kremer (1993), p. 78: “daß man die spezielle Entwicklung der Verhältnisse in den einzelnen Wirtschaftsbereichen nicht mit der Elle einer imaginären gesamtwirtschaftlichen Lohnquote messen darf”.

5.2.2 *Chronicisation of Unemployment, But Growth Is Uninterrupted (1974–1982)*

Everywhere in the world, unemployment is a most complex phenomenon, originating inside and outside of countries. In Germany, some of the domestic reasons were linked to the deterioration of the implementation of the Social Market Economy principles. Some of the external reasons were due to the two oil crises in 1972 and 1979 and to the changes brought about in international trade by the reform of the international financial system of Bretton Woods and introduction of the free floating exchange system in 1971. It is necessary to briefly look at the macroeconomic situation of this period, because it was only after the first oil crisis that the ordoliberal feature of the Social Market Economy lost supremacy over the system as a whole. In spite of repeated attempts to reintroduce it, the German economic model has remained a rather socio-liberal one ever since, i.e. influenced by state-steering and public debt-driven growth and job creation.

From October 1973 onwards, oil and other raw material prices increased on the European market. All the prices in Germany grew by ca. 4 % in the year and a half between 1973 and 1974.⁵⁶ In order to secure an increase in wages and income that could absorb the inflation rate, the unions pushed the envelope during the negotiations for tariff wage indexation in the spring of 1974. They got unrealistic salary rises. The biggest indexation obtained that spring was by the ÖTV union in the public service and transport sector. This is a sector where the government is the employer and often wage increases negotiated in this sector are used as a reference point for other sectors of the economy. The union succeeded in forcing the government to act against its interest and grant the union a rise higher than 10 %. This moment is still interpreted today, by the unions too, as a weakness on the part of the government who was already baffled by international instability and did not want any more strikes or disruption of public services.

Following this victory, other unions took this core sector's example, and the result was an average salary raise of almost 12 % for the whole of the economy in 1974. Inflation was also high, but not more than 7 %, which led to an average rise in real wages in that same year of ca. under 5 %.⁵⁷ As a result, company profits went down and so did new investments. In the processing industry, which was responsible for generating a third of the national income, we witnessed in 1975 and 1976 a deinvestment of ca. DM 3 bn and ca. DM 1 bn,⁵⁸ respectively. Investments were actually withdrawn, which means that companies sold equipment in order to finance

⁵⁶ See Grosser (1988) p. 102.

⁵⁷ The financial efforts made by the West German economy in those days as well as all the figures related to the macroeconomic evolution of Germany can be observed in the annual reports of the Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung für die Bundesrepublik Deutschland (1974/1975). The reports are listed in the reference list.

⁵⁸ See Kremer (1993), p. 86, Schaubild 13 and 14.

their liquidity needs. The impact on the national income rate was negative, as the growth rate was diminishing. What was there to do?

German experts and government circles still believed that macroeconomic dirigisme would manage to avoid a new recession, such as the one between 1967 and 1968. The government implemented the Economic Stability and Growth Act adopted in 1967 and, in 1973, halted all government programmes for employment it had started in 1967 and 1968. These were replaced with special programmes for normalising economic indicators. The Länder and the communities kept their expenses at the planned levels, in spite of lower income from taxation. This is how the federal budget deficit deepened. The economic growth rate for 1974 was below 0.3 %, and in 1975, the national income shrunk by over 1 %. The number of unemployed registered in 1970 was ca. 150,000, whereas in 1975 it soared to a figure seven times higher, reaching an unprecedented record of over 1.047 million.⁵⁹

Germany's sole consolation during this first oil recession was that most developed countries were in recession themselves, including some of its most important neighbours, France and Italy. In the aftermath of the first oil shock, Germany had a single major advantage compared to the others: in 1975, due to the strict monetary policy pursued by the Bundesbank, this country had an inflation rate of only 7 %, one of the lowest among the European developed countries.

Finally and yet not too late, trade unions realised that the pay raises obtained in 1974 were too substantial for the international economic context of that period. Therefore, between 1975 and 1979, they refrained from having excessive demands, resuming themselves to requesting annual rises ranging from 6 to 7 %.

The beginning of the recovery was paid for by the next generation. **Public loans** became a common practice from 1969 to 1970 onwards. If, on January 1, 1970, total federal domestic public debt amounted to only DM 45 billion, the national public debt inherited by the Kohl Government on January 1, 1983, was below DM 310 billion.⁶⁰ When general elections were organised, on September 22, 2002, the total internal public debt amounted to more than 1,250 billion euros (DM 2,500 billion)—a tenfold increase for the 19 years that had passed.⁶¹ The process of taking up public debt continued, and by the spring of 2012, total German public debt was higher than 2,035 bn euros.⁶² These public borrowings ever after 1966 became burdens for the generations to come.

But Germany did not run on its own here. The Social Market Economy in this country was and is bundled into the whole bundle of Western countries and its economy was built and continues to exist within the security architecture of the US

⁵⁹ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 14.

⁶⁰ See Kremer (1993), p. 89 and Chart 5.5 here.

⁶¹ However, the highest loans of the post-war period were not those from the 1970s to 1980s, but those taken out after 1990 to fund the German reunification.

⁶² See Bund der Steuerzahler (Taxpayers Association) <http://www.steuerzahler.de/Home/1692b637/index.html>, accessed on April 30, 2012.

and NATO. This means, the Social Market Economy shares essential limitations with the other major Western partners. That is, if the major trading partners of Germany tend to run debt deficits, then Germany has to do this too in order to maintain its competitive edge and productivity within the camp it is in.

Going back to the then crisis (1973–1976), we note that the federation, Länder and communities had borrowed only in 1975 and 1976 a total of ca. DM 102 billion, while the public income, taxes and levies almost reached DM 330 billion in 1976.⁶³ In the autumn of 1975, the results of this debt-driven policy, although wrong from the point of view of healthy economic policies of capitalism and ordoliberalism, gave encouraging results. It appeared that the lowest point of the recession had been reached. Therefore state expenditure was curbed down and only fewer new loans were taken out in 1977: under DM 32 billion. These new loans were added to the already existing public debt. The reduction of new borrowings was achieved through cuts mainly in the spending on social benefits of the “Federal Labour Office”, the number of civil servants and educational grants (vocational education and training) as well as some other peripheral areas. These measures slowed down the recently achieved economic growth: if in 1976 GNP growth rate was around 5.5 %, in 1977 it dropped to below 3 %. During the same year, the number of the unemployed remained at over 1 million, a scandal at that time for the expectations of the Germans.

Thus, because of its politicised belief in macroeconomic interventionism, the government came once more to the rescue of the economy. Thus, in March 1978, the “**Future Programme for Investments**” (**Zukunftsprogramm für Investitionen**) was implemented, establishing a 4-year-nota bene; at that time the neighbouring Communist camp was using the “5-year cycle period” for the investment of another almost DM 14 billion. The funds were used for improving housing conditions, waste water treatment and eco-friendly energy supply.

Several months later, another programme of public spending, initiated at the end of July 1978, targeted the improvement of economic growth through demand increase. The programme deepened the national budget deficit again. In the short term, this programme had a positive effect: the economic growth rate increased to over 3 % in 1978 and to over 4 % in 1979, while unemployment dropped to ca. 800,000 at the beginning of 1979.⁶⁴

However, the new international market turmoil reversed this trend. In 1979, the year of the Soviet invasion in Afghanistan and of the Revolution in Iran, a second rise of prices for oil and other energy resources occurred. Therefore, already by 1980, the government’s efforts had been “written off” and the economic revival was no longer a reality.

During the winter of 1979–1980, the governmental employment programmes were still in force. The programmes implemented in 1977 and 1978 were just beginning to yield their first fruits. This is the reason for which the global recession

⁶³ See Grosser (1988) p. 104 and Table 17, p. 245.

⁶⁴ See Grosser (1988) p. 106 and Chart 5.5 here.

affected Germany later than other European developed countries. According to the annual report of the German Council of Economic Experts (Sachverständigenrat), the result was a slight cut in import prices which led to a faster growth of imports in comparison with exports and thus to a trade balance deficit. Germany's temporary loss in capital value was worsened by the US decision to maintain control of its own inflation by increasing interest rates in 1980. Thus, the USA managed to attract high amounts of capital from German companies, who chose to buy securities issued by the USA instead of investing in new products and technologies in Germany. The Bundesbank chose to protect itself by pursuing an extremely strict anti-inflationist policy⁶⁵ by pursuing high interest rates for a two-year period. From the spring of 1980 onwards, the benchmark interest rate reached a level of about 7.5 %. This measure reduced the amount of capital exiting Germany, but extended the risk of recession on the medium term by discouraging investments. There followed a period characterised by a negative growth when the rise in oil prices caused the GDP to shrink by around 2 %; the situation reiterated every year, from 1979 to 1981.⁶⁶ The number of unemployed increased, reaching almost 900,000 in 1980 out of an active population of 26.875 million people.⁶⁷ During the same year, the inflation rate increased exceeding 5 %. In 1981 the rise in oil prices and the incorporation of this fuel in the price structure of all products, plus the pay raise of over 6 % obtained by trade unions in 1980, determined a new increase in the inflation rate, to almost 6.5 %. Fortunately, trade unions understood the difficult situation and therefore contented themselves, in 1981 and 1982, with wage rises which barely exceeded the inflation level.

Unlike the annual report of the Sachverständigenrat issued during the social-democratic coalition's term of office run by Chancellor Helmut Schmidt, analysts with Christian-Democratic political movements didn't admit that the oil shock had affected the German economy. They held that the second crisis had been almost exclusively generated by the social democrats' poor governing practices. According to Kremer, what the social democrats did with the economy of the Social Market Economy between 1966 and 1982 "could hardly be named. . .social. . ." and he also claimed that the social democrats ignored Eucken's early warning that by the implementation of this system on the basis of the "theoretical constraints of academic opinions, concrete economic problems may be overlooked",⁶⁸ as it was the case for the similar handling of different economic sectors with incomparable evolutions. It was thought that because they were social democrats and because they were in power, they had the right to choose any

⁶⁵ Comp. Grosser (1988) pp. 108–109 and Kremer (1993), p. 81.

⁶⁶ See Grosser (1988) pp. 107–108.

⁶⁷ See Institut der Deutschen Wirtschaft Köln (Hg.) (2002) p. 13 and p. 14.

⁶⁸ See Kremer (1993), p. 78 and p. 89: "die . . . kaum mehr als sozial bezeichnet werden kann" and "unter dem Zwang theoretischer Lehrmeinungen, die konkreten wirtschaftlichen Probleme zu übersehen".

doctrine they wanted. Therefore, they started applying Keynesianism “by the book” on the structure of an ordoliberal Social Market Economy.

As a result, the Social Market Economy began to resemble in Germany more and more a state-controlled, consensus-based or socialist economy rather than an ordoliberal one. We note the then politicisation of interpretation and evaluation of economic policy results.

The federal government led by the SPD until 1982 tried, for the third time, to find a way out of this difficult situation by appealing to macroeconomic interventionism and by making new investments funded from public debt and which deepened the deficit. This time, however, the government didn’t manage to reverse the trend, not even on the short term, as it managed in 1967–1968 and 1974–1975. The already high level of public debt made almost impossible the achieving of further results of stimulation by making new Keynesian investments and without taking on higher unemployment, although Kremer is critical of Keynesianism.⁶⁹ This impossibility had been even clearer because in 1980 during the election campaign, one of the electoral promises of the governing parties SPD and FDP was exactly to reduce public debt; thus, this promise could not be fulfilled. The increasing levels of public debt triggered a drop in credibility of the SPD–FDP coalition government, which made clear to the voters that that government was incapable of solving the problem.

By 1982, after 2 years in office, the coalition had lost elections in several Länder. This is the reason for which one of the coalition’s members, the FDP, decided to stop losing its own credibility in terms of economy and to “jump from the boat that was sinking”, thus exiting the governing coalition. Left without any political support, Chancellor Helmut Schmidt was forced to resign. In October 1982, the government led by the Christian-Democrat Helmut Kohl took the helm of the state. This moment has represented a new turning point in the evolution of the Social Market Economy.

Although Chancellor Helmut Schmidt was and still (2012) is cheered as one of the best intellectuals Germany has had in the twentieth century, his government was not really interested in creating or adapting a Social Market Economy system or in pursuing the model created by his forefathers. Rather, the track of the Social Market Economy as it was designed in the late 1940s and early 1950s has seen its track and experience broadened with the type of policies pursued by the rather populist policies of the social democrats between 1966 and 1982.

⁶⁹ Comp. Kremer (1993), p. 71–ff.

5.3 Return to Ordoliberalism, But Via More Public Debt (1982–1998)

Looking from an international perspective, for Germany as well as for the other European states, the last decade of the twentieth century was marked by the transition from a bipolar to a unipolar world and by the global spreading of the neoliberal doctrine in politics and economy. Under the constraints put on by a US- and Western-driven global order, the combination between the democratic political systems and the market economy resulted in a system allowing the maintenance of public order in accordance with the contemporary stage of mental evolution and economic lifestyle adopted from European and North-American countries. This model spread everywhere across the world, with the exception of the so-called rogue states: according to former US President George W. Bush, North Korea, Afghanistan, Iraq, Iran, Cuba, Venezuela and a few African states would be part of this category.

Further, from a technical point of view, the last decade of the twentieth century marked the start of the second industrialisation. This was brought about by the wide computerisation of industrial societies through the telecommunication and media revolution. During this decade, progress became visible with respect to the globalisation process of the national economies. The model of international trade passed from the traditional trade known until then—between sovereign states—to a new type of trade. This trade looks similar to trade within a single national economy, bearing more and more the characteristics of a global economy.

During this period, which began towards the end of the Cold War, five coalition governments CDU/CSU–FDP took the helm of the State of Germany, led by Helmut Kohl.⁷⁰ Doctor in political science, a Catholic from the surroundings of Ludwigshafen in Rhineland-Palatinate, educated in the Jesuit spirit of politics, Kohl had strong political ambitions at national, European and global levels. He succeeded to polarise around himself and his political network the party in whose ranks he acceded to the top, the Christian Democrats.

During his terms of office after 1982 and until the big political changes of 1989–1990, Germany underwent several fundamental changes: the abandonment of the socialist-style approach in the economy; the preparation, through the consolidation of the economy of West Germany and privatisation for the removal of communism in the former DRG; and the deepening of the European integration.⁷¹ Between 1990 and 1998, there were three other major processes that occurred simultaneously in

⁷⁰ Several resemblances can be identified between the way in which Helmut Kohl and Otto von Bismarck governed Germany. To an external observer, they appear to a large extent as prominent figures for this country. They both oversaw a German unification; they both controlled the political stage with an iron strong hand and were often accused of being dictators and of paying their political partisans. To an external observer, they appear to a large extent as prominent figures for this country.

⁷¹ Comp. von Bandemer and Haberle (1998) p. 130.

Germany: the German reunification, with all the political and macroeconomic consequences this entailed for West Germany and for Germany's Western Allies like the UK and France who were possibly not most happy about this; the continuation of the European integration and enlargement processes; and, last but not least, the serious structural transformations of the national economy, due to globalisation.

In these processes, Helmut Kohl had many merits, especially for having seized the extremely favourable political moment for reunification. He acted quickly, although even now his support for massive subsidies to drive German reunification had, and still has, a negative influence on the economy as a whole. This means that Kohl highjacked a well-running strong West German economy and used it to serve the political interests of the reunification. His globally centred view, iron hand and strong will—even dictatorial style within his own party (say some of his own fellow partisans)—allowed him to seize that historical favourable moment to pull Germany out of the post-war period and perform the reunification. This was done without any perceptible (at least in the first twenty years after reunification) prosperity losses for the West German ordinary citizen but with improvements for the East German citizens. As we note that the reunification process had a political, not an economic, groundwork, the thesis can be formulated that putting the economy to work for nation building represents a step forward in the development of Germany into a more political nation, compared to how it had been between 1945 and 1990.

The appointment of Helmut Kohl as the head of the federal government in the autumn of 1982 and the victory of CDU/CSU in the general elections held in the spring of 1983 marked an attempt to return to ordoliberalism. The main goal of Kohl's strategists was to transform the Social Market Economy into respecting as much as possible the initial ordoliberal model designed by Eucken and implemented with Erhard's masterminding. As we are about to see, the Kohl Governments enacted or modified numerous policies and pieces of legislation. The limited space compels us to presenting only those measures that had a direct impact on the ordinary citizen and on the evolution of the nation as a *formed society*.

Under his coordination, the German state became increasingly respected. The logo "Made in West Germany" regained much of its prestige of the 1950s and 1960s and brought a great deal of the country's increase in political weight and a considerable international credibility by the time the globalisation process became undeniable. Thus, the interest among scholars, politicians and national economists in the system of the Social Market Economy also increased.

In order to outline the extent of the transformations occurring during the 16 years of Conservative-Liberal, Black-Yellow governments, we will briefly list their main legislative and institutional work.

5.3.1 *Economic and Financial Policy*

The defenders of the Christian Democrats claim that for a start, the Black–Yellow coalition had to “decontaminate the oppressive heritage of the Socio-Liberals”.⁷² It should be obvious that as it is mainly the Christian Democrats who created the Social Market Economy. Much or maybe even most of the literature⁷³ was written by its apologists and not by the social democrats. The latter were implementing another economic style, within a structure created by their political rivals.

At the beginning of Kohl’s first governing period, the high interest rates for public borrowings were already burdening the budget of the federation, Länder and local communities, thus reducing the credibility and capacity of the actions of the state. At the beginning of the 1980s, the current dynamism of national and international capital markets did not exist yet; consequently, the possibilities to reduce interest rates were not as numerous as they are today. From the start, the Kohl Government targeted the decrease of public debt, the increase in social importance for companies, the consolidation of social trust in the auto-regulatory capacity of the market and the opposition to interventionism.

In the Governing Programme made public on October 13, 1982, the new German chancellor asserted that the economic policy of his centre government represented “a new historic beginning. . . Away from a bigger state to. . . a bigger market; away from collective burdens to personal performance; away from encrusted structures to more mobility, personal initiative and increased capacity of competition”.⁷⁴ These ideas, which represented the groundwork for the new economic policy, triggered, on the short and medium term, a change of direction. The transition from a policy based on demand stimulation to a policy based on supply stimulation was followed by the switch in emphasis from the solidarity principle, which prevailed during the socio-liberal era, to the **subsidiarity principle** prevailing in Catholic social teaching.

In parallel to this new direction, the Bundesbank also shifted its focus at the beginning of the 1980s away from maintaining interest rates at a low level. It did this just as it had done during the Red–Yellow coalitions in order to help the government economic policies. By pursuing “a policy of cheap money for the co-financing of the high public spending. . .”, the Bundesbank “. . .dedicated itself towards a path of monetaristic stability. . . From then on, its task was to adapt the

⁷² See Hübinger (2001), p. 175: “Sanierung der Erblast der sozial-liberalen Koalition”. On a list of adopted legislation, comp. Lehmann (1995) pp. 303–312.

⁷³ For more views on the economic and social policies during the era Kohl, consult Göttrik W (Hrsg.) (1998) and Zohlnhöfer (2001).

⁷⁴ See the government declaration by Helmut Kohl, quoted in Hübinger (2001), p. 116: “<historischen Neuanfang> [. . .] <Weg von mehr Staat, hin zu mehr Markt; weg von kollektiven Lasten, hin zur persönlichen Leistung; weg von verkrusteten Strukturen, hin zu mehr Beweglichkeit, Eigeninitiative und verstärkter Wettbewerbsfähigkeit>”. Comp. Lehmann (1995) p. 304.

increase of the amount of money on the market to economic growth”.⁷⁵ This policy was a return to the initial role defined in the ordoliberal model, in 1957 when the Bundesbank’s task was to maintain price stability, i.e. targeting inflation.

The first concrete set of financial measures enacted by the first Kohl Government (1982–1983) were to consolidate the public budget, reduce the state’s contribution to social security, increase the VAT and diminish the number of jobs in the public sector. For the 1982 budget, a cut of ca. 10 % was submitted. This was a large amount according to any expert in macroeconomic policy, especially because the rectification was submitted in late autumn, of the running year. Taking for granted what Grosser says⁷⁶ that these measures generated an economic revival as early as the winter of 1982–1983 would not be wise. The reasons are not necessarily that the economy would react so quickly to macroeconomic signals given by policy but rather that business circles were more supportive of the Black–Yellow policies than of the Red–Yellow government. For this reason, it could be suspected that these business circles withheld during the last years of the Red–Yellow government due investment and thus stopped the creation of jobs. As soon as the Black–Yellows had announced their business-friendly policies, this opened doors with investment projects and started running them.

The second Kohl Government (1983–1987), which came into office in the spring of 1983 after the general elections, **diminished price subsidies** for a number of raw materials, such as coal, and cut subventions granted on the basis of the “Jobs Creation Act” as well. Child benefits and tax allowances were also reduced. A policy to increase public income through **privatisation** was simultaneously initiated, possibly by copying some contemporary Thatcherite policies from the UK. In the 1980s, energy giants like the VIAG AG and VEBA AG, as well as Salzgitter AG⁷⁷ (a steel producer), were privatised.⁷⁸ The state then sold the rest of its 20 % Volkswagen AG shares. During its first years in office, the Kohl Government used funds gathered from privatisation to deleverage the federal budget.⁷⁹

At the same time, trade unions refrained from having excessive demands relative to pay rises. After 1982, for a few years in a row, wage indexation covered just the fluctuation of the inflation rate. As a result, companies managed a first substantial wave of investments in West Germany in 1985 and 1986. The effect was the creation of over 500,000 new jobs in that period. Unemployment dropped from ca. 9 % in 1985 to ca. 6 % in 1991, while the growth rate of the GDP evolved from ca. –1 % in 1982 to almost 5 % in 1990. The average growth rate for the 1982–1991 period was 1.9 % per year.⁸⁰

⁷⁵ See Hübinger (2001), p. 118: “eine<Politik des billigen Geldes>die hohen Staatsaufgaben (mit) zu finanzieren [...] und verschrieb sich nun einem monetaristischen Stabilitätskurs[...] Ihre Aufgabe bestand nun darin, das Geldmengenwachstum am Wirtschaftswachstum auszurichten”.

⁷⁶ Grosser (1988) pp. 111–112.

⁷⁷ Salzgitter AG is a sort of Mittal Steel of Germany.

⁷⁸ See Jann and Göttrik (1998) p. 232.

⁷⁹ See Hübinger (2001) p. 121 and comp. Grosser (1988) pp. 107–118.

⁸⁰ See Sachverständigenrat (1991/1992), Table 9, p. 61 and p. 62.

The Kohl Governments supported the positive evolution of the labour market by making it more flexible through the 1985 “Employment Promotion Act” (Beschäftigungs-förderungsgesetz). Among other improvements, this act allowed employers to hire staff on fixed-term contracts and on indefinite contracts as it had been until then. The name of the act seems to indicate political interventionism into the economy, but the act brought liberalisation and flexibility. This is what the ordoliberal style of economic policy means to some extent.

Apart from running a policy attempting to reach out for savings, privatisation and increased flexibility, the second and third Kohl cabinets also implemented in 1986 and 1988 a two-stage reform of the tax system for individuals and businesses. The maximum threshold of the income tax for individuals (Einkommenssteuer) was lowered from 56 % to under 54 %, while the maximum threshold for corporate tax dropped from 53 to 50 %. The lowest threshold for taxation was changed to the benefit of taxpayers: it was lowered from 22 to 19 %.

Regarding the public administration reform, others argue that Kohl’s Government had not done any of it. His governments from 1982 to 1994 had been implementing the policy of the slim state not by a comprehensive administration reform, budget rules reform, etc., but by increasing public revenue through privatisations⁸¹ and thus being to a large extent the prolonged arm of the employers.

The result of the reorientation of economic policy towards ordoliberalism and of the transition from demand stimulation towards **supply stimulation** was, on the one hand, an increased flexibility of the Social Market Economy’s economic structures by increasing the investment opportunities, but on the other a burden with further risks for the entrepreneurs. Then, the increase of the share held by incomes resulting from entrepreneurial activities (profit and private incomes) of the total national incomes for the years 1983–1990 was more substantial in the service sector rather than in the manufacturing industry.⁸²

Between 1983 and 1990, the share of investments followed the same trend. What was not so good was that the processing industry had to deinvest in its fixed assets both in 1983 and in 1984.⁸³ Even though the industry also benefited from such inputs, investments made in manufacturing during the above-mentioned period were a lot less generous than investments made in the services sector.

Overall, the 1983–1990 time span was marked by constant increase in the GDP, investments and value of fixed assets. What is still to be said here, which normally the apologists of the Kohl era normally do not say anything about, is that this growth has been partly financed by taking public debt which drove domestic investment and consumption. As we can see in Chart 5.5, during Chancellor Kohl’s Governments, German public debt rose approximately tenfold between 1983 and 1998. And, as we can see from the chart, this increase was not only after the reunification but also before. Thus, the theory that the economy of West

⁸¹ Comp. Jann and Göttrik (1998) p. 231.

⁸² See Kremer (1993), Schaubild 15 and 16.

⁸³ See Kremer (1993), Schaubild 17.

Germany seemed as if it had been first prepared by the *invisible hand* coordinating the market economy to bear the costs of East Germany's later unification and of the political and economic turmoil that was about to take place on its Eastern and South-Eastern border slips into the background; the success is thus less the result of healthy economic policy, but to a not negligible extent that of using the same debt-driven haphazard policies as Germany's other Western Allies did.

For the fourth (1990–1994) and fifth (1994–1998) Kohl Governments, things changed. Economic policy was no longer in the forefront of political discussions. The main focus was now on achieving the German reunification as quickly as possible. The assumption of Chancellor Kohl was that this new window of opportunity would not last indefinitely and it had to be seized. During their two terms of office, the main goal of these two Kohl cabinets was not to build a correct economic and financial policy capable of generating sustainable growth but rather to use these policies in order to achieve a political ambition: the reunification.

Nevertheless, as early as 1988, it had been established that the third stage of the “Income Tax Reform Act” (Einkommenssteuerreform), reducing the maximum threshold for income taxes in West Germany, had to be enacted in 1990. The measures involved in this process had been prepared a long time before their implementation was due and were aimed at maintaining an ordoliberal course for reforms in the Federal Republic of Germany. In 1990, this earlier decision to reduce income taxes resulted in a drop from taxation. This is why, when the federal institutions had to react promptly and support the reunification through investments and subsidies, they lacked resources to do so and three revisions of the public budgets had to be undertaken.⁸⁴ Since the decision for this reunification had been made on political and not on economic grounds, serious negative consequences to the economic and financial policy of West Germany could be seen. The government was under a great deal of pressure in order to immediately initiate both economic and social unification. Real costs were huge, maybe even impossible to be estimated.⁸⁵

Thus, **monetary union of the DM with the eastern mark** was achieved in 1990, at various exchange rates with the East German mark of every citizen in the DRG depending on the amounts available to each person. This was a generous decision of the Westerners, taking into account the drop in Western public finance, and was the expression of the solidarity principle within the German nation.

With respect to credits by the West for financing projects aiming at East–West economic, social and regional homogenisation, and the decontamination of the Eastern economy of “sick” assets, was the adoption of the “Foderale Konsolidierungsprogramm” (known as SOLidarpakt) in March 1993 for implementation in

⁸⁴ Comp. Lehmann (1995) p. 342 and Hübinger (2001), p. 149.

⁸⁵ Nevertheless, the ultimate question is: does political economy have a goal in itself, or not? We believe that the answer to this question is “no”. Economy usually is, in a natural and spontaneous way, subordinated to political goals, which provide its meaning, motivation and legitimacy to work properly.

1995. Among the measures comprised are the solidarity tax (**Solidaritätszuschlag**) of 7.5 % applied on wage and revenue tax, reorganisation of the financial compensation among federal lands, increase of the capital available to the Kreditanstalt für Wiederaufbau (continuator of the Deutsche Ausgleichsbank) and other measures.⁸⁶

Financial transfers towards the Eastern federated states were operated through the newly created “**German Unity Fund**” (**Fonds Deutsche Einheit**). The initial amount made available to the Fund was incremented from the state budget. By the end of 1994, over DM 150 billion from this fund had already been made available to support the reconstruction of the East.⁸⁷ In order to finance the German Unity Fund and to cover the expenses of the other actions implied by the reunification process, several short-term and long-term measures were required. Investment promotion from the West into the East was secured via the DRG investment law (DDR Investitionsgesetz) of June 26, 1990.⁸⁸

In order for the five new Eastern Länder to be included in the redistribution objectives and the already existing tax collecting system of the Western Federal Republic of Germany, the “Länder financial equalisation system” (**Länderfinanzausgleich**)⁸⁹ had to be reorganised, as mentioned above: thus, what had been until then split among 11 Länder was going to be paid out to 16 Länder from that moment on. Originally, for the first equalisations, it had to be assumed that the contribution of East Germany to public incomes was insignificant. Therefore, from the VAT collected at the federal level, more was given to Länder and less remained for the federation: the share of the Länder to VAT revenue increased from around 34–35 %—a usual share until 1995—to over ca. 40 % afterwards.

Another special financial measure in view of the German reunification was the one enacted in the specific field of privatisation. The federation had to look for financing outside the country to cover those over DM 256 billion losses which resulted from the Deutsche Treuhandanstalt’s activity until December 31, 1994.⁹⁰ In part, these borrowings from the international market were obtained by issuing 30 years treasury bonds and by selling them on the main stock exchanges of New York, London, Frankfurt and Tokyo.

⁸⁶ See Lehmann (1995) p. 501–503 and comp. Hübinger (2001), p. 151.

⁸⁷ See Hübinger (2001), p. 150.

⁸⁸ See Lehmann (1995), p. 498.

⁸⁹ “Länderfinanzausgleich” is a system through which collected income taxes, corporate taxes, VAT and other less important taxes are distributed among Länder, according to a variable formula established yearly. For instance, in 2000, 42.9 % of the collected taxes were retained by the federation, 40.3 % were equitably shared between Länder and 12.2 % between communes and cities. See Institut der Deutschen Wirtschaft Köln (2001) p. 67.

⁹⁰ See Bundesanstalt für vereinigungsbedingte Sonderausgaben (1995), p. 15. The “Deutsche Treuhandanstalt” is the German State Ownership Fund or National Privatization Agency. Joachim Grünewald, one of the last chairmen of the management board of its adapted version Bundesanstalt für vereinigungsbedingte Sonderaufgaben (federal institution for special tasks related to the unification process) www.bvs.bund.de, was an Adviser to Eastern European privatisation processes such as to the Romanian Ciorbea and Vasile Governments for issues pertaining to legislation on privatisation.

The cumulated value of the financing operated to the benefit of Eastern Länder between 1990 and 2000 is estimated by some to be much over DM 1,000 billion⁹¹ and is to be attributed to the last two Kohl Governments. Because the financing did not have the expected effect in eastern Germany, there are voices even today that blame the Kohl cabinets for wasting public funds. The main reasons listed by critics to explain inefficiency are the feeble economic education of the Eastern population with respect to understanding free-market economics and the financial losses undergone by the DRG as a result of the collapses of the COMECON (**Council for Mutual Economic Cooperation**) market system and of the Socialist camp; the eastern citizens (Ossis) claim that western Germany should acknowledge their merits for bearing and fighting against the communist regime for 40 years and thus “pay” for this.

We can state that, overall, the economic and financial policy pursued by the Kohl Governments between 1982 and 1990 was characterised by reaching out for business flexibility, support of the ordoliberal model of the **Social Market Economy** and internationalisation in the systematic pursuit of national foreign policy interests. After 1990, the financial policy merged with the economic policy and was used as an instrument in financing the reunification.

5.3.2 *Social Security Policy*

As previously shown, social security is nowadays the most important means to achieve social order and continue pursuing nation building in the post-war Social Market Economy in Germany. Its five main components are the statutory pension insurance (Rentenversicherung), the statutory health insurance (Krankenversicherung), the statutory unemployment insurance (Arbeitslosenversicherung), the statutory long-term nursing insurance (Pflegeversicherung) and the statutory accident insurance (Unfallversicherung).

During the 16 years of the Kohl era, some parts of this public system underwent reforms or were replaced. Other new ones were created during this very period, such as the long-term nursing insurance in order to adapt the system to an ageing population, to demographic challenges and to changed work practices among the adult population.

Aside from reforms and the extension of the coverage of the public insurance system, the overall reform of the welfare state done during the Kohl era in the sense of “continuing social capitalism”,⁹² it is essential to note that after 1980, a parallel system of **private insurance systems** appeared. Having been set up in the context of the then apparent success of the neoliberal social security style in Anglo-Saxon capitalist systems, in Germany these private social securities cover the same

⁹¹ See Hübinger (2001), p. 151.

⁹² See Schmidt (1998), p. 71: “Fortführung des <Sozialen Kapitalismus>”.

services as public insurances and compete with them. Still, as we were able to observe in Table 3, in 2009 the total amount spent to the benefit of the persons insured in the public system was significant: 753.9 billion euros, i.e. ca. 30 % of Germany' GDP. Since the quota of social expenditure of total GDP is significant, the policies implemented by the government in the field of statutory insurance has a major impact on the evolution of public finance. Thus, if we wish to understand how theoretical principles are applied in practical policy making, it is necessary to analyse in more detail how statutory insurances work as it is the main way of ensuring social order.

5.3.2.1 Statutory Pension Insurance

We start with this insurance, as its monetary volume constitutes the biggest chunk of social security expenditure as a percentage of GDP in many developed countries across the world, including the Social Market Economy. Public pensions are, unlike capital accumulation schemes, a redistribution in real-time of national incomes from the active towards the passive population. The largest part of the passive population is represented by the elderly, who are unable to work. The public pension system was originally founded in 1889 and still is a **pay-as-you-go system (Umlageverfahren)** and represents the expression of the active population's free and consensual social solidarity towards the passive population. This consensus is based on "a very big renunciation, a huge sacrifice of the active population. The legislative body seeks this sacrifice by promulgating legislation and hoping that the active population would be willing to accept it".⁹³

This renunciation is the manifestation of the sense of responsibility towards the elderly and is part of cultural values which, in their turn, are an expression of the ethical, moral and, ultimately, religious values that govern the civilised peoples' culture.

This pension scheme is an informal contract between the generations and a great achievement of the European societies in terms of solidarity. It started along with the industrialisation process. The nursing for the elderly takes place in a common, coordinated framework, at the level of the entire society. It does not take place at an individual level in the sense that each family—more recently named households in an extended sense—takes care of its old members. Important to note is that on the backbone of this system, the creation of the foundation and framework of the parallel private pension scheme was possible. These multiple private pension funds based on the accumulation of capital have additionally generated transferable securities for the capital markets trading them.

⁹³ See von Nell-Breuning (1979), p. 32: "... ist ein ganz großer Verzicht, ein gewaltiges Opfer der Werktätigen. Durch seinen Gesetzesbefehl legt der Gesetzgeber ihnen dieses Opfer auf in der Erwartung, daß sie bereit seien, es auf sich zu nehmen".

Europe in general—maybe with the exception of France—and Germany in particular, have to deal with an ageing population and the connected demographic challenge. In Germany, life expectancy has improved: for men, it has increased from 36 years in 1871 to an average of 73 years in the mid-1990s and to 77.7 years in 2010; for women, life expectancy has increased even more, from 38 to an average of 80 years in the mid-1990s and to 82.3 years in 2010.⁹⁴ Simultaneously, the demographic dynamics have decreased. In 1871, out of 100 persons, ca. 43 persons were under 20 years of age and 8 persons only were over 60 years of age. In 2010, according to the German Institute for Economic Research DIW, out of 100 persons, only 17 persons were under 20 years of age and almost 30 persons aged 60+.⁹⁵ The birth rate declined continuously during the last 70 years. Its decline appeared in the context of the sexual “liberation” of the 1960s and 1970s: from over 2.3 births per woman in the 1950s, the birth rate dropped to 2.03 by 1970 and to less than 1.4 in 2010.⁹⁶ But Germany is not alone here, this declining trend can be observed throughout the entire developed world. Birth rate decline has certainly a lot to do with increased demands of productivity in professional life, both for men and women. Thus, economic growth comes at a social cost which will become visible later on in the next generation. There would be a lot here to comment on whether the fruit of liberation was positive or negative: positive in the sense of freeing the self-awareness of the individual and negative in the sense of the decrease in the number of births.

Returning to the public pension scheme now, in Germany it functioned probably better than in other Western countries between 1957 and the mid-1980s. This is because of the introduction in 1957 of the dynamic pension, which basically meant that the pension scheme was submitted to automatic indexation with factors taking inflation rates into account.⁹⁷ Later, towards the 1980s, a reduction in revenue and the liquid assets of the public pension scheme occurred. This was not only due to the drop in contribution levels decided by a turn towards neoliberalism under Chancellor Kohl, by rising unemployment, the unfavourable demographic figures, but also due to the increasing expenses caused by the surge in the number of retired people. In this context, the third Kohl Government initiated a **reform of the statutory pension scheme**, made public on November 9, 1989.

The core idea of this reform was to gradually boost contributions to the public pension fund by increasing the contribution rate applied to gross salary. There followed a decrease in the pension annual indexation (leaning on the annual inflation) rate due to the fact that the level of net income, rather than the gross individual income, was taken into account for the calculation of the benchmark. Moreover, a federal subsidy was implemented in order to increase public pension liquidity, while the age of entry into retirement changed from 60 to 62 (this was

⁹⁴ See Geißler (2000), p. 4 and Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 132.

⁹⁵ See Geißler (2000), p. 5.

⁹⁶ See Geißler (2000), p. 4 and Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 132.

⁹⁷ Comp. Erhard (1964).

later raised again to 65 and to 67 starting in 2012). One of the collateral mistakes of the Kohl reform, which diminished this increased liquidity, was the introduction of an optional pre-pension system (*Vorruhestand*)—from which every citizen aged 57 and more could benefit. Through this reform, an on-paper decrease of unemployment was temporarily achieved. Still, the expenses of the statutory pension budget increased. What was acquired in one area was partly lost in the other.

Later in the 1990s, a new obstacle added to demographic pressures; this new hurdle was linked to the “solidarity” that characterised the West–East pension convergence. Immediately after the ratification of the Reunification Treaty on October 3, 1990, it was decided that all formerly eastern citizens had to be recognised as having equal rights with Western citizens with respect to the statutory pension insurance. Practically, this meant that they were to be recognised as having paid contributions into the Western statutory pension scheme all along, which they certainly had not.

The fourth and fifth Kohl Government were forced to initiate “**Pension Reform Acts**” (***Rentenreformgesetze***), the first one adopted in 1992.⁹⁸ As a result, the financing of the public pension budget had to be made, on the one hand, through the dynamic adaptation to the demographic element, by calculating a person’s pension only when that person retired. The tax rate applied to the last wages received by the person in discussion gradually decreased: from 70 % in 1998, the tax deducted from net income should drop to around 64 % in 2030. On the other hand, the federal financing of the statutory scheme was made through the increase of the VAT from 15 to 16 % in 2003. The VAT rate was again raised to 19 % in 2006.

A new hurdle that added to the first two was the need to finance the consequences of the immigration, after 1990, of over one million ex-colonist Germans from Eastern Europe and the CIS (Russian Commonwealth of Independent States). These immigrants were known as the second wave of out-settlers (*Aussiedler*) or late out-settlers (*Spätaussiedler*).⁹⁹ Many of them were granted the same rights as German citizens with respect to pension rights. Apart from the immigrants of German origin, a great part of the élite from the states of the former socialist camp—mainly from Poland, Romania and former Yugoslavia—had chosen Germany to emigrate to and therefore also had to be integrated into the German system.

Even though the measures enacted during this period did not eradicate the problems of the 1980s and 1990s, they allowed, on the medium term, the maintaining of a certain control over the evolution of the pension scheme.¹⁰⁰

⁹⁸ See Hübinger (2001), p. 154. Comp. Zohlnhöfer (2001).

⁹⁹ These figures do not include the members of the out-settlers’ families (*Aussiedler*). Germans that have emigrated from Romania represent only a small part of the few millions that left the former Eastern territories given to Poland, the USSR and Czechoslovakia after 1945. For details, see a good report on the expulsion of ethnic Germans from Eastern Europe in Noack (March 25, 2002). Another interesting law is related to the Jewish people’s automatic right to settle in Germany and receive welfare benefits similarly to how German citizens do, until they can find a job by themselves.

¹⁰⁰ Comp. Hübinger (2001), pp. 126–127. Comp. Zohlnhöfer (2001).

Unsatisfying results led to the conclusion that in the period to come, apart from new measures to reduce the Federation's contribution to the statutory pension scheme, solutions had to be found in order to increase the pension fund. One such solution was the "import" of workforce. Unfortunately, a comprehensive reform of the public pension system hadn't been implemented back then (2003), despite the repeated attempts of both Christian Democrats and social democrats to increase the liquidity available to the pension fund by finding new or complementary sources of income, such as company pension schemes (Betriebsrenten) or "private pension funds" (private Altersvorsorge). These reforms, or better said adaptations, are known as the Riester Rente (named after the former Labour Minister Walter Riester in the Gerhard Schröder cabinet) and the Rürup Rente (named after the university professor Rürup who proposed it). Both introduced a private component to the statutory pension, but which is awarded from the state budget to complement the statutory pension, and raised the pension entry age in several steps from 65 to 67 years age.¹⁰¹ In 2005 the institution named Deutsche Rentenversicherung (German pension insurance) was reorganised in regional public entities. In 2009 it run 24,933 million pensions while the average monthly pension amounted to an East–West average of ca. € 1,050 for males and ca. €600 for women.¹⁰²

In 2012, contributions to the statutory pension scheme were compulsory, through legislation, for all employees with a gross income above €400 monthly and below €50,850 yearly (€4,238 monthly). The contribution rate in 2012 was 19.7 % of the gross income and deducted automatically. Given the huge pressures put upon the public pension fund, the contribution rate of ca. 20 % is a huge share of the gross monthly income. Because both employers and employees benefit from employment contracts, the weight of this contribution is equally distributed between them.¹⁰³ Appendix 4 presents the calculation of the pension contribution for an ordinary wage level.

5.3.2.2 Statutory Health Insurance

Nothing productive can be done without health. Central Europeans generally, and Germans specifically, are rational and careful with their own health. It is well known that when it comes, for example, to personal cars, Germans quickly replace any broken headlights and will fix any problem as soon as possible. This is because they behave very rationally and think from a long-term perspective as they are aware that technical problems can have a snowball effect on the condition and performance of their car. They act similarly or even more so when it comes to personal health and the functioning of the body. Good health is highly appreciated

¹⁰¹ See <http://www.rente.net/ruerup-rente/rentenreform.html> accessed on May 26, 2014.

¹⁰² See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 82 and http://www.deutsche-rentenversicherung.de/Bund/de/Navigation/0_Home/home_node.html accessed May 26, 2014.

¹⁰³ Comp. Ullrich Consulting, (2001), pt. G19 in Appendix 4.

and a doctor is consulted immediately as soon as health problems have been encountered. Consequently, health insurance companies (Krankenkassen) are in the centre of attention of public opinion.

The law that was introduced in Germany, the statutory health insurance, was the 1883 “**Health Insurance Act**” (Krankenversicherungsgesetz) that took effect on January 1, 1884. That cornerstone law stipulated that every employee was automatically insured by an act of the state against loss of revenue following inability to work and against treatment in case of illness, regardless of the acquiescence or not of his/her employer.¹⁰⁴ It started today’s public insurance system based on the principles of solidarity, risk sharing, compulsory insurance, self-responsibility and income binding of the due premium. Being initiated during the *Gründerzeit* (founding age) of the Second German Reich at the initiative of Chancellor Bismarck, it underwent several stages during the over 130 years of existence until today. Difficulties soon arose after the founding and related to all sorts of issues. Some related to risks: good risks and bad risks had to be pooled within a health insurance company.¹⁰⁵ The process of complex evolution of the system underwent the following approximate stages: in 1883–1912, employees had to be insured by a certain company, according to their profession, by virtue of an individual contract signed between the employee and the insurance company (**individual corporatism**); then in 1913–1932, an intensive corporatisation took place and collective contracts between groups of insureds and the insurance company were introduced (**collective corporatism**); between 1945 and 1951, different types of insurance companies, compatible with the system in the newly democratic Germany, were being discussed; between 1952 and 1975 were the expansion period of health insurance companies, be they newly born or continued, and the introduction of the principle of competition between insurance companies; later, in 1976–1991, an upper limit for the compulsoriness of health insurance contributions is set; and after 1992 there came the effects of the adoption of the “Structural Health Act”.¹⁰⁶ For the time period preceding the Kohl Governments, the higher level of awareness and expectations can be observed in the growth of health spending between 1960 and 1989 in Western Germany: “total health spending was 14 times higher in 1989 than in 1960, but the revenue of the insured only increased fivefold during the same period”.¹⁰⁷ The increase might not all be due to the increase in number and value of health services but also to the higher costs produced by the introduction into the medical practice of new and improved technologies and equipment. It could also be due to the growing number of people using the system, namely, the ageing

¹⁰⁴ See Wasem (1999) p. 12.

¹⁰⁵ For a detailed view on the risks and limitations experienced by the new system and by its health insurance companies during its founding stage, see Wasem (1999) pp. 11–16.

¹⁰⁶ For competition issues among public health insurance companies, see Groser (1999), pp. 64–74.

¹⁰⁷ See Hübinger (2001), p. 127: “. . . Von 1960 bis 1989 waren die Ausgaben in der Gesetzlichen Krankenversicherung um das Vierzehnfache gestiegen, die Einkommen der Versicherten hatten aber nur um das Fünffache zugenommen. . .” Comp. Zohnhöfer (2001).

Statutory Health Insurance Expenditure in 2010 and 2000

Source: Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 77 tab. 7.15

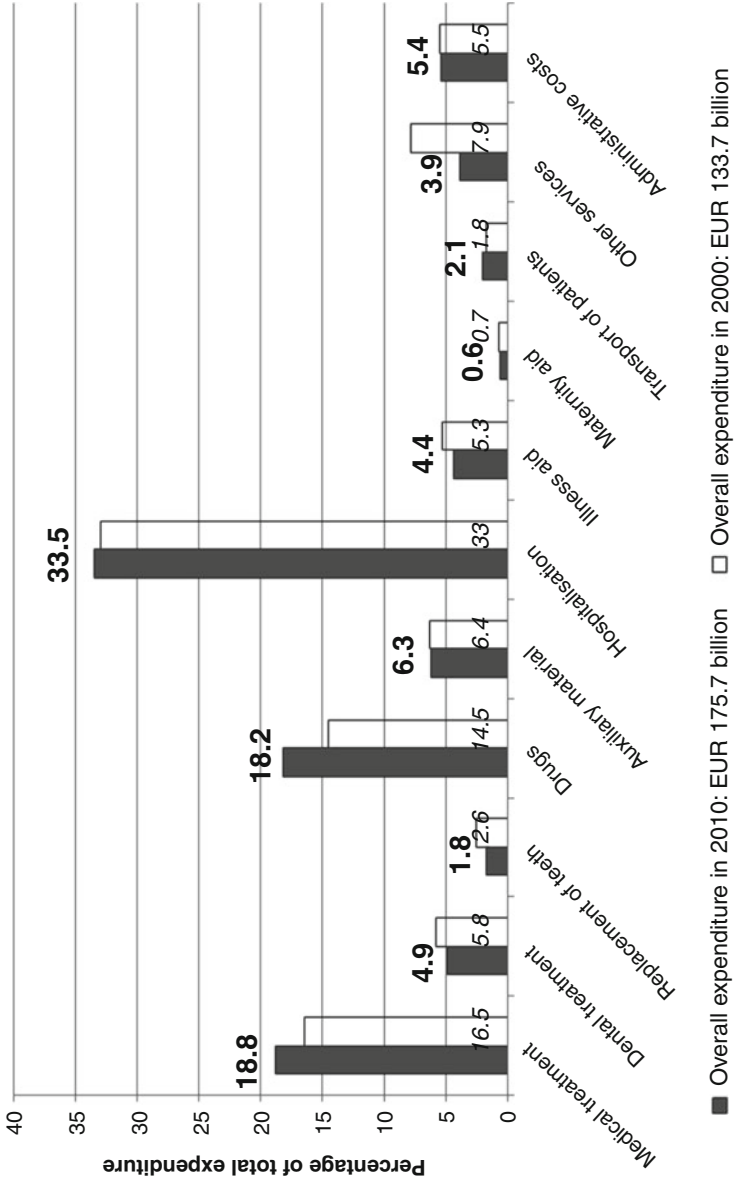


Chart 5.1 Statutory health insurance expenditure, % of total, 2010 and 2000

population, and a drop in the number of contributors because of the unfavourable demography and the high structural unemployment.

There is a difference between the public and private health insurance systems. The latter appeared roughly one hundred years after the former, namely, in the 1970s during the social-democratic era preceding the Kohl administration.

Public health insurance companies bear names that refer to the specific manner in which they appeared in the past. Such examples would be “German Employees Health Insurance Company” (Deutsche Angestellten Krankenkasse, DAK) or “Technicians’ Health Insurance Company” (Techniker Krankenkasse, TK) and so on. The principle here is that the members of the public health insurance companies equally bear and share the unbalanced disease risks based on the principle of solidarity, and they pay an insurance premium calculated as a percentage of each member’s gross income. This means that those who earn more, necessarily pay a higher amount than those who earn less, but both pay the same percentage of their respective income (Chart 5.1).

By contrast, private health insurance companies that appeared at first around public health insurance companies in the 1970s had the advantage of being able to “tailor” insurance solutions, not according to income but according to the specific health risks of every insured person. Restricted by the space allotted to this paper and considering the still high number of public health insurance companies that exist today and certainly over the next decades, we will limit the presentation of reforms in this field.

In 1983, the second Kohl Government, in its move towards restoring a rather ordoliberal style in economic policy, passed several measures at a federal level in order to increase responsibility and efficiency in using the public system’s financial and fixed resources. First of all, an immediate measure passed was: a list of drugs was drawn up that would no longer be paid by insurance companies but by patients only and, at the same time, the individual contribution quota for all the other drugs grew. A daily participation quota to be paid by the hospitalised person was then added to the total cost of for hospitalisation. As a result, patients were no longer interested in staying in the hospital on the insurance company’s expense unless they really had to. In 1984 the “**Hospital Reorganisation Act**” (**Krankenhaus-Neuordnungsgesetz**)¹⁰⁸ made it more flexible for insurance companies and other institutions financing hospitals, such as cities or lands, to hold shares in the shareholders’ structure of hospitals. Also, every hospital was given the opportunity to function on economic profitability principles, with profit and loss, as profitability became compulsory for them through legislation.¹⁰⁹

In 1992, the “**Healthcare Structure Act**” (**Gesundheitsstrukturgesetz**) brought further flexibility to the economic sector of health services, by allowing everyone to freely choose their insurance company, irrespective of their profession, disease or accident risks implied by the profession in discussion and even areas of

¹⁰⁸ Comp. Wasem (1999) pp. 22–24 and Hübinger (2001) pp. 128.

¹⁰⁹ Comp. Wasem (1999) pp. 22–24 and Hübinger (2001) pp. 128–130.

residence. Consequently, competition increased on the market among insurance companies, and they were forced to improve the quality of the services they provided. They developed an interest in having the ID insurance cards issued by them accepted in as many Länder and by as many medical practitioners, hospitals and types of hospitals (private, public, denominational, occupational and so on) as possible, regardless of the insured person's specificities.

Then, in 1992, almost one hundred years after the introduction of the universally compulsory character of health insurances, the **“Healthcare Reform Act” (Gesundheitsreformgesetz)** came to limit this character by introducing an income range in which the insurance premium is due.

Appendix 4 explains the way in which contributions are calculated. Contribution rates in statutory health insurance are deducted from the employee's gross monthly income. The gradual increase of the percentage of the monthly gross wage due as insurance premium increased from 1970 to 1997 from ca. 8.1 % to respectively ca. 13.5 %.¹¹⁰ During the Kohl era, this contribution was still divided 50–50 between the employer and employee. In spite of all the reforms, the total expenditure in the field of healthcare soared from over 90 billion DM in 1982 to more than double (over 190 billion DM) in 1998, at the end of the Kohl era. In order to cover these losses, all statutory health insurance companies increased the contribution rates from the 12 % of the monthly average income of 1982 to around 13.6 % in 2001. Later it went even further up and to ca. 15.5 % in 2010. In 2012, only individuals with gross monthly incomes under €3,825¹¹¹ had to be compulsorily insured, according to the legislation in force. It was assumed that individuals with incomes exceeding this limit were capable and responsible enough to fully fund eventual hospitalisations or expensive medical treatments and get insured at their own will.¹¹² Thus, the contribution was capped for all those earning more than €45,900 yearly, and additionally the option was made available to change from statutory insurance to private health insurance. Up until the next reform which entered into force on January 1, 2011, the contribution percentage was divided up into equal parts between the employer and employee, and the contribution percentage was adapted (i.e. increased) annually to cover the liquidity needs of the respective insurance company. As of 2011, the uniform rate of 15.5 % of the gross income was set by law for all insurance companies. This, in its turn, was split instead of 50–50 %, as it had been until then, into 7.3 % of the contribution by the employer and 8.2 % by the employee. This change of percentage means an **abandonment of the traditional principle of parity in the contributions between the employer and employee.**

According to many writing specialists in this field, the German public health system is currently *ill*. This is not true for only now, but is considered as such for quite some time. Experts say it is ill because “it suffers from the waste by all those

¹¹⁰ See Wasem (1999) Abb. 2, p. 17.

¹¹¹ The original income limits in Euros were obtained by dividing the yearly cap into 12 months.

¹¹² See Wasem (1999) pp. 13–16.

involved in its limited economic resources due to wrongly set legislative frameworks".¹¹³ The effort to reform the system by introducing in 2004 the quarterly fee of €10. additionally for any visit to the doctor has deterred some people from visiting the doctor for unnecessary problems, but has possibly not likely brought enough cost decreasing effects into the system and has burdened the doctors with more administrative office work. It did not entail needed radical changes of efficiency. The effect of the implemented reforms was rather an adaptation to different contexts than a full systemic reform.

5.3.2.3 Statutory Long-Term Nursing Insurance

As a result of the ageing population, more and more people reach old age and are no longer able to take care of themselves. Their children and close relatives are busy working as the highly productive economies can be upheld only by such family sacrifices.

For a few decades now, it has become common in Western and especially North-Western societies that old people either be interned into institutionalised nursing homes or be nursed at their own homes by private service providers. The number of interned persons who need individual nursing has increased continuously not only because of the changing habits of society but also because of the higher life expectations due to improved medical facilities and increased standards of living. As a result of the extension of these needs, Kohl's Government enacted in 1995 the fifth pillar of social security with active participation of the social-democratic opposition,¹¹⁴ namely, the "statutory long-term nursing insurance" (Pflegeversicherung), by adopting the national Social Security Code XI.

At the end of 2011, contribution to this insurance fund was the same 1.7 % of the gross monthly income and was compulsory for all employed individuals. Half of the contribution is paid by the employer and half by the employee, as is the general principle of other pillars of the social security system. The number of persons benefitting from this insurance has soared with over 25 % from 1.66 million in 1997 to 2.24 million in 2009.¹¹⁵

This type of statutory insurance can at times be regarded as unfair in their application, because individuals dying at a young age or of sudden death do not benefit from long-term nursing services even though they paid their due contributions. On the one hand, it is admirable that the state wishes to assume responsibility of organising this social service for its citizens. This can be seen as another manifestation of the principle of common good. But on the other hand, the major disadvantage of this service is its compulsive nature, in other words the limitation of

¹¹³ See Oberender (1999) p. 84: "...ist krank. Es leidet aufgrund falsch gesetzter Rahmenbedingungen an einer Verschwendung knapper wirtschaftlicher Ressourcen durch alle Beteiligten".

¹¹⁴ Comp. Schmidt (1998) p. 70.

¹¹⁵ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 80.

the individual freedoms of those who are forced to contribute to it, although they might not wish to. Another disadvantage can be the institutionalised atmosphere in which these elderly people have to live, separated from their dear ones in the family. But, this is, among others, the price to pay in an economy which endeavours to be a leader in productivity worldwide.

5.3.2.4 Employment Policy or Statutory Unemployment Insurance

This is, perhaps, the most controversial social policy in Europe. In Germany it started in 1927 which is a fairly late birth for the system. Even though the defenders of the Kohl Governments' policy claim that the actual employment rate rose by ca. 2.5 % between 1982 and 1989 (from just over 26.5 to just under 27.5 million employees according to some calculations),¹¹⁶ the unemployment rate also increased, from 3.8 % in 1980 to 7.2 % in 1990 and to over 10.5 % in 1998 (in West Germany). The initial dilemma to this apparent contradiction is that vacant positions coexist with unemployed persons having qualifications similar to those needed in those vacant positions. The conclusion of Kohl's strategies was that in this case when a substantial number of vacant positions coexist with chronic unemployment, the cause for this situation is the rigidity of the institutional framework of the labour market in which profession, workplace and protection against dismissal are concerned. This is, in fact, **structural unemployment** and this was to be changed.

At the beginning of its term, the Kohl Government had announced a reform of the labour market that included "the creation of an improved legislative framework for part-time jobs. . . better integration of women. . . and an ease of the transition from active life to retirement".¹¹⁷

During the terms of office of Kohl's Governments, a series of normative acts were adopted in this sense. First of all, the nearly absolute character of the protection against dismissal from employment (Kündigungsschutz)—a safety net for employees, but also one of the most important hindrances against the insertion of new workforce on the market—was eliminated. Procedures for the signing of limited, as compared to unlimited duration, contracts have been simplified. In 1994, the possibility of working and being paid for longer hours than foreseen in the work contract was introduced.¹¹⁸ Although this can be an advantage for the company but also for the employee, it still can work as a discouragement for the company in hiring new employees for those hours. During the same year, the legal framework for part-time jobs was improved. The result was that by 2000, out of the total

¹¹⁶ See Hübinger (2001), p. 131 and comp. Schmid (1998) pp. 153–155.

¹¹⁷ See Hübinger (2001) p. 132: "die Benachteiligung von Teilzeitarbeit. . . beseitigen. . . die Arbeitsmarktchancen für Frauen (. . .) erhöhen (. . .) den Übergang vom Arbeitsleben in den Ruhestand erleichtern". The introduction of the early retirement possibility is in fact an effect of the labour market's reform.

¹¹⁸ Comp. Hübinger (2001), pp. 160–162. Comp. Zohnhöfer (2001).

number of employees from West and East Germany, 21.5 %, representing 5.717 million people, and respectively 12.6 %, representing 761,000 persons,¹¹⁹ had **part-time employment contracts**. According to some theoreticians, unemployment is mainly the expression of the lack of flexibility of labour regulation, the figures presented above show an evolution or better, a revolution of the policy style towards ordoliberalism. Countries such as Holland or Great Britain had made even more progress in this direction, reaching rates of over 25 %.

In 1994, the German Government eliminated the monopoly of the “**Federal Employment Office**” (**Bundesanstalt für Arbeit**), as the single judicial entity with rights in the field of employment intermediation, thus allowing competition on this market. Then, it extended the budget for professional reorientation and retraining programmes and introduced subsidies for companies hiring long-term unemployed people.

Still, as we can see now in the second decade of the twenty-first century, such flexibilisation of the labour market rules can also have negative effects. These are that highly greedy labour loan companies exploit the often desperate need of employees for work. Thus, at times although unemployment appears to statistically go down indeed as a result, reality looks different for the employees: often they feel hounded between two or three such part-time or limited duration jobs.

In 1994, the income rate received by the employee for sick leaves was decreased from 100 to 80 % of the gross salary. This change allowed business entities to spare funds and therefore to dismiss less hastily the employees taking repeated and extended sick leaves. Another effect of the measure of flexibilising the capacity of employers to make redundancies and which had a pronounced ordoliberal character was that employees were discouraged from taking sick leaves without serious and motivated reasons (Chart 5.2).

We can see that working relationships were deeply changing in Germany. If during the Cold War jobs were guaranteed “for life”, this ended not only in Germany but in the other Western and Eastern countries as well.

The measures adopted by the Kohl Governments had positive effects on employment. Unemployment decreased and would probably have continued to decrease if it hadn't been for the German reunification. If in 1985 West Germany had 2.3 million unemployed (9.3 %), by 1991, before the effects of the reunification affected the market, their number dropped to under 1.7 million (6.3 %)¹²⁰ but by 1997 increased considerably to over 3 million (11 %) in West Germany. These values alarmed many people, not only in terms of absolute figures but also in what their chronic and structural character was concerned. Such unemployment values were considered unacceptable by a people in whose memory periods of full employment were not very far in the past. This was one of the reasons for which Helmut Kohl lost the general elections of September 1998.

At the end of 2001, statutory unemployment insurance was compulsory for any employee with gross monthly incomes under DM 8,700. The monthly contribution to

¹¹⁹ See Institut der Deutschen Wirtschaft Köln (Hg.) (2002) p. 13, Table 1.10.

¹²⁰ See Institut der Deutschen Wirtschaft Köln (Hg.) (2002) p. 14.

Unemployment

Source: Institut der Deutschen Wirtschaft Köln (Hg.), (2002), p. 14 and
 Institut der Deutschen Wirtschaft Köln (Hg.), (2011), p. 14

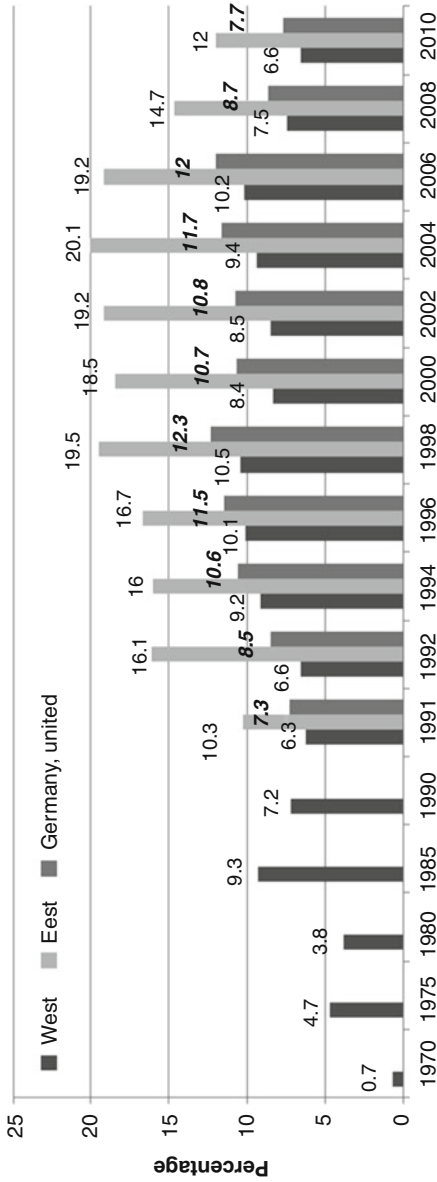


Chart 5.2 Unemployment, %, 1970–2010

the **Unemployment Insurance Fund (Arbeitslosenversicherung)** was 6.5 % of the gross monthly income, being automatically deducted from there. Half of the contribution was borne by the employer and half by the employee, as in the case of the other contributions. Collected funds were then used to pay **unemployment benefits (Arbeitslosengeld)**, ca. 70 % of the last gross monthly income received by the former employee, per month, for the first 14 (now, in 2012, it was only 12) months, and **unemployment assistance (Arbeitslosenhilfe)**, 50 % of the last gross monthly income received by the former employee, per month, for the next 12 months. If, before 2005, after a 26-month period, the unemployed still did not manage to find a job, he was transferred to the category of receiving **welfare benefits (Sozialhilfe)**. In mid-2005, the reform of unemployment insurance made the unemployment assistance merge with welfare benefits, giving birth to the so-called “Hartz IV”¹²¹ status. In 2009, 24.6 billion euros was spent on welfare benefits (incl. Hartz IV).¹²²

5.3.3 *Environmental Policy and Roots of Sustainability*

If looked at from a global international perspective, this policy is as specific to Germany as the engine is to the car industry. The environmental policy appeared at the end of the 1950s due to the advance of industrialisation and its effects. In their effort to reorient the Social Market Economy of Germany towards an ordoliberal type of market economy, the Kohl cabinets tried to find ways to pursue the environmental policy initiated by the social-democratic Chancellor Brandt and to transform it into a new pillar of the Social Market Economy.

On paper, the protection of the environment had been defined by Walter Eucken and Alfred Müller-Armack as part of the German model of Social Market Economy. However, the legal and institutional instruments created before the Kohl terms of office were not enough to implement this concept in the market economy.

The goal of the first Kohl cabinets was to persuade all consumers and producers that “natural resources supporting life are exhaustible and therefore the use of them can no longer be free. The use of natural resources should have a price according to its intensity and exhaustiveness. In future, the exhaustibility of the environment should be mirrored by environmentally equitable prices, thus bringing forward a reduction of environmental depletion”.¹²³

¹²¹ This status of social security is named after the head of personnel at Volkswagen AG where he had previously introduced flexibilising reforms on the labour force to benefit Volkswagen as an employer.

¹²² See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 75.

¹²³ See Hübing (2001) p. 136: “. . .die natürlichen Lebensgrundlagen begrenzt sind und ihre Nutzung folglich nicht länger gratis sein kann. Die Inanspruchnahme natürlicher Ressourcen sollte, nach Ausmaß und Intensität ‘bepreist’ werden. Umweltgerechte Preise sollen künftig die Knappheit des Gutes <Umwelt> widerspiegeln und dadurch zu einer Reduzierung des Umweltverbrauchs führen”. Comp. Zohnhöfer (2001).

In Kohl strategists' view, who sometimes acted on behalf of sales interests of the industry (in this case the environmental protection, health insurance industry, etc.), there should also be a price for health as a resource for the economy. Earlier, the social democrats had the merit of focusing the German economic system on the environment. As we have seen, they opened the way by creating, in 1971, the "Council of Environmental Experts".¹²⁴ The strategies, legislation and existing functional institutions¹²⁵ were maintained by the Christian Democrats and developed on the basis of the Christian motivation to preserve the environment as a divine creation.¹²⁶ Here, we might notice an asset of mature nations: good policies enacted by a government are often continued even if there is a political change and the next government is made up of the former opposition party. This political tolerance and obedience towards national interests rather than party political interests is a sign of national maturity.

The Black–Yellow governments yearned for and proposed regular investments in research, technologies and new equipment in the ecological field. At first, the costs of these investments could only be covered through subsidies from the state budget. This triggered criticism in the very coalition government. Critics argued that such a policy of subsidies was not compatible with the ideal ordoliberal market economy, an argument which in essence is true. They also believed that economic progress was not compatible with ecological policies, because economic progress involved the pollution of the environment. Critics were questioning the reasons that could have legitimised a financing of the ecology from public money. To fend off the first criticism, the CDU wing of the government quoted Müller-Armack, a founder of the Social Market Economy creating legitimacy for its desired actions. He had claimed that after the creation of the functional market economy and of its technical–material production base, i.e. things already achieved by 1965–1970, "it (was) not the supply in material goods that had to prevail, but much more that meaningful development, which is consistent with life, of the social and natural environment ad which had not yet reached its new style".¹²⁷

The argument given to oppose the second criticism was that paradoxically, developing countries which have an insignificant industrial output are the biggest polluters. The CDU was right, because the transition from simplistic and polluting to ecological and thus more complex production techniques can be achieved more easily in developed countries. Developing countries do not have the resources to support such a transition.

Kohl was advised to implement a classical "carrot and stick" policy. The "carrot" consisted in the introduction of **special funds for subsidies and loans**

¹²⁴ See Olsson and Piekenbrock (1998), p. 301.

¹²⁵ Comp. Weidner and Jänicke (1998) pp. 210–215.

¹²⁶ See Illustration 4.1.

¹²⁷ See Hübinger (2001) p. 137: "nicht die materielle Güterversorgung als vielmehr die sinnvolle und lebensgemäße Gestaltung der gesellschaftlichen und natürlichen Umwelt, die noch nicht ihren neuen Stil erhalten hat, dürfte dabei im Vordergrund stehen".

with low interest rates to stimulate the transition from polluting to environmentally friendly technologies, a transition which is always costly. In practice, the federal government made available, through the **“Reconstruction Credit Institute” (Kreditanstalt für Wiederaufbau, KfW)**, loans with low interest rates for investments in air purifying equipments¹²⁸ and to the “German Federal Foundation for the Environment” (Deutsche Bundesstiftung Umwelt) with the purpose of continuing scientific research in the field and developing environmentally friendly products and technologies and specialised environment statistics. The “stick” materialised in the **“polluter pays principle” (Verursacherprinzip)**¹²⁹ and led to the implementation of several environmental taxes applied to specific industrial products on the basis of the legislation in force.

The fourth and fifth Black–Yellow governments systematically considered the **“environment” a productive asset**¹³⁰ just as important as labour force, capital and nature. This not only cleaned the natural environment but contributed to further harmonisation of social consensus and what is essential to the specialisation within the German industry on environmental technology. In the 1992 “Annual Economic Report” (Jahreswirtschaftbericht), the federal government stated that “The environment is, for the future, just as important as classical production factors such as labour, capital and land”.¹³¹ Based on this principle, the Kohl cabinets introduced a cost increase by including environmental costs into the production costs. Prices were thus automatically higher for polluting products, whereas environmentally friendly products were cheaper. Washing powder, for instance, was more expensive if produced in the traditional way, and cheaper if it was organically absorbable into nature.

At an institutional level, under the Kohl Government, the federal ministry for the environment was founded by extending, as we have seen previously, the institutions created by the Social Democrat Helmut Schmidt. This ministry was able to coordinate scientific research in this field and define and implement policies in the real economy.

At a legislative level, a series of normative acts and regulations was adopted. For instance, the use of asbestos (due to its poisonous nature) was banned in the construction industry. In 1986, new technical regulations also targeted the improvement of air quality. Unleaded petrol and the compulsoriness of catalyser filters for cars with internal combustion engines were later introduced as well.¹³² The system of selective waste collection (on categories, for wrapping materials, organic waste and toxic waste), which is now renowned worldwide, was implemented as well.

This setting up of structured institutional work and pieces of legislation was good and came at the right moment: between 1990 and 1998, the environmental

¹²⁸ Comp. Hübinger (2001), pp. 135–145 and p. 163. Comp. Zohlnhöfer (2001).

¹²⁹ See Illustration 4.1.

¹³⁰ See Olsson and Piekenbrock (1998), p. 188.

¹³¹ It is quoted in Hübinger (2001) p. 163: “Umwelt ist künftig ebenso bedeutend wie die klassischen Produktionsfaktoren Arbeit, Kapital und Boden”.

¹³² Comp. Weidner and Jänicke (1998) p. 210.

protection policy (Umweltpolitik) had to focus on the decontamination and de-pollution of the Eastern Länder. The **East–West environmental convergence** was a difficult process. Just before the collapse of Socialism, emissions of sulphur dioxide in former Communist Germany were five times higher than in the West. Half of the DRG's rivers could no longer be used for the production of drinking water.¹³³ Moreover, economic hindrances appeared in the implementation in the East of Western polluting norms during the reunification process. The hindrances were caused by the reflection of the environmental tax in the final price of the products. The environmental tax had in the East the same level as in West Germany. Therefore, the former state-owned companies from East Germany could not afford using the same production methods as before, and they suffered serious financial losses since their products were simply much too expensive. This was in fact a collateral error done by the Kohl cabinets as they dragged the already bankrupt Eastern economy even deeper into loss. Consequently, potential buyers for these companies, through the privatisation process, would have been automatically discouraged not only by their inability to respect environmental norms but also by the structural problems of production.

To start solving this problem, the **Environmental Framework Act (Umweltrahmengesetz)**, conceived particularly for Eastern Länder, was adopted. In order to encourage the potential buyers to invest in the former DRG companies, an environmental tax exemption was introduced. Thus, the privatisation process was expected to gain momentum again. A similar measure in the wage convergence process and the monetary union between the Deutsche Mark and the Mark would have simplified the German East–West integration, even if the start would have been more difficult for the average citizen; but this was not done. At a European level, the positive effect for all the economies in Europe would have been an easier transition for the states situated in the East of Germany, because Germany would have avoided the stagnations and slow economic growth rates that characterised the post-reunification period.

Today, Germany is in many respects the Continental European leader in the environmental field. Being the European state with the largest population and the highest degree of industrialisation, Germany became increasingly aware of the need to preserve the environment at European level, although the sustainability of its successes at EU level is being questioned by experts.¹³⁴ The “**European Energy Charter**”—a document signed in 1994 in Lisbon—made compulsory the introduction of environment preservation principles into the Amsterdam Treaty of the EU and was partly inspired from the German model. Furthermore, after the nuclear accident at the Japanese Fukushima plant in 2011, the Social Market Economy reached again international visibility through the abrupt German decision to ditch its nuclear energy programme by 2022 and replace all such nuclear energy with renewably produced energy.

¹³³ See Hübinger (2001) pp. 165–166.

¹³⁴ Comp. Weidner and Jänicke (1998) pp. 215–216.

Furthermore, the international climate change process started with the conference in Rio de Janeiro in 1992 found Germany, along with Japan and only a few other Western industrialised states, in a position of enabling them to take on global leadership in this field. In the “government declaration” of 1987, the political message blended elements from the Christian philosophy with environmental elements. The purpose of environmental policies is to “spare Creation, win the future. . . We have to carry on with research and, globally, at least not to extend the production of energy based on fossil fuels and to counter the excessive deforestation of tropical forests”.¹³⁵

This country became a sort of “patron saint” of the ecological activities at global level. German diplomats found a good way to promote their country’s foreign policy interests and obtained recognition.¹³⁶ In 1996, the *UN Framework Convention on Climate Change* was moved to Bonn, the former capital of West Germany. Then, in 1998, Klaus Töpfer, the former Federal Minister for the Environment, was appointed in charge of the UN Environment Program. Moreover, as from January 1999, the headquarters of the *UN Convention to Combat Desertification* was also moved from Geneva to Bonn. The headquarters for the UN Convention to Protect Migratory Birds, the UN University Vice Rectorate for Europe, UN Volunteers and others are also located in Bonn. In all, by 2012 18 UN Secretariats had moved to the former capital of West Germany. Interesting here is that the government wanted to transform its former federal capital into the international city of Germany, a sort of “German Geneva” but specialised in environmental issues, renewable energies, telecommunications and research and development aid.

5.3.4 *German Reunification as Expansion of Territories for Application of the Social Market Economy*

For most of the German people, this is the most important historical achievement of the Kohl era. Even though the title of the treaty concluded between the two states in spring 1990, “**The Treaty for a Monetary, Economic and Social Union between the Federal Republic of Germany and the DRG**”¹³⁷ did not make any reference to the political union. The fact that this union of the two descendants of the Holy Roman Empire of the German Nation has a political nature was clear. Through this

¹³⁵ See Hübinger (2001) p. 144: “Die Schöpfung bewahren, die Zukunft gewinnen. . . Hier gilt es die Forschung voranzutreiben, weltweit die Energieerzeugung durch fossile Brennstoffe zumindest nicht auszuweiten sowie der extensiven Rodung tropischer Regenwälder entgegenzuwirken”. Comp. Zohlhöfer (2001).

¹³⁶ Comp. Weidner and Jänicke (1998) p. 216.

¹³⁷ See the text of the treaty on the homepage of the Federal Ministry of Justice <http://www.gesetze-im-internet.de/wwsuvtr/> “Vertrag zur Wirtschafts-, Währungs- und Sozialunion zwischen der Bundesrepublik Deutschland und der Deutschen Demokratischen Republik”. The Treaty of Union was signed in Bonn on May 18, 1990.

Total National Income of united Germany 1991-2001 (the whole economy)

Source: Institut der Deutschen Wirtschaft Köln (Hg.) (2002), p. 54

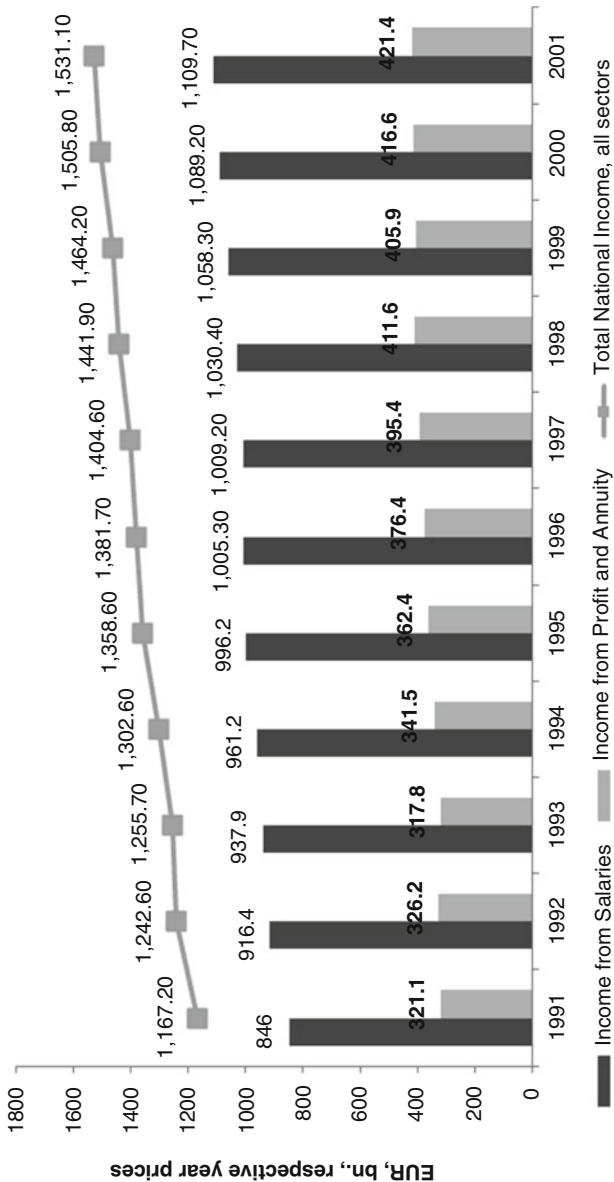


Chart 5.3 Total national income of united Germany, EUR, 1991-2001

treaty, the Eastern part bound itself to fully adopt the legislative and institutional framework of the Western part, both in what concerned the free-market economy and the system of social order. According to international law principles obvious even to students of the field, the effect of this treaty's implementation was de facto a free and voluntary annexation, or the first eastward enlargement of the EU (Chart 5.3).

A few years later, the reunification achieved at an economic level was made official from a political point of view as well. The 1949 Constitution of the Federal Republic of Germany was modified in 1995 and extended to the Eastern Länder. The preamble of the modified Constitution stipulated that “The Germans from the Lands of Baden-Württemberg, Bayern... , Brandenburg... , Mecklenburg-Vorpommern, Sachsen, Sachsen-Anhalt... and Thüringen... have accomplished in free self-determination the union and freedom of Germany. Thus is this Constitution applicable to the entire German people”.¹³⁸ This was on the political side and was fairly simple to accomplish once the domestic political will was there and the international scene was not in opposition to it.

But on the economic union front, issues were far more complex and needed lasting efforts to accomplish. Practically, economic unification meant transfer of economic legislation (the Economic Constitution) from the West to the East and privatisation in the East. If legislation transfer could be relatively easily secured by the Treaty of Economic and Social Union mentioned, privatisation was of a totally another calibre. Furthermore, it had no precedence in history and no experience to draw on. The former president of the Treuhandanstalt (National Privatization Agency) Birgit Breuel admitted that “It was from the beginning absurd to imagine that the Treuhand could have restructured itself the initially 8,500 companies (in the portfolio of the Treuhand, o.n.) which later became 14,000 after the unfolding. It was that we enacted much more according to the motto: privatization is the best form of restructuring... (But, o.n.) Not all privatizations and restructurings were performed successfully. 85,000 individual privatisation contracts were signed; out of the 14,000 company privatizations and reprivatizations, 275 bankruptcies were registered until now (November 1994, o.n.)”.¹³⁹ Some West German buyers and other Western companies, just as in other Eastern European countries where such privatisation operations were performed at national level, perceived the Eastern

¹³⁸ See Grundgesetz für die Bundesrepublik Deutschland, Präambel: “Die Deutschen in den Ländern Baden-Württemberg, Bayern,[...] Brandenburg [...] Mecklenburg-Vorpommern, Sachsen, Sachsen-Anhalt[...] und Thüringen haben in freier Selbstbestimmung die Einheit und Freiheit Deutschlands vollendet. Damit gilt dieses Grundgesetz für das gesamte Deutsche Volk”. http://www.bundestag.de/bundestag/aufgaben/rechtsgrundlagen/grundgesetz/gg_00/245200 accessed June 2, 2014.

¹³⁹ See Breuel (1994), p. 22: “Die Vorstellung, die Treuhandanstalt hätte selbst die Sanierung für die anfangs 8. 500 und nach der Entflechtung gut 14.000 Unternehmen durchführen können, war von Anbeginn absurd. Wir haben vielmehr nach dem Motto gehandelt: Privatisierung ist die beste Form der Sanierung[...]. Nicht alle Privatisierungen und Sanierungen verliefen erfolgreich. 85.000 individuelle Privatisierungsverträge wurden geschlossen; von den 14.000 gewerblichen Privatisierungen und Reprivatisierungen wurden bisher 275 Insolvenzen registriert”.

German companies presented for sale and often endowed with good physical assets, as a sort of prey and reward for winning the Cold War.

The difficulties encountered during the reunification process were by far greater than the federal government and the institutes for economic research had initially expected. And it is normal to be like this, because practical business is much tougher than office theoretical paperwork.

At first, the impact of the reunification on the evolution of the Federal Republic of Germany's Social Market Economy was negative as it had to digest the monetary union and pay for the subsidies. Then, as the Eastern purchasing power increased, the former East became a good new market for Western products.

Still, a series of political decisions made during this first stage were later on labelled as mistakes by the very members of the Kohl cabinet that had implemented the policies in question.¹⁴⁰

The first difficulty encountered was that the Federal Republic of Germany had to act on its own, with the political but without the economic support of its European partners. The German reunification was perceived by Eastern Europe as the first EU enlargement with chunks of the former socialist camp. However, other member states of the EU perceived this process differently: it was believed that only Germany could benefit from the accession of the DRG and the other European partners would not. France and England only reluctantly heeded to Germany's reunification. Therefore, implementing the process fell within the competence of West Germany alone.

According to Stoltenberg who was back then federal minister, in this process, the second hindrance was the **inaccurate estimation of the Federal Republic of Germany's GDP growth rate**. The growth rate was initially estimated at between 3.75 and 4 % for 1990 and 1991 and calculated without having taken into account the inherent holding back of the reunification; it was this overestimated growth rate which unfortunately was used to draw up the reunification strategies with respect to political economy.¹⁴¹

Besides this incorrect estimation, there was also the **only partially fulfilled promise of German employers to massively invest in the DRG**. This illusion of the Kohl Government stems from a lack of adequate understanding of how market economy works: no company would invest anywhere unless it can book into its balance sheet profits within a foreseeable future. Since the purchasing power of East Germany was by far not enough to buy Western products, most Western companies which decided to operate at all in East Germany did so only as long as the solidarity subsidies for public Western money were available, or they went to the East more or less to take whatever physical assets where to be found after having become accessible for being moved to Western production sites after a privatisation take-over. Further, in 1990, when the reunification process began, the strategists of the Kohl Government were under the impression that the financial

¹⁴⁰ Comp. Schmid (2001) pp. 96–97 and Hübinger (2001), pp. 146–149.

¹⁴¹ See Hübinger (2001), p. 147. Comp. Zohnhöfer (2001).

force of the Federal Republic of Germany would suffice to ensure a fast West–East convergence: pension convergence, the introduction of the West German Mark (DM), the modernisation of the infrastructure and the removal of the polluting elements from the DRG economy. The Reunification Treaty was signed with these basic assumptions and under these circumstances. In fact, there was probably no other way to do it because back then, as there was no sign of the medium-term collapse of the USSR, the chance of the power vacuum of the time had to be taken.

A fourth error, considered by many as the most serious one, was related to the **misguided evaluation of the DRG's economic value of assets**.¹⁴² This definitely had a negative impact on the economy of the Federal Republic of Germany. The high figures promoted initially by Eastern and Western leaders were gradually reduced. If, in 1989, the total assets of the DRG were estimated by former Communist leaders at around DM 1,500 billion, the new estimations published at the beginning of 1990 by Westerners talked of ca. DM 800 billion¹⁴³ only. According to Hübinger, after the appointment of the representative of the Federal Republic of Germany, Carsten Rohwedder as the head of the Treuhand, the total value of assets of the former DRG was re-evaluated in late 1990 at ca. DM 500 billion. A few months later, at the beginning of 1991, it was made again public that the total value of assets equalled the total value of debt; therefore, the DRG had no economic value. Later, Birgit Breuel, the following President of the Treuhand, published the 1992 Treuhand Report, in which the economic assets of the DRG amounted to a minus DM 420 billion, i.e. ca. 13.3 % of the unified Germany's GDP of the same year.¹⁴⁴ This devaluation was probably not only due to the different accounting systems used in each of the countries, but given the volatility of statistical rules too, it was also due to the political reasons behind the specific moment when one figure or the other was issued. Further, Western politicians had no interest to allot a high monetary value to an economy put out for sale because this would have scared potential Western buyers and thus slow down the privatisation speed and consequently diminish political success. The same things happened in other Eastern European countries involved with fast pace privatisations.

And, much more, in Germany, independent analysts ask themselves the following question: taking into account the ever-changing macroeconomic context in which these estimations were made, could the assets of the DRG and liabilities have ever been correctly evaluated? We refer to the gradual loss of markets, the changes in the political system, inflation, the overnight adaptation of the DRG companies to the legislative framework of the Federal Republic of Germany, the

¹⁴² See Hübinger (2001) pp. 147–148. Comp. Zohnhöfer (2001).

¹⁴³ See Hübinger (2001) p. 147. These data are asserted by Hübinger without giving in this case any reference on his sources. For additional data comp. Lehmann (1995) and the chapter on reunification in Schüller and Weber (1998), pp. 374–379 and pp. 382–388.

¹⁴⁴ See Hübinger (2001) pp. 147–148 and Institut der Deutschen Wirtschaft Köln (Hg.) (2001), p. 17 and p. 67: in 1992, Germany's GDP amounted to 3,155.14 billion DM.

East–West labour migration and the loss of qualified labour force in the East. Any monetary evaluation is realistic only if the economic and political systems are stable and capable of maintaining rules over time.

We then have the well-known examples of Western would-be investors who bought factories in East Germany and started, immediately after taking over, to sell the good remaining assets and equipment in the Federal Republic of Germany, in order to later replace them with second-hand machinery from the West. Often, the quality of the machinery and of the IT equipments from East Germany was higher than the quality of the equipment brought by the would-be investor to replace them. Therefore, the East–West labour force migration should not be surprising.

A fifth error and lack of clairvoyance, also explained by the uniqueness of the event—the freely consented annexation of a state by another state and the sudden transition from one economic system to another—in history, was that when the Social Market Economy principle of tariff autonomy (*Tarifautonomie*) was introduced in the former DRG, trade unions requested at any cost the immediate West–East convergence of wages. Thus, the **cheapness of Eastern labour as the sole undisputed comparative advantage of the former DRG was, to a great extent, lost.**¹⁴⁵ It is precisely the low cost of the labour force that was expected to and should have attracted the massive investments promised by West German employers to the politicians. Thus, a lack of coordination and communication and reciprocal understanding between West German industry and national politicians dragged East Germany on a track of lagging behind the West (Table 5.1).

Could a clause establishing a transition period of a few years for wage convergence, similar to the transitions included in the EU accession negotiations with candidate states, have maintained this comparative advantage? Probably not. The internal political pressures to which the Kohl Government was submitted in order to prove his total support for the West–East convergence had been far too great for such a clause to be conceivable.

A sixth hindrance was, and still continues to be, the **lack of awareness and understanding of the functioning of a market economy, in general, and of the Social Market Economy, in particular, by managers and political élites in East Germany.** This lack of understanding and insight was only partly compensated by the infusion of management methods from West Germany and could not be completely eliminated. The former members of the DRG apparatchik economy were not as patient as had been their Western counterparts from 1948 to 1969; they did not wait for a functional market economy—an economy capable of supporting their aspirations to improve their standard of living and social welfare—to form in the East. Instead, populism drove many of them to want it all on the spot.

Further, Eastern citizens believed that they could improve their standard of living through subsidies and by emigrating to West Germany. Back then, the popular saying was: “If the DM comes to us, then we’ll stay (in the East—o.n.);

¹⁴⁵ Comp. Hübinger (2001) p. 148. Comp. Zohlhöfer (2001).

Table 5.1 Sources of German tax revenue, EUR, 2001 and 2010 (estimation Nov. 2010)

	2001 €, bn	2010 €, bn
Total taxes, federal level	448.9	525.5
Direct taxes	219.5	251.9
Among which:		
Income and profit	173	190.2
Of which:		
Salaries	141.2	159.0
Profits	1.7	10.2
Revenue from interest and equity sales	9.1	8.5
Capital income	21	12.5
Wealth	0.3	0
Company local tax (Gewerbesteuer)	24.4	34.6
Land ownership	9.1	11.2
Indirect taxes	229.4	273.6
Among which:		
Turnover (VAT + import VAT)	139.5	179.5
Lubricants	40.5	39.5
Tobacco	12	13.3
Automotives	8.5	8.6
Beer	0.8	0.7
Spirits	2.1	2.0
Insurance	7.5	10.6
Coffee	1.1	1.0
Customs duties	3.3	4.1

Source: Institut der Deutschen Wirtschaft Köln (Hg.) (2002 p. 68, 2011 p. 68)

if not, we'll move over to it".¹⁴⁶ Unfortunately, the Pandora's box of populism was thus opened.

The result of these attitudes was an economic recession in West Germany. The GDP growth rate dropped from over 5.5 % in 1990 to 5 % in 1991, 2.2 % in 1992 and even to -1.1 % in 1993,¹⁴⁷ as shown in Chart 5.4. The German economic reunification thus began with a contraction period of three consecutive years. During the first 3 or 4 years of the reunification process, or at least while the Treuhand was in place, the macroeconomic evolutions of West and East Germany were different and could not be coordinated. In the West, GDP stagnated between 1992 and 1996, 1993 being even marked by an economic contraction. By contrast, the Eastern GDP increased in 1992, 1993 and 1994 by almost 10 % yearly. The

¹⁴⁶ See Hübinger (2001) p. 150: "Kommt die D-Mark, bleiben wir, kommt sie nicht, gehen wir zu ihr".

¹⁴⁷ See von Homeyer (1998) Schaubild 1, p. 334. For the year 1993, data are expressed in year 1991 prices.

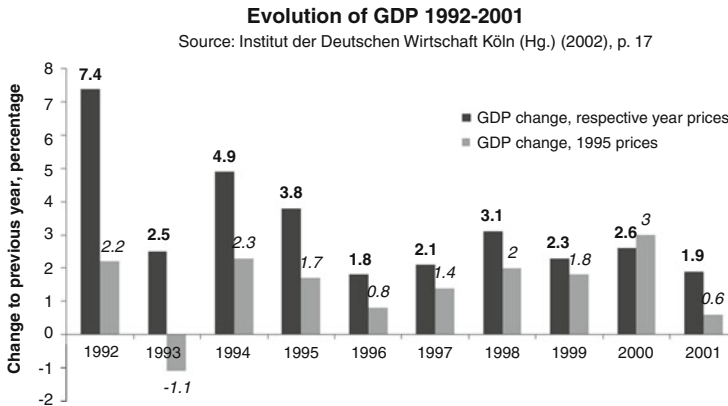


Chart 5.4 Evolution of GDP, %, 1992–2001

growth rate of the Eastern GDP then abruptly dropped to ca. +2 %, a decrease that was perceived as an evolution towards the normalisation of the situation. Still, unemployment could not be controlled in either of the two parts of the federation. It doubled in the East, passing from 10.3 % in 1991 to 19.5 % in 1997, while in the West it soared from 6.3 % in 1991 to 11 % in 1997.¹⁴⁸ The rising unemployment of West Germany was directly linked to the disregard of investments as a result of their transfer to the East. In West Germany, the evolution of the investment rate in industrial equipment was negative, more than –5 % in 1992, almost –18 % in 1993 and again more than –3 % in 1994, while in East Germany its evolution was positive, over +9 %, over +6.6 % and over +7 % during the same years.¹⁴⁹

From 1997 to 1998 and onwards, the macroeconomic direction of evolution in West and East Germany began to match. The growth rates of the GDP were small, but constant and close. Until 2001 inclusively, they ranged between almost 2 % and a little over 3 %. Investments were submitted to a similar evolution, becoming more balanced from a geographical point of view.

The German reunification was by far not completed during the Kohl era. At least another 30 or 40 years need to pass for a homogenisation to be reached in what concerns levels of productivity, standards of living and the social unification. Nonetheless, the groundwork has been laid by the Kohl cabinets and the convergence is in progress. No further major macroeconomic strategy needs to be implemented. Germany simply needs to persevere in order to finish what it has started.

The creation of the Social Market Economy and its implementation after 1948 has allowed for the reduction of social segregation in West Germany. The working

¹⁴⁸ See Institut der Deutschen Wirtschaft Köln (2002) p. 14 and Chart 5.2 here.

¹⁴⁹ See Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung für die Bundesrepublik Deutschland (1996/1997) p. 22, Table. 1.

class became a class of service providers. A class for immigrants had appeared as well. At the same time, the élites of the 1980s were not as isolated from the rest of the population as they used to be before the considerable increase in social homogenisation in the West. However, after the reunification of 1990, the populations of West and East Germany blended. Around 25 % of the resulting new population had to be integrated into the Western *formed society*. As a result, a new segregation appeared, this time not based on class but rather on geographical (East–West) reasons. We believe that the Social Market Economy, if applied more consistently with its own principles than now, will still need one more generation to complete the integration of the Eastern population into the “formed society” of the West, i.e. around 2040.

5.4 Towards A New Social-Democratic Synthesis and Renewal of the Social Market Economy in the Post-1998 and Post-9/11 Era

5.4.1 Domestic Economic and Political Aspects

By 1998, Germany had managed to overcome the political, economic and social difficulties of the post-war period. The fact that it managed to unify politically and build a solid production infrastructure with products having strong identity is due not only to the wisdom of the Allies in 1945 in not asking Germany to pay war reparations (in the interest of the overall European recovery, except for East Germany to the USSR and West Germany towards Israel) but also to the success of the Social Market Economy. This economic system, in conjunction with political democracy, is the backbone of Germany’s regaining of position among the most powerful European states, similar in some aspects to what the Bismarck era had been.

The period of the two Schröder cabinets, 1998–2002 and 2002–2005, was one of recovery from the social fatigue generated by the longest lack of political turnover in post-war Germany. The Kohl era ended on September 27, 1998, not so much due to a positive vote granted to social democracy and the Greens but rather because of the negative vote received by the Christian–Liberal (Black–Yellow) coalition. In 1982, the SPD had left the political stage because voters felt that it wasn’t truly prepared to lead the country out of the second oil crisis. However, by 1998 the situation had changed. One of the reasons for which the CDU/CSU lost the elections was that by 1997 and 1998, national unemployment (West and East rates combined) had skyrocketed to over 12 %. The main positive reason that allowed the SPD to gather the higher number of votes was its electoral promise to reduce unemployment from almost 4.3 million in 1998 to under 3.5 million persons in 2002. To some extent, this was achieved and could have been maintained, had the changes of September 11, 2001, not occurred.

There is a series of other hindrances which the Schröder Cabinets encountered during their two mandates (1998–2002 and 2002–2005) and reduced the time and energy that could have been allocated by the government for the initiation of deeper economic reforms within the economy.

The first SPD–Green Coalition Government led by Chancellor Gerhard Schröder came to power¹⁵⁰ on October 22, 1998, after the negotiations to form a coalition. The situation from the outset of his term was not so favourable for the first Red–Green government.

The first difficulty encountered was related to the internal tensions between two **antagonistic factions within the SPD** as the main governing party. The confrontation ended with the victory of Schröder, Chancellor and Vice-Chairman of the SPD, and the resignation of Oskar Lafontaine, Chairman of SPD and former Federal Finance Minister. After Lafontaine’s resignation within 6 months of taking up office, it was Schröder who replaced him as the head of the party. As a result, Schröder’s faction—a more business-friendly type of Social Democrat—was able to reform the party, changing the face of German social democracy by moving it away from the leftist traits it had gained under Lafontaine’s chairmanship. Under Lafontaine’s lead, the SPD had been hostile to employers and the market economy in general, being focused on defending the interests of workers and trade unions. In contrast Schröder transformed the SPD into a rather centrist party, with neoliberal influences that had a natty style and was close to the employers. In this process not only did Schröder become known as the “the power and media chancellor” (*der Macht- und Medienkanzler*), but he bounced in the other extreme. Given his personal affinity for Russian President Putin, he worked out for himself a paid management position with the shareholder committee of the gas pipeline consortium North Stream AG, a Russian initiative with majority shareholding by Gazprom. The social democracy with a new identity tried to implement several structural reforms until 2005. Its style was more liberal and open towards international cooperation between equal partners than traditional worker-oriented social democracy. The SPD’s external backup in Europe was ensured through the doctrinarian association within European social-democratic movements of Schröder’s and Tony Blair’s factions of the English Labour Party.

The second obstacle encountered by Schröder during his first months in office was the need to put order in his cabinet. **The internal struggle** for the leading position did not take place while the party was in opposition, like it normally happens. It occurred while the SPD was in office. Moreover, none of the cabinet’s members had any governing experience at the federal level, not even the chancellor himself. The Evangelical Protestant Gerhard Schröder had been the apprentice of

¹⁵⁰ Before the general elections of September 1998, a significant part of the administration and public opinion feared the possibility that the “Red–Green government” could gain its position as the head of the state. Back then, the SPD–Greens coalition seemed “scandalous” for the conservative style of politics which had been characterising the country for a fairly long time.

Willy Brandt and had held the position of Prime Minister, but only in the Northern Land of Niedersachsen, even though it was for eight years consecutively.

The lack of governing experience¹⁵¹ was even greater in the Green party, whose ministers had no other choice but to learn to govern during the actual term of office, a phenomenon common rather for an Eastern European country than for a Western one.¹⁵² Given the discrepancy between Realpolitik and Wunschpolitik, the Greens had a long path to go and learn. In the meanwhile, the Greens have changed into a part of the establishment, leaving the jeans and sports shoes with which they entered the Bundestag in 1982 at its doorsteps, and gradually taking on the elegant suits of the establishment.

A third difficulty that shouldn't be underestimated was the **international financial crisis** of October, 1998. For over 6 months, this crisis came in addition to the insecurity generated by the preparation of the third step in the implementation of the EMU.

Then, fourthly, a few weeks after Lafontaine's resignation on March 11, 1999, and after the initiation by the federal government, of its first reform package of the taxation system for business entities, the "Tax Relief Act 1999/2000/2002" (Steuerentlastungsgesetz 1999/2000/2002), Schröder had to overcome another major hurdle: an unstable European political situation generated by the **Kosovo war**. This difficulty was even more serious as Germany held during the first 6 months of 1999, the Presidency of the Council of the European Union and the Presidency of the G7/G8.

A fifth circumstance that affected the day-to-day work of the federal government was **the move of the federal capital from Bonn to Berlin** in the summer of 1999, according to the Bundestag's decision of 1991 with only a small number of votes.

Then, the inertia of the German civil servant apparatus was another obstacle that hampered the initial reforming enthusiasm of the Red-Green coalition, an obstacle that shouldn't be underestimated.

The biggest shocks for the two Schröder mandates came from the international arena. It was the **September 11** events, the **war in Afghanistan** as of late 2001 and the **war in Iraq** after 2003. The fact that Germany refused to join "the coalition of the willing" in Iraq under President George W. Bush might have been either a

¹⁵¹ The lack in governing experience of the Greens can also be inferred from the requests made by Jürgen Trittin, the then federal minister for environment at the beginning of his term of office. According to him, Germany had to drop its nuclear power programme right away and shut down more or less over night all of its nuclear power plants. However, he did not offer a convincing replacement solution for the coal-gas-oil-nuclear power equation mix, in order for Germany to be able to maintain sufficient energetic independence. Encountering opposition, Jürgen Trittin abandoned his extreme demands and settled for a compromise: nuclear plants were due to be shut down in 32 and a half years, after the efficient replacement of nuclear energy with renewable energies (wind, solar, geothermal, biomass) would have been put in place.

¹⁵² For instance, on the occasion of his first visit to Washington DC during the autumn of 1998, the leader of the Green party—Joseph Fischer, Foreign Minister and Vice Chancellor in the Schröder Government—brought into his official discussions with the representatives of the USA the option of withdrawing Germany from NATO (sic!).

consequence of Schröder's personal liking of Russia, of President Putin and of big business. These had major impacts not only negatively on Germany's political relations with the USA and its major Western Allies but also on its economy which suffered turbulence and uncertainty on the international markets. After Schröder's resignation from the post of chancellor in 2005, he joined the board of administration of Nord Stream representing the interests of Russian giant company Gazprom.

Returning now to federal politics, the main goals stipulated in the "SPD–Green Coalition Government Agreement" that was signed on October 22, 1998, were related not only to the reduction of unemployment but also to the adaptation of the Social Market Economy to the new demands of increased competitiveness. This adaptation appeared then as compulsory in order to survive on the international markets in the changed contexts of advancing globalisation. Nonetheless, the ways suggested to reach these goals did not imply any modification of the three "unwritten" major pillars of the Economic Constitution of the Social Market Economy.

The measures enacted by the Schröder Cabinet focused more on "third-level" principles. Such measures were listed in the Coalition Government Agreement and referred to the reform of economic policy, more precisely the adoption of a combined economic policy, stimulating both supply and demand; the reform of the taxation system for business entities and physical persons; the introduction of the environmental tax (Ökosteuer) and the evolution towards an environmentally friendly economy by giving up the nuclear power programme; the consolidation of the German reunification; the continuation of the European unification; and the establishment of international partnerships through development assistance.¹⁵³

The implementation of these measures had certain positive results. The "**2000 Tax Reform**" (**Steuerreform 2000**), for instance, a measure of a rather ordoliberal nature, diminished some of the rates and reference values used in the calculation of taxes for certain categories of physical persons and business entities. For instance, in 2001, physical persons were granted a total tax relief of almost DM 29 billion, while business entities' taxation decreased with less than DM 16 billion. The gaps in the public income from this decrease were bridged by the introduction of a new excise tax on fuel, electricity and gas that bore the name "**environmental tax**" (**Ökosteuer**). At the same time, an important measure, which increased flexibility on the labour market, was introduced by promoting and simplifying the legal base, allowing for the simpler conclusion of fixed-term rather than unlimited-term contracts. Furthermore, temporary and partial subsidies were granted to firms hiring long-term unemployed people.

Other measures regulating the functioning of business entities had a social-democratic traditional character. The first Schröder Government modified the "**Works Constitution Act**" (**Betriebsverfassungsgesetz**), a major piece of legislation within the Social Market Economy system, by enhancing trade unions' and employees' right to co-information and co-decision within business entities.

¹⁵³ See the document sealing the governing coalition between the SPD (Red) and the Grüne (Green) parties "Koalitionsvereinbarung" of autumn of 1998, chapters I, II, III, IV, VI, XI.

The same cabinet increased child and sick leave benefits from 80 to 100 % of the gross monthly salary. As far as retirement is concerned, the government came up with a new scheme financed from partially private funds for individuals born after 1961. The scheme bears the name of its founder, Walter Riester—the then Federal Minister of Labour and Social Affairs and member of the SPD—and is known to the public as the “Riester Pension” (Die Riesterrente). Any person eager to choose this scheme was able to open a personal pension account that functioned as a pure long-term deposit account. After the person began to deposit the due monthly contributions in this account, the state contributed with an amount directly proportional to the insured’s contribution.

A reform that stirred controversies began with the creation, in the summer of 1999, of the **Commission on Immigration (Die Zuwanderungskommission)**—a national commission with members from all political parties that prepared the “Immigration Act” (Zuwanderungsgesetz), a novelty in the history of Germany. Despite the bitter opposition of CDU/CSU, the bill passed after several setbacks in both chambers of the Parliament by 2004 and entered into force with the beginning of 2005. The big issue of the German electorate, at that time back and even more now, consisted in finding ways to solving its problems in financing the social security system of the Social Market Economy by “importing” labour force from countries with other cultures and historical traditions. This should not, however, change too much the ethnic specificity of the German people. Assuming that the demographic decline will maintain the course of the last 30 years in the future as well, something like approximately five hundred thousand immigrants a year should enter Germany between 2001 and 2040 in order for this country to be able to maintain the current standards in health, employment and pension levels. According to calculations of the time without these immigrants, the total population would decrease from ca. 81 million (currently) to an alarming level of ca. 38 million persons in 2100.¹⁵⁴

The bill would have allowed for the steering and adjustment of the immigration phenomenon to meet the needs of the labour market. Since 1945–1999, Germany responded defensively to immigration flows. The immigrants were the ones choosing Germany¹⁵⁵ as their destination, and “volens nolens”, the German state had to integrate all newcomers, irrespective of their provenience or of the utility of their occupation on the labour market. Thereby, as we can infer from Photo 7 too, the number of immigrants has increased tenfold after 1960. The need to integrate these newcomers from a linguistic, social, cultural and mental point of view represents a setback in Müller-Armack’s “irenic order” and in Erhard’s “formed society”, but it is a step forward towards safeguarding the high standards of social security built by mature people who no longer seem interested in procreation.

In the field of public finance, the first Schröder cabinet had planned and started to **reduce the rapid growth in public debt**. If during the Kohl terms of office, public

¹⁵⁴ See Otnad (2006) Schaubild 9, p. 74.

¹⁵⁵ They could have chosen other destinations as well, such as France, Canada, Japan, etc., but they didn’t and those who came to Germany decided conscientiously for it.

Increase of Public Debt, 1970-2010

Source: Institut der Deutschen Wirtschaft Köln (Hg.) (2002), p. 73 and
 Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 73 and 125, Kremer J (1993) p. 89
 Sachverständigenrat (1996/97) and Sachverständigenrat (1974/75)

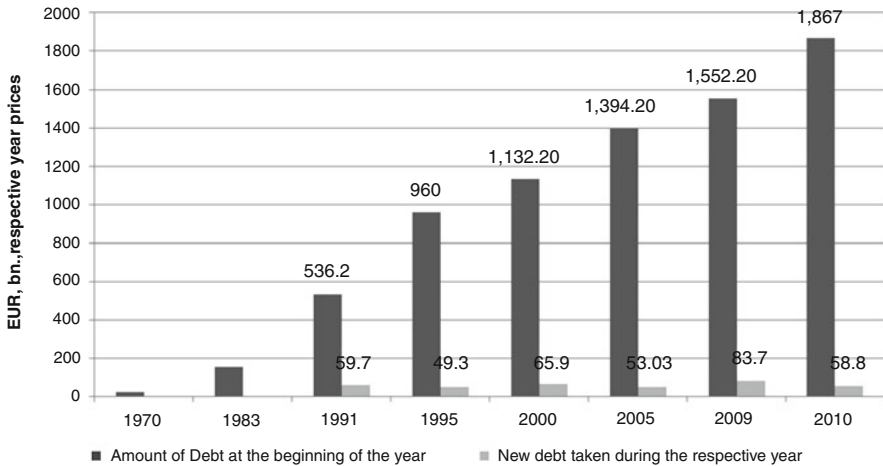


Chart 5.5 Public debt in Germany, EUR, 1970–2010

debt had increased sixfold, the Schröder Government managed, through Hans Eichel—its Federal Finance Minister—to stop the annual growth rate of new public borrowings. Eichel’s plan was to reach a stage of cutting off any new public borrowing by 2006. He managed to limit the growth in 2001, the amount of the public debt being 1,210 billion euros, only insignificantly higher than the 2000 value of 1,198.1 billion euros (see Chart 5.5).

However, the advent of a new era, marked by international insecurity, the struggle against terrorism and the unforeseen nuisances brought by natural calamities such as the catastrophic floods of the summer of 2002, was detrimental to the financial policy of the Schröder Government. Therefore, the second Schröder cabinet that came to power after the general elections of September 22, 2002, was forced to impose a 1-year delay on the implementation of some of its cost-saving measures and tax reform in order to be able to cover the losses from the international markets, the war in Afghanistan and the affected Eastern Länder.

Due to these reasons and other fiscal laxity policies in 2003–2005 which loosened the implementation of the Stability and Growth Pact criteria, by the end of the Schröder era in Germany, public debt had soared to 1,447.5 bn euros, i.e. to 64.6 % of GDP, whereas in 1991 it was only at 38.8 % of GDP.¹⁵⁶ The truth is that

¹⁵⁶ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 73. The Association of Taxpayers have a strong lobby for educating the population with respect to public debt and its dangers. See the www.steuerzahler.de.

nobody knows if the repayment of public debt will ever be a realistic prospect. Nevertheless, it is certain that, for now, the standard of living is not yet sensitively altered by public debt, especially because the debt pertains to a sovereign state that can't be really held accountable for its financial decisions, in a context where the other European countries have debts as well, most of them higher than Germany's.

An important achievement of the new Red-Green coalition was the considerable progress made by Germany on the path of the environmental industry. The gradual reduction of Germany's dependency on nuclear power will culminate with the actual dropping of the nuclear power programme by mid-2033.¹⁵⁷ This will mainly imply the replacement of nuclear power, in the traditional energy mix (coal-gas-oil-nuclear-renewable energy) ensuring the country's energy security, by renewable energies such as wind, solar and geothermal energy. Even though owners from the nuclear field strongly opposed this decision, the lobby of the Greens proved to be stronger on this issue. And, ultimately, maybe the Greens hold merit for the fact that Germany has every chance to become the global leader par excellence in the field of renewable energies (erneuerbare Energien). Since that time, many signs have pointed in this direction. If this happens, the central pillar of the "environment" within the Social Market Economy will become even more important than it was then.

"After the "Renewable Energies Act" came into force on April 1, 2002, a new economic sector appeared, dealing with the production and installation of windmills. Until August 31, 2002, Germany had already installed over 12,000 such windmills which overtook the global record of 10,000 MW wind energy and 35,000 jobs in the sector. A city the size of Berlin can already be powered by using wind energy. It is possible for the wind energy share to grow in a short time from 3.5 % currently, to over 20 %, in the future".¹⁵⁸ The fact that the windmill sector has not grown, since this article was written in 2002 as initially planned at the pace presented here, is due to technical difficulties of limited transport capacity on electrical lines for transporting this wind energy, mainly produced in the north, to the places of consumption which are in the south of the country.

From a political point of view, even though at a first sight and during the first months in office, the Greens initially seemed naïve in their approach; they are the sole political group from the European student movements of 1968 that has managed to come to power in a European country. After the general elections of September 22, 2002, they obtained 8.8 % of the votes and became the third political force in Germany after overtaking the liberals.

¹⁵⁷ See the document sealing the governing coalition between the SPD (Red) and the Die Grüne (Green) parties "Koalitionsvereinbarung" of autumn of 1998, p. 17.

¹⁵⁸ See Mureşan (2002), p. 209: "Nach Inkrafttreten des «Gesetzes für Erneuerbare Energien» zum 1. April 2000, ist eine neue Wirtschaftsbranche entstanden: die der Herstellung und Montage von Windräder. Bis zum 31. August 2002, waren in Deutschland schon über 12.000 solche Räder montiert, die gemeinsam die weltweite Rekordmarke von 10.000 MW und eine Anzahl von 35.000 Angestellten in der Branche, überschritten hatten. Eine Stadt der Größe Berlins kann schon durch winderzeugten Strom versorgt werden. Der Anteil am gesamten Energieverbrauch Deutschlands, kann in Kürze von derzeit 3,5 Prozent auf über 20 Prozent steigen".

It is important to state that the Red–Green government managed, despite the opposition’s initial ironies, to make progress in its effort to reduce unemployment. During the first three years of the Red–Green term, unemployment dropped significantly under 3.8 million persons the day before the World Trade Center collapsed¹⁵⁹ in New York. If it hadn’t been for the 9/11 events, unpredictable during the German election campaign, Schröder would have probably reached his promised objective. Nonetheless, 9/11 completely changed the international economic environment including the German one. As a result, after that the trend was reversed and the unemployment rate began to rise again. The result was that in the last three months and a half of the year 2001, more precisely between September 12 and December 31, the average for the year 2001 rose to 3.852 million unemployed,¹⁶⁰ while at the beginning of 2003, it reached more than 4.2 million. Despite this government’s numerous achievements, public opinion was discontent both before and after the elections of September 22, 2002. The electorate perceived the Schröder cabinet as being to a great extent on the defensive—and it was, given the unfavourable international disruptive circumstances.

The elections of September 22, 2002, made Gerhard Schröder for a second time chancellor as head of the Red–Green cabinet. This vote was not so much due to the contentedness of the population, but mainly due to the fact that CDU/CSU lacked notable leaders at that time. Edmund Stoiber, the Southern Bavarian Catholic and Prime Minister of the Bavarian Land, leader of the CSU and standing for election, was a strong opponent for Schröder in the economic field, but was easy to defeat from a political point of view given the somewhat special status of Bavaria within the German federation. And of course, Schröder did much better with the media than Stoiber. The latter’s German nationalist style with conservative Catholic origins brought him the dislike of the voters from North and East. What is important to say here is that for the first time after 1949, the general elections of September 2002 have been primarily “political” and not “economic”, as it had been mainly the case after 1949.

The **Agenda 2010** announced in March 2003 was designed to adopt a set of measures for boosting the German welfare system, not by distributing more welfare packages but by dynamising the economy. It envisaged rather neoliberal measures. These included tax cuts, reduction of retirement benefits and the reorganisation of the unemployment support system, including the introduction of the controversial Hartz IV social security benefits still in force today (2014). This move of the SPD government towards the CDU doctrine attracted criticism and strengthened the formation of a “true” Left Party, Die Linke. Many former social democrats criticise Schröder for betraying the SPD. Others, such as Thomas Meyer, even extend the criticism to the European level by saying that problems in today’s Europe originate in Schröder’s Agenda 2010 reforms in Germany.¹⁶¹ Probably he does this because

¹⁵⁹ Or was it collapsed?

¹⁶⁰ See Institut der Deutschen Wirtschaft Köln (Hg.) (2002) p. 14.

¹⁶¹ Comp. Bello (2013), p. 104.

the Agenda 2010 was adopted in the then context of the European Lisbon Strategy 2010 which stipulated that the EU had to become the worldwide most competitive knowledge-based economy.

For the Social Market Economy, the two Schröder Governments were probably with the exception of the “Agenda 2010”, an insertion of social democracy and of environmental awareness into the ordoliberal structure conceived to the greatest extent by Christian Democrats. The political cooperation between the social democrats and the Greens represented a new blend in Germany and brought a new approach, a somewhat socio-liberal one not only to Germany but to European politics as well. Even though the Red–Green coalition has tried to define structural reforms of the Economic Constitution of the Social Market Economy, by the end of the Schröder cabinets in 2005, there were still no major changes in this respect.

5.4.2 European Unification and Enlargement

As long-time global champion of exports, Germany needs stable and predictable international environments and markets with purchasing power. It is good for her if it is involved as much and as deep as possible in such structures including in international organisations and their cooperation mechanisms. Each post-war government seems to bring some own contribution to the West binding of the country in the post-war international security architecture. Even parties with less Western sympathies such as the SPD¹⁶² and the Greens did contributed to this, as domestic analysts confirm at the end of the first mandate of the Red–Green government in 2002: “. . .The last four years have brought Germany a step further on its long way westward. The mental gap between institutional binding and foreign policy perceptions were diminished further. . .”.¹⁶³

A united Europe is quite a practical need for a Germany well integrated in West-bound leadership.

Europe, in its own interest, has terrestrial borders with nine other European countries and public and private structures, including those of the Social Market Economy. The reason for this is simple: as much as ca. 65 % of all German exports go to the EU28 countries and it succeeded over many years to secure a current account surplus. This surplus is being watched with some concern by its European

¹⁶² We should recall that under Chancellor Schröder, Germany denied active military participation in the Iraq war after 2003. Further, it became later known to the public that Chancellor Schröder had personal sympathies rather eastward towards Russia than towards the West. After his mandate as German chancellor, he became involved in the supervisory board of the North Stream project on behalf of Russian Gazprom company.

¹⁶³ See Janning (2002), p. 18: “. . .Die letzten vier Jahre haben Deutschland auf dem langen Weg nach Westen ein Stück vorangebracht, in dem sie die mentale Lücke zwischen institutioneller Bindung und außenpolitischer Wahrnehmung weiter verringert haben. . .”.

commercial partners as we saw since the introduction of the temporary European Financial Stability Facility EFSF in 2010 and its subsequent permanentisation into the European Stability Mechanism ESM.

But it is not only in Europe that Germany has a current account surplus. This is also seen at global trade level, where its current account surplus is in the range of 2–5 % of its GDP.¹⁶⁴ Thus, this country has a **vital interest** that these buyer countries, i.e. its customers, are able to pay for its products and that commercial contracts can be entered into and exited as well as enforced as easily as possible.

Good progress has been made in Germany's internationalisation process in the post-1945 global order, thanks to both internal and external pressure. One of these pressures stems from the post-1945 international security architecture which needs to find mechanisms by which war in Europe can be avoided. The evolution of the European process is crucial for most national economies and the international security of most states in Europe, even for non-member states like Switzerland and Norway, and in the world.

European integration, as known up to now, delivered its economic effects later than one may think. The Common Market of "The 12", although founded in 1957 respectively, was taken one step forward only as late as 1986, when the "**Single European Act**" was adopted. This treaty introduced the **free movement of persons, capital, goods and services** within all member states. Only in 1986, in the first part of the Kohl era, did the Single Market begin to have a visible impact on the Social Market Economy in Germany. These effects were mainly felt in the depreciation of the Deutsche Mark and of other national currencies. These national currencies appeared more and more to be obstacles to multilateral trade within the new common market. Thus, as trade volume increased, the need for a single currency appeared. Further, the creation of a monetary and economic union appeared as an increasing need in international economics in Europe, and thus a process of searching for solutions for how to move away from an international trade in Europe towards an intra-European economic cooperation started. The Treaty of Maastricht of 1992 and the Treaty of Nice of 2000 led us in the meanwhile to the Treaty of Lisbon. Over these 20 years, Germany's contribution to European unification comprises several important aspects as we shall see below. The relevance of the Social Market Economy model both for Germany and for the EU has been recognised and in the meanwhile enshrined in the text of the treaty itself. Besides political, cultural, social, scientific and other contributions, we will look only at some of the more important contributions.

A major contribution was brought in 1996, when this country lent some of the principles it had developed earlier for the sake of its own Social Market Economy, to the European construction. It had the initiative of proposing to its European partners the **Stability and Growth Pact (Stabilitäts- und Wachstumspakt)** as an instrument to achieve the monetary convergence needed to introduce the new

¹⁶⁴ For example, in April 2012, German current account surplus amounted to +4.8 % of its GDP, i.e. Germany earned only during the then last 12 months, a net of €120 billion out of its international commercial relations. See *The Economist* (2012, May 19), p. 88.

European currency, at that time the ECU (European Currency Unit), today the euro. This pact set out, among others, five criteria of financial discipline in the field of national financial policy¹⁶⁵ that had to be met by all signatory states who aspired to join the common currency. Creating the common currency was needed in order to successfully complete the last step of the European Single Market in view of eventually achieving a full economic union. The Stability Pact was incorporated in article 104c of the “The Treaty of Maastricht on European Union”. The same Treaty also set the date for the introduction of the single European currency: on January 1, 1999, as an accounting currency, and on January 1, 2002, as the physical currency. The European Central Bank, as the central bank of the euro area, was created to facilitate this process. The bank, with its headquarters in Frankfurt am Main, introduced a key element into its statutes: its **independence from the government and the political sphere**, just like the German Central Bank (Bundesbank) is in the Social Market Economy.

The single currency was successfully introduced, without any inflation spurt during the time of introduction. The process of the actual introduction of the euro on the market was completed by June 30, 2002. Here, the personal contribution of Chancellor Kohl, through his political iron will, vision and commitment to motivate his own politicians for this process, is indisputable. The initial success of this implementation was due to its meticulous preparation and to the mechanism of financial discipline demanded of participant states.

In spite of the many critics the euro has even in Germany, it was certainly more stable than the Deutsche Mark which often had average inflation rates above 2 % yearly. The European Central Bank managed this by targeting inflation in its monetary policies. It succeeded in maintaining a yearly average inflation rate of 1.97 % for the euro area between 1999 and 2009.¹⁶⁶ An important aspect which has come up during the Euro and post-2009 Greek, Irish, Portuguese and Spanish debt crisis is that a contradiction appeared between the fundamental principles of the Treaty on European Union and the practical need for bail-out funds in order to save the Greek state from a pending insolvency.¹⁶⁷ Whereas the fundamental principle of EU membership is the *no-and never bail-out clause*, the European Stability Mechanism has been set up in an institutional way in order to counter exactly the exit of countries from the Euro and possibly (but not necessary consequence) from the EU.

We will not go into further details here regarding the current (2013) situation of the euro in light of the Greek, Irish, Portuguese and Spanish debt crises. The reason

¹⁶⁵ According to the Maastricht monetary convergence criteria, the two main targets of these five criteria are as follows: domestic total public debt should not exceed 60 % of GDP and new annual public borrowings should be limited to a maximum of 3 % of GDP.

¹⁶⁶ See Mureşan Şt (2011).

¹⁶⁷ For how this debate is being pursued within church-oriented business circles in the Social Market Economy in Germany, and also its neighbouring countries, see the minutes of the conference “Von der Euro-Krise zur Europa Krise” organised by the Katholische Sozialwissenschaftliche Zentralstelle (German Catholic Church’s Central Office for Social Science) in Mönchengladbach on June 15–16, 2012.

is simply that enough has been written on this topic and any interested reader can inform himself/herself from public sources. What is to be said is that the current ongoing crisis of the euro is in fact not a crisis of the euro. On the contrary, the euro is the innocent victim of the overall Western debt crisis. The reason is that the euro feels most the turbulence of debt, simply because it is the currency of an economic area which has no unitary fiscal and economic policies yet. Thus, the divergence of the economic and financial policies of the euro area member states produces interest rates which drift away from one another. This has become much more apparent after the financial and economic crisis in 2007–2009 than has been before.

Earlier, there were attempts to unify fiscal and tax policies. The “Treaty of Nice” that reformed, consolidated and enlarged the EU was adopted by Germany as well as by the other European countries that had higher levels of taxation and contributions to social security. They, who were in this same situation, had struggled to obtain tax homogenisation and equalisation in the EU. Unfortunately, this wish was never fulfilled because Germany’s vision was not unanimously accepted by the other member states. Great Britain, for instance, wanted to maintain the fiscal advantages offered by the “City”/“Financial Times Stock Exchange” of London. Furthermore, the UK’s insular mentality, and its strong links to the commonwealth system and the USA, wishes the EU to be a free-trade area rather than an economic union, as it is afraid of being absorbed into an EU political union. Thus, it has systematically blocked attempts of tax or fiscal uniformity at a European level. In such a situation, it is not to be wondered about that the Euro has been badly hit by such effects.

An important change in the political structure of the EU was related to the weight of the Franco–German engine in the deepening of the European integration after the German reunification of 1990. This change had political and economic causes. In the aftermath of the reunification, which transformed Germany into “a national, post-classical state among (o.n.—many) others”, the Franco–German engine became de facto (even if not de jure) the German–French engine. “Until the German reunification of 1990, Paris laid more weight on political relations with Germany, while Bonn rather focused on economic aspects. In the meanwhile, the representatives of the Berlin Republic are less willing to let France have the leading role in Europe”.¹⁶⁸

It was probably hard for the French élites to admit by 2002 the change that had occurred after 1990, a change that added political weight to Germany’s already existing economic importance in the EU. The expression of Germany’s natural sympathy for England rather than for France—proven often in history, lately by the Anglophone policies of Schröder as the “Nordic Chancellor”—seems to have been held well under control. As proof, Germany and France managed to have fruitful collaborations. Among these was the case in 2002–2003 when the two countries laid the groundwork for the adoption of the Common Agricultural Policy facilitating the

¹⁶⁸ See Martens (2002), p. 27: “. . . postklassischer Nationalstaat unter anderen. . .” and “. . . Bis zur deutschen Vereinigung 1990, hatte Paris mehr Gewicht auf die politischen Beziehungen zu Deutschland gelegt, während Bonn sich eher auf die wirtschaftlichen Aspekte konzentrierte[. . .] Inzwischen sind die Vertreter der «Berliner Republik» aber weniger bereit, Frankreich die Führungsrolle in Europa zu überlassen”.

enlargement towards the East, discussing the “refuelling” of the “rational” Franco–German engine and adopting a common position on the issue of solving the “Saddam Hussein” problem through military intervention as had been proposed by the US President George W. Bush. By 2012, it became obvious that the Franco–German axis had become the German–French backbone of Europe. The reasons for these are economic and can be proven by the fact that in the European Stability Mechanism, as the permanent crisis fund for the Euro, Germany is the one with the highest monetary contribution to countering the effects of the crisis. This increase of Germany’s weight in its relations to France is due to the functionality of its model of Social Market Economy. This can also be noticed by thinking of the jokingly expressed perception of the good cooperation between Germany and France during the presidency of Nicolas Sarkozy and Chancellorship of Angela Merkel. Here, at least until the French Socialist Francois Hollande replaced Nicolas Sarkozy as the head of the French Republic, the German–French axis was called “Merk”(e)l–Sar”-kozy” = **Merkozy** rather than “Sarkel”. By 2014, especially after the European elections of May 2014 where in France the rightist movement Front National of Marine Le Pen received over 25 % of the French votes, it has become a common accepted fact that it is primarily Germany with its resilient economy which stands for a united Europe.

The European edifice, built on its three pillars Single Market (1), the most important, Justice and Home Affairs (2) and Common Foreign and Security Policy (3), is getting more integrated especially as the European banking supervision has been put in place in 2014. In this edifice, Germany holds a leading position as perceived likewise by the USA. Its leadership position stems from the strengths of its economy, which in turn is due to the well functioning of its Social Market Economy. Due to its geographic proximity, Germany and its Social Market Economy benefited the most, in the long run, from EU enlargement to the East. However, in the short run, the less skilled sectors in Germany’s Social Market Economy faced some setbacks due to competition from the immigration Eastern labour force. This is so in the sectors with higher need of a less qualified workforce and in the construction sector.

Germany was the main actor in the process of the enlargement to the East and was legitimised in this sense. The Council of the EU indirectly admitted Germany’s weight in the process, by supporting the appointment of Günter Verheugen for the job of European Commissioner for enlargement at the time when most of the 12 new member states from the east of Europe were negotiating accession. These countries from Estonia to Bulgaria are new markets for Western Europe and brought 100 million new consumers, i.e. over 30 % of the pre-enlargement populations of the EU. The Eastern European populations acquired only a part of the purchasing power (needed to boost Western economies by buying their products) via the adoption of the *acquis communautaire* and through domestic reforms. The rest of the gain in purchasing power in the East is being done via IMF lending. Here, products produced by Germany’s Social Market Economy are, not only due to geographical proximity but also to their higher quality, the first to profit from the Eastern enlargement of the EU and thus are continuously boosting Germany’s economic and social status.

References

- Armin H (1995) CARL ZEISS—Die abenteuerliche Geschichte einer deutschen Firma, 2nd edn. Piper, München, Zürich
- Bello W (2013) Capitalism's last stand ? De-globalization in the age of austerity. Zed Books, London & New York
- Borowsky P (1998a) Sozialliberale Koalition und innere Reformen. In: Bundeszentrale für politische Bildung (ed) (1998) Informationen zur politischen Bildung, Heft 258/1998. Zeiten des Wandels. Deutschland 1961–1974. Bundeszentrale für politische Bildung, Bonn, pp 31–38
- Borowsky P (1998b) Tendenzwende Anfang der siebziger Jahre. In: Bundeszentrale für politische Bildung (Hg.) (1998) Informationen zur politischen Bildung, Heft 258/ 1998. Zeiten des Wandels. Deutschland 1961–1974. Bonn, p. 44–49
- Breuel B (1994) Ordnungspolitische Grundsätze und pragmatisches Vorgehen als Garanten für den Erfolg der Treuhandanstalt. In: Stiftung LE (1995) Transformation als ordnungspolitische Herausforderung. Ludwig Erhard Stiftung, Bonn, p. 20–24
- Bundesanstalt für vereinigungsbedingte Sonderausgaben—BVS (1995) Abschlußstatistik der Treuhandanstalt per 31.12.1994. Vorstandsstab Controlling, BVS, Berlin
- Erhard L (1964) Wohlstand für Alle. Bearbeitet von Wolfram Langer, 8th edn. Econ Verlag, Düsseldorf, Wien
- Gehlen R (1971) DER DIENST. Erinnerungen 1942–1971. V. Hase & Koehler, Mainz, Wiesbaden
- Geißler R (2000) Struktur und Entwicklung der Bevölkerung. In: Bundeszentrale für politische Bildung (Hg.) Informationen zur politischen Bildung. Heft No. 269/2000. Sozialer Wandel in Deutschland. Franzis' Print, München, p 3–9
- Giersch H, Paque KH, Schmieding H (2000) Crepusculul miracolului. Patru decenii de economie de piață în Germania. Editura Tehnica Info, Chişinău
- Göttrik W (Hrsg.) (1998) Bilanz der Ära Kohl. Christlich-liberale Politik in Deutschland 1982–1998. Ein Sonderband der Zeitschrift GEGENWARTSKUNDE. Leske + Budrich, Opladen
- Grosor M (1999) Wettbewerbselemente in der Gesetzlichen KRankenversicherung—von den Ursprüngen bis zum GEsundheitsstrukturgesetz. In: Wille E (ed) (1999) Zur Rolle des Wettbewerbs in der gesetzlichen Krankenversicherung. Gesundheitsökonomische Beiträge. Band 33, 1st edn. Nomos, Baden-Baden, pp 61–76
- Grossekettler H (1999) Kritik der Sozialen Marktwirtschaft. In: Nörr KW, Starbatty J (eds) (1999) Soll und Haben—50 Jahre Soziale Marktwirtschaft. Lucius & Lucius, Stuttgart, pp 53–82, Marktwirtschaftliche Reformpolitik. Band 3. Schriftenreihe der Aktionsgemeinschaft Soziale Marktwirtschaft. Hasse R, Starbatty J (Hg.)
- Grosser D (1988) Erfolge und Mißerfolge. In: Grosser D, Lange T, Müller-Armack A, Neuss B (1988) Soziale Marktwirtschaft. Geschichte-Konzept-Leistung. Verlag W. Kohlhammer, Stuttgart–Berlin–Köln–Mainz, pp. 74–181
- Hohmann K, Ludwig-Erhard-Stiftung e. V. Bonn (eds) (1997) Ludwig Erhard (1897–1977). Eine Biographie. ST Verlag, Düsseldorf
- Hübinger B (2001) Rückbesinnung auf die Leitgedanken der Sozialen Marktwirtschaft in den achtziger und neunziger Jahren. In: Schlecht O, Stoltenberg G (eds) (2001) Soziale Marktwirtschaft. Grundlagen, Entwicklungslinien, Perspektiven. Herder, Freiburg, pp 115–192
- Institut der Deutschen Wirtschaft Köln (ed) (2001) Deutschland in Zahlen Ausgabe 2001. Deutscher Instituts, Köln
- Institut der Deutschen Wirtschaft Köln (ed) (2002) Deutschland in Zahlen Ausgabe 2002. Deutscher Instituts, Köln
- Institut der Deutschen Wirtschaft Köln (ed) (2011) Deutschland in Zahlen Ausgabe 2011. Deutscher Instituts, Köln
- Jann W, Göttrik W (1998) Helmut Kohl und der "schlanke Staat". Eine veraltungspolitische Bilanz. In: Göttrik W (Hrsg.) (1998) Bilanz der Ära Kohl. Christlich-liberale Politik in

- Deutschland 1982–1998. Ein Sonderband der Zeitschrift GEGENWARTSKUNDE. Leske + Budrich, Opladen, pp 229–266
- Janning J (2002) Lange Wege, kurzer Sinn? Eine außenpolitische Bilanz von Rot—Grün. In: Internationale Politik 57. Jahr, September, Nr. 9/2002, Deutsche Gesellschaft für Auswärtige Politik, Berlin, pp 9–18
- Kremer J (1993) Reform der Sozialen Marktwirtschaft. Verlag Wissenschaft u Politik, Bielefeld
- Lehmann GH (1995) Deutschland-Chronik 1945 bis 1995. Schriftenreihe Band 332. Bundeszentrale für politische Bildung, Bonn
- Martens S (2002) Frankreich—Deutschland. Vom EU-Motor zum Blockierer? In: Internationale Politik, 57. Jahr, September, Nr. 9/2002. Deutsche Gesellschaft für Auswärtige Politik, Berlin, p. 27–28
- Müller-Armack A (1973) Der humane Gehalt der Sozialen Marktwirtschaft. In: Tuchtfeldt E (Hg.) (1973) Soziale Marktwirtschaft im Wandel. Beiträge zur Wirtschaftspolitik. Band 20. 1. Auflage 1973. Rombach, Freiburg, pp 15–26
- Mureşan S (2002), Umweltschutzpolitik. Beiträge aus der Sozialen Marktwirtschaft und Auswärtigen Politik Deutschlands. In: Studia Universitatis Babeş-Bolyai, Studia Europaea Anul XLVII, nr. 1–2. Cluj-Napoca, pp 197–212
- Muresan St S (2011) Statele industrializate nu-si pot permite încă o criză financiară. In: Euractiv online portal (January 26, 2011). http://www.euractiv.ro/uniunea-europeana/articlesdisplayArticle/articleID_21891/%27Statele-industrializate-nu-si-pot-permite-inca-o-criza-financiara%27.html
- Noack H-J (2002, March 25) Die Deutschen als Opfer. In: Der Spiegel (2002, March 25) Die Flucht. Spiegel Serie über die Vertreibung der Deutschen aus dem Osten. Nr. 13/2002, pp 36–ff.
- Nörr KW (1999) Die Entscheidung für die Soziale Marktwirtschaft als ein Wendepunkt der deutschen Geschichte. In: Nörr KW, Starbatty J (Hg.) (1999) Soll und Haben—50 Jahre Soziale Marktwirtschaft (Marktwirtschaftliche Reformpolitik. Band 3. Schriftenreihe der Aktionsgemeinschaft Soziale Marktwirtschaft. Hasse R, Starbatty J (Hg.). Lucius & Lucius Verlag, Stuttgart, p. 23–38
- Oberender P (1999) Chancen und Grenzen des Wettbewerbs im Gesundheitswesen aus ökonomischer Sicht. In: Wille E (Hrsg.) (1999) Zur Rolle des Wettbewerbs in der gesetzlichen Krankenversicherung. Gesundheitsökonomische Beiträge. Band 33. 1. Auflage. Nomos, Baden-Baden, p. 77–86
- Olsson M, Piekenbrock D (1998) Kompakt-Lexikon Umwelt und Wirtschaftspolitik. 3., aktualisierte Auflage. GABLER Lexikon-Redaktion (Hg.) für Bundeszentrale für politische Bildung, Bonn
- Ottnd A (2006) Steigende Abgaben—sinkende Leistungen. Die Politik auf schmalen Grat. Unter Mitarbeit von Tobias Menz. Eine Studie der IWG Bonn. Olzog, München
- Papier HJ (1999) Soziale Marktwirtschaft—ein Begriff ohne verfassungsrechtliche Relevanz? In: Nörr KW, Starbatty J (eds) (1999) Soll und Haben—50 Jahre Soziale Marktwirtschaft. Lucius & Lucius, Stuttgart, pp 95–114, Marktwirtschaftliche Reformpolitik. Band 3. Schriftenreihe der Aktionsgemeinschaft Soziale Marktwirtschaft. Hasse R, Starbatty J Hg
- Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung für die Bundesrepublik Deutschland (1974/75) Jahresgutachten 1974/1975. Vollbeschäftigung für morgen. Zu den gesamtwirtschaftlichen Auswirkungen der Ölkrise. www.sachverstaendigenrat-wirtschaft.de
- Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung für die Bundesrepublik Deutschland (1991/1992) Jahresgutachten 1991/1992. Die wirtschaftliche Integration in Deutschland. Perspektiven—Wege—Risiken, Stuttgart. www.sachverstaendigenrat-wirtschaft.de
- Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung für die Bundesrepublik Deutschland (1996/97) Jahresgutachten 1996–1997. Reformen voranbringen. www.sachverstaendigenrat-wirtschaft.de
- Schmid G (1998) Das Nadelöhr der Wirklichkeit verfehlt: Eine beschäftigungspolitische Bilanz der Ära Kohl. In: Göttlik W (Hrsg.) (1998) Bilanz der Ära Kohl. Christlich-liberale Politik in

- Deutschland 1982–1998. Ein Sonderband der Zeitschrift GEGENWARTSKUNDE. Leske + Budrich, Opladen, pp 145–181
- Schmid J (2001) Mehrfache Desillusionierung und Ambivalenz. Eine sozialpolitische Bilanz. In: Göttrik W (Hrsg.) (1998) Bilanz der Ära Kohl. Christlich-liberale Politik in Deutschland 1982–1998. Ein Sonderband der Zeitschrift GEGENWARTSKUNDE. Leske+Budrich, Opladen, pp 89–111
- Schmidt MG (1998) Sozialstaatliche Politik in der Ära Kohl. In: Göttrik W (Hrsg.) (1998) Bilanz der Ära Kohl. Christlich-liberale Politik in Deutschland 1982–1998. Ein Sonderband der Zeitschrift GEGENWARTSKUNDE. Leske + Budrich, Opladen, pp 59–88
- Schüller A, Weber RL (1998) Deutsche Einheit: Wirtschaftspolitische Weichenstellungen zwischen politischer und marktwirtschaftlicher Rationalität. In: Cassel D (ed) (1998) 50 Jahre Soziale Marktwirtschaft. Schriften zu Ordnungsfragen der Wirtschaft. Lucius & Lucius, Stuttgart, pp 368–400, Band 57
- Seitz V (2010) Afrika wird armregiert oder wie man Afrika wirklich helfen kann. Deutscher Taschenbuchverlag, München
- Starbatty J (1997) Soziale Marktwirtschaft als Forschungsgegenstand: ein Literaturbericht. In: Ludwig Erhard Stiftung (ed) (1997) Ludwig Erhard 1897–1997. Soziale Marktwirtschaft als historische Weichenstellung. Bewertungen und Ausblicke. Eine Festschrift zum hundertsten Geburtstag von Ludwig Erhard. ST Verlag, Düsseldorf, pp 63–98
- The Economist (2012, May 19) Economic Indicators Section. Print edition, London, p. 88.
- Ullrich Consulting (2001) Einführung in die Betriebswirtschaftslehre. Vortragsvorlagen. Das Team Training and Consulting, Bonn
- Völklein U (1997) Ludwig Erhard: Trümmer, Träume und ein Mann der Tat. Ein Portrait/[Hrsg.: Ludwig-Erhard-Stiftung e.V., Bonn]. ST Verlag, Düsseldorf
- von Bandemer S, Haberle J (1998) Wirtschaftspolitik im Zeichen des Primats der Politik oder der Ökonomie. In Göttrik W (Hrsg.) (1998) Bilanz der Ära Kohl. Christlich-liberale Politik in Deutschland 1982–1998. Ein Sonderband der Zeitschrift GEGENWARTSKUNDE. Leske + Budrich, Opladen, pp 129–144
- von Homeyer I (1998) Die Ära Kohl im Spiegel der Statistik. In: Göttrik W (Hrsg.) (1998) Bilanz der Ära Kohl. Christlich-liberale Politik in Deutschland 1982–1998. Ein Sonderband der Zeitschrift Gegenwartskunde. Leske + Budrich, Opladen, pp 333–355
- von Nell-Breuning SJO (1979) Soziale Sicherheit Zu Grundfragen der Sozialordnung aus christlicher Verantwortung. Herder, Freiburg
- Wandel E (1980) Die Entstehung der Bank deutscher Länder und die deutsche Währungsreform 1948. Die Rekonstruktion des westdeutschen Geld- und Währungssystems 1945–1949 unter Berücksichtigung der amerikanischen Besatzungspolitik. In: Schriftenreihe des Instituts für bankhistorische Forschung. Band 3. Der Wissenschaftliche Beirat des Instituts für bankhistorische Forschung (Hg.) Fritz Knapp Verlag, Frankfurt am Main
- Wasem J (1999) Staatliche Steuerung des Gesundheitswesens—Historie und Effekte von Kostendämpfungsmaßnahmen und Gesundheitsreformen. In: Wille E (Hrsg.) (1999) Zur Rolle des Wettbewerbs in der gesetzlichen Krankenversicherung. Gesundheitsökonomische Beiträge. Band 33. 1. Auflage. Nomos, Baden-Baden, pp 9–29
- Watrin C (1998) The social market economy: The main ideas and their influence on economic policy. In: Koslowski P (ed) (1998) The social market economy. Theory and ethics of the economic order. Springer, Berlin, Heidelberg, pp 13–28
- Weidner H, Jänicke M (1998) Vom Aufstieg und Niedergang eines Vorreiters. Eine umweltpolitische Bilanz der Ära Kohl. In: Göttrik W (Hrsg.) (1998) Bilanz der Ära Kohl. Christlich-liberale Politik in Deutschland 1982–1998. Ein Sonderband der Zeitschrift GEGENWARTSKUNDE. Leske + Budrich, Opladen, pp 201–228
- Zohlhörer R (2001) Die Wirtschaftspolitik der Ära Kohl: eine Analyse der Schlüsselentscheidungen in den Politikfeldern Finanzen, Arbeit und Entstaatlichung, 1982–1998. Leske und Budrich, Opladen

Chapter 6

What Is on the Horizon for the Social Market Economy?

6.1 Theories and Doctrines: Neoliberalism, Socialism, Ethical Values

The understanding of the future of the Social Market Economy in Germany—today still based on a free, open and, at the same time, social and corporatist society—requires as prominent German statesmen assert themselves the understanding of the “spiritual allegiance of our entire system”.¹ This spiritual allegiance refers both to cultural, religious, intellectual, doctrine and ideological values and to the academic and the public opinion levels.

Thus, we will need to look at the main ideologies and doctrines in use today in globalisation processes. These are: neo- or ordoliberalism, corporatism or more or less social democracy and ethics-based values—that is to say values which have been derived from moral and spiritual values. Even in the few states where these ideas and doctrines haven’t prevailed as leading doctrines yet, the implementation of the one or the other sparks controversies, less obvious to ordinary people, between the representatives of the different parties, interest groups and lobbyists.

At a global level, one can become aware of these controversies at the level of doctrines or of political philosophy by observing some political phenomena such as: the visit, at the turn of the century in 2000, of Pope John Paul II—as a representative of moral and spiritual values—to Cuba, a symbol of the communist type of socialism; then, another example is the accession, in 2001, of China—as a social-communist state—to the World Trade Organization, a quasi-neoliberal institutional product; also, the intense negotiations between the “Free World” and the radical Communist Government of North Korea on democracy and market economy models of political and economic organisation. The pressure put by free, democratic powers having market economies in place on states such as these—and on others, such as Bangladesh and Liberia—in order to, among other things,

¹ See Herzog (1997), p. 14: “die geistige Fundierung unseres Gesamtsystems”.

promote democracy and individual freedom is big. In this context, it is important to bear in mind that the nations on our planet find themselves in an everlasting clash of ideas.²

Every doctrine such as neoliberalism, social democracy, corporatism or ethical values is conceived by a school of thought. These schools come up either with philosophical or political theories or with doctrines; they permanently stay in contact with the political, economic and business classes of the country of origin. Theories are the result of academic teachings or research. The latter have a decisive impact on the direction chosen for the economic policy of a state, but also for a national or international company. The more clearly the theory or doctrine is formulated and understood by the employees who have to implement it daily in politics, administration, economy and public services, the more their efforts will be effective and the country will do better.

In the last two decades, the developed world witnessed an “alienation between science and politics. . . that science isn’t animated (anymore) by the need of politics for consultancy, but rather by the competition among deliverers”³ of science services. So, over the last three or four decades, the relationship between the academic and the practical world has changed: competitiveness was introduced in the academic world through privatisation, via work based on personal interest—an interest not perceived primarily in the sense of common good, but of individuals. Product quality, which, in these cases, are theories and doctrines, ensures their success through the principle of competition.

The Social Market Economy in Germany, as well as in most Western states where it, or aspects of it, is implemented, oscillates between three main doctrines: neoliberalism, socialism and ethical values, all three having been formulated by academics. The unipolar globalised world (still) under US leadership is searching for theoretical models capable of explaining the evolutions and of bringing solutions to the changes which occurred in the economy and society. In the context of globalisation, a process leading to a new world order in economic becomes more and more visible as moving “. . .from the closed and centrally led home economy toward the open and self-regulating world economy. . .”⁴

In these processes of searching for solutions, the **neoliberal academia circles of Germany** found elements to cover this demand for solutions by looking at the USA and the UK. At least before the crisis of 2007–2009, experts still believed and even said that for Germany it has been good to have had in their country’s economic policy personalities like Ronald Reagan in the USA or Margaret Thatcher in the UK. After the crisis, the views have certainly turned for many, including for British

² Comp. Roberts (1990), for a more detailed position on this point of view.

³ See Giersch (1998), p. 13: “Entfremdung zwischen Wissenschaft und Politik. . . dass die Wissenschaft. . . ihre natürliche Triebkraft nicht (mehr) aus dem Beratungsbedarf der Politik erhält, sondern aus dem Wettbewerb der Anbieter”.

⁴ See Giersch (2001), p. 36: “. . . von der geschlossenen und zentral geleiteten Hauswirtschaft zur offenen und sich selbst regulierenden Weltwirtschaft. . .”.

Government ministers who stopped coming to Germany for counselling it to move away from industrial products towards a more service-based economy.

Given the specific German style in pursuit of order, loyalty, discipline and a certain rigidity, Atlanticists like Prof. Giersch liked to believe that because the highest creativity and ability to innovate are located mainly in the USA, it is there where the solutions to those aspects of the Social Market Economy which are not perfect should or could be found. Thus, the sclerosis of several labour markets of European countries is ascribed by some to higher regulations on the European continent than in the USA.⁵ According to neoliberals, this phenomenon persists because of the existing types of regulations stemming from the social order: the minimum wage guaranteed by law, the collective negotiation system of wages, the financial support of the unemployed over longer periods as well as the social cleavage resulting from the simultaneous introduction of high taxes for some and free social benefits for others.⁶

On the basis of their theoretical doctrine, neoliberals from academia put forward for many decades tough measures for the German state to follow in order to eliminate its so-called lag behind. The suggested measures were expected to discourage people from working as employees and make them plan gradually for more individual responsibility.

Thus, in the mid-1990s, Giersch envisaged of submitting to the federal government a set of measures deemed essential for the neo- or ordoliberalization of the Social Market Economy. The measures included:

- (a) A rapid and substantial decrease in taxation rates. The compensation of the losses to public budgets due to these cuts in taxes was to be made by issuing bonds and by privatising the rest of the public companies.
- (b) The decentralisation of public spending and the privatisation of public services.
- (c) Social reform promoting the reduction of public coverage in the case of health and pension insurances.
- (d) A reduction of the period during which the unemployed received benefits; the tightening of the criteria allowing the unemployed to refuse job offers from the Office of Employment if, for instance, the job was below the qualification of the unemployed; the new wage would have been inferior to the wage received from the previous employer; the unemployed would have had to move to another geographical region in order to take the job. Giersch also suggested the implementation of a flexible wage policy replacing the fixed wage policy which often represented a monetary reason for the companies' refusal to provide jobs to the unemployed.
- (e) The elimination of the legal protection against dismissal (Kündigungsschutz); in recession, this protection represents a major financial risk for any company.

⁵ Comp. Giersch (1998), pp. 26–33.

⁶ Comp. Giersch (1998), pp. 26–27.

- (f) The implementation of a European policy promoting competitiveness between member states and between European regions that wish to attract investments and between different labour markets.
- (g) The persuasion of public opinion to accept the unavoidable phenomenon of globalisation with optimism; the implementation of a modern policy of general and vocational training in order to cope with the increased competition generated by globalisation.⁷

In one word, through his ultraliberal offer, Giersch tried to give individuals more of a sense of responsibility. He actually thus suggests that the corporatist and social identity of the German people should undergo structural changes. Whether this is possible at a fast pace is doubted.

Even in the past it was difficult to estimate the suitability of such a model for bringing more dynamics into Social Market Economy. The measure above is based on the belief that all human citizens are strong enough to be masters of their own destiny. The proposal assumes, but doesn't state explicitly, that (sometimes lasting) crisis and difficult situations occur in life. People who have once been strong later find themselves in need of help, and this is not always by their own mistake.

As we can observe, the neoliberal model sets quite high standards in where success is concerned. This model can be perceived as created by "winners" for "winners", but the fact that "winners" cannot exist without "losers" is forgotten.

According to neoliberals—who to a large extent form the backbone of ordoliberalism in Germany—unemployment is the result of a certain rigidity that appears as a collateral effect of order (typical German characteristic) and of constancy. Insufficient flexibility of the marketplace appears as a collateral effect of loyalty (another typical German characteristic) and from a lack of social and geographical mobility as a collateral effect of stability and predictability (another typical German characteristic). These elements of advantages/disadvantages prevent, according to academic Atlanticists, the unemployed from finding or taking any job, irrespective of the profession or the geographical region where it is offered. Therefore, the unemployed tend to choose the familiar social environment even if he/she remains unemployed. As a consequence, the state has to continue supporting him/her with unemployment benefits, thus increasing its public expenditure and the share of the state.

Giersch's argument is no longer correct simply because the crisis of 2007–2009 has revealed that the neoliberally driven countries, such as the USA and UK, have appeared over several decades to be more productive than in fact they were from an economic policy point of view. This means their productivity and flexibility appear higher than that of countries driven by other doctrines, such as corporatism or socialism, simply because the neoliberal economies formerly run by leaders such as Reagan, and, respectively, Thatcher, had been run on the principle: growth by spending in deficit. This means the lax and deregulated spending supervision had

⁷ Comp. Giersch (1998), pp. 47–49.

created a false demand on the market, because this level of spending was not sustainable, as we saw with the high level of accumulated government debt: “In 3 weeks, if there is no political deal, the American government will go into default. Not, one must pray, on its sovereign debt. But the country will have to stop paying someone: perhaps pensioners, or government suppliers, or soldiers.”⁸

It appeared before the crisis that the widespread social security and social equality was bought in Germany at the price of a higher structural unemployment rate. Neoliberals strove to drive the German people away from these patterns. These patterns were specific to the German type of the Social Market Economy alone. They spring from the secular nature of the German people’s style of loyalty, professional dedication and in preserving craftsmanship traditions.⁹ However, by the end of the first decade of the twenty-first century, neoliberalism—at least in the form practised by 2007—has been discredited to a large extent as a “heal all solution” not only in Germany and Europe but in many parts of the world too.

Fortunately, most of his proposals—made at a time when neoliberalism still ran high—were not put into practice by the German government that preferred to stay within the known framework of the Social Market Economy. Otherwise, we would certainly have had, after the crisis of 2007–2009, many tent cities outside the German cities which would have been populated with unemployed and bankrupt entrepreneurs, just like we have now in the USA.

Further, I believe that even before the crisis, the neoliberal model could not survive in German corporatist society without external help. In Germany, corporatism and social democracy date back from the fifth century BC. They are older than liberalism in this country, which appeared later, rather as a reaction against the excesses of corporatism and socialist tendencies. During the elections of the post-war period, the FDP (as the party representing the doctrines centred on liberalism) used to obtain repeatedly around 10 % of the votes. The centring of the Social Market Economy on ordoliberalism was done with Anglo-American help, and, given the German style of the 1940s, “the help” was certainly positive for the time of reconstruction. However, in the meantime, things have changed in the Anglo-Saxon world as in Germany. At the general elections of the autumn of 2013, the FDP scored its worst result ever and missed the 5 % hurdle to get into the Federal Parliament. The popularity lost by neoliberalism was gained by ethical values. On the German “market of doctrines”, other ideologies, such as corporatism, social democracy and ethical values, hold significant ground. Some of the others, who gained from the loss of credibility by the neoliberals, are not only the former but are also new extremists such as the non-conformist Piratenpartei, the

⁸ See *The Economist* (2011).

⁹ Comp. Margies et al. (2001), pp. 28–29. It is well known by now at least in Europe that the dual vocational education and training system stemming from centuries long craftsmanship tradition has risen, together with elements of the Social Market Economy, to the status of another German export hit. Germany has bilateral agreements since 2012 with six EU member states for helping them address the high post 2007–2009 crisis youth unemployment levels. These countries are Portugal, Spain, Italy, Greece, Slovakia and Latvia.

Alternative für Deutschland or even the extreme right. We will not deal with the latter here, because their presence on the public scene is not ripe enough yet, in order to draw mature conclusions on their proposals, but we will focus on the mainstream ideologies.

In order to simplify the analysis, we will consider social democracy and corporatism as belonging to the same category of doctrines that provide major directions for the Social Market Economy in Germany. It is obvious that certain differences exist between social democracy and corporatism. Nevertheless, they do have as common roots solidarity and “equality”. Further, if the core of social democracy is “everyone”, the centre of corporatism is represented by the “group”. Seen in the broader context of all economic and political doctrines, the differences between social democracy and corporatism are not as significant as between each of these two ideologies and other doctrines. We see it as permissible to treat them, from the point of view of this work, in the same category.

The resistance of a significant part of the Christian corporatists to the pressure of change coming from the liberal sphere relies on the political pole of **social democracy**.

Even though social democracy and neoliberalism both generally advocate common welfare, the movements, political parties, groups and associations defending the first ideology have different ultimate economic goals than the groups defending the second.

Social democracy, as a **second leading doctrine** for the Social Market Economy, perceives itself as a movement that deliberately opposes neoliberalism and globalisation—seen as the collateral result of international markets for goods, human resources and capital.

Socialists and social democrats begin the promotion of their values by noting and emphasising the failures occurring in different parts of the world as a result of the implementation of the neoliberal doctrine in the economy. The failure of the economic, social and political structural reforms implemented in accordance with the neoliberal models, for example, in collaboration with the IMF in Argentina¹⁰ prior to the crisis of 2007–2009 and where neoliberalism had largely been discredited, is often used to justify the need for social-democratic action to prevent this type of error from happening again in other parts of the world.

Social democrats believe that the sole solution to this in the long term is to abandon the neoliberal doctrine because it transforms globalisation into a phenomenon that destroys national identities, deepens the North–South gap (the rich–poor divide) and causes intra- and international migration and social uprooting.¹¹

After the events in Argentina, the Global Justice Movement found an institutional voice in the World Social Forum (WSF) which was set up in Brazil in January 2001. Its “strategy of counterpower”, as named by Hugo Chavez in 2006 at the

¹⁰ Comp. Friedrich-Ebert-Stiftung (2001), p. 30.

¹¹ Comp. Friedrich-Ebert-Stiftung (2001), pp. 28–36.

WSF meeting,¹² has certainly received more motivation after 2007–2009. Social democrats focus on promoting the **globalisation of social standards** as complementary to the globalisation of national economies and of trade. Aware of the fact that the globalisation of economic life cannot be prevented, they seek to “pair the globalization of the economy with the globalization of social justice”.¹³ For instance, the International Trade Union Movement advocates the universal adoption, within the WTO, of a system of minimum social standards that should be included in the legislation ratified by the parliaments of member states and which should become compulsory in the field of social and labour rights for wage earners. The guidelines of the International Labour Organization (ILO) represent the groundwork for these standards that refer not as much to wage levels as to principles regarding organising freedoms, collective bargaining with the employer, the ban on discrimination in the workplace, the ban on child labour, the ban on forced labour and so on. The World Social Forum remains for the time being a “. . . model of global organization of resistance and transformation. . . (but it is not clear to the social-democrats if, o.n.) . . . the WSF is still the most appropriate vehicle for the new stage in the struggle of the global justice and peace movement. . .”.¹⁴

But the questions to be asked here are whether the nations and social groups that are going to benefit from these social rights are mature enough to make use of the social protection standards only when they really need them, thus not hindering the economic efficiency of the businesses within which these standards are implemented.

Another aspect is the disadvantage of corporatism and social democracy, namely, that they don’t offer concrete solutions for wealth creation, but have a different main focus: the way of using or distributing wealth already created by others.

Nevertheless, corporatism and social democracy are necessary. According to some, these two doctrines should be implemented at an international level with the purpose of diminishing the effects of inequalities. But, I would say, they shouldn’t necessarily reach this objective. It is at least a political signal if these are declared as purposes, which is already a positive result. In other words, even if they don’t pay off directly, these doctrines should be on the market of doctrines—even if only to ensure alternatives.

By contrast, others arguably estimate that equality among social categories will be achieved not through the struggle to reach social-democratic or corporatist goals, but, paradoxically, by the deepening of the globalisation and the individualisation processes: “The rise in inequality over the past 200 years has been mostly due to a rise in between-country inequality, which is now the dominant cause of overall

¹² See Bello (2013) p. 247.

¹³ See Friedrich-Ebert-Stiftung (2001), p. 31: “Der Globalisierung der Wirtschaft, muss die Globalisierung der sozialen Gerechtigkeit an die Seite gestellt werden”.

¹⁴ See Bello (2013) p. 248.

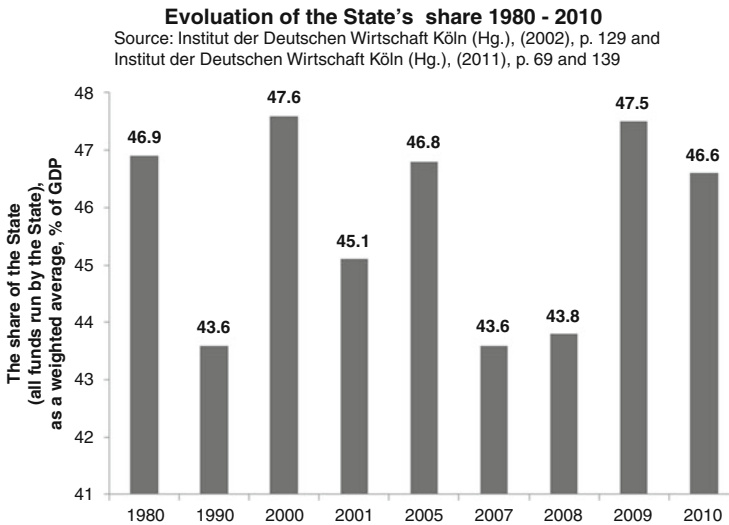


Chart 6.1 The state's share, % of GDP, 1980–2010

inequality. This trend may now have been reversed; and (...) this decline (of inequality—o.n.) will be accelerated by increased globalization.”¹⁵

Social democrats still strive, despite the defeat their socialist comrades experienced with the end of the Cold War, to limit the economic power of neoliberal capitalists and of those defending the market economy founded on the trust in the “invisible hand”.

Even so, the social-democratic solution is not final because it can become, in its turn, a threat when achieving too much power. Since the state has been given the prerogative of defending the citizen and the economic actor from private economic power, and was made by the Constitution a social state according to the Social Market Economy, it gained a lot of power and momentum of its own. After 1975, the German state—seen as the protector of the individual over the owners' and employers' greed for profit—gained in the meanwhile so much strength that it became almost autonomous from the Economic Constitution of the Social Market Economy. The state increased its own structures (any sense of Leviathan?) to amount to almost 50 % of the GDP (see in Chart 6.1). Kurt Biedenkopf, the ex-Christian-Democratic Prime Minister of the Land of Sachsen, believed that “Freedom is threatened not only by economic power, but also by the social power taking the form of the Social state. Nowadays, it is the State itself in the form of the Social State, who prevents or limits the development of freedom of the market, of entrepreneurial initiative and of individual responsibility by a steadily growing

¹⁵ See O'Rourke (2002) p. 95.

number of interventions, regulations and paternalism.”¹⁶ Possibly the term “prevent” is somewhat exaggerated and should be replaced by “tends to effect the discouragement” of private initiative. Nevertheless, it is clear that the more regulations to be observed by the entrepreneurs and the companies, the less easy it is for new entrepreneurs to turn innovation into business turnover. In this context, Kurt Biedenkopf quotes Franz Böhm with his sarcastic conclusion that “the sole difference between privately and publicly motivated power would be that the stately does not have any remorse.”¹⁷

The traditional German Christian corporatism and social democracy will continue to exist, act and propose again and again, if not always sustainable solutions for business development, at least needed corrections to the excesses of laissez-faire neoliberal capitalism. It is hard to estimate the extent to which these doctrines will help Germany assume an important role in international politics. This will be true at least as long as, from a global perspective, we do not have social security regulated by international treaties. Nevertheless, it is highly probable that Germany will become intensively involved in the development of social and development aid policies on a global scale, consolidating its reputation in the field.

Today’s international security order, in which any globalization of social standards might occur, will remain unchanged at least as long as the USA maintain their leading position as deliverer of global security. Until entrepreneurs will be free to have the lead in starting up new businesses and to translate innovation into business plans and investment, corporatism and social democracy will continue to be rather a reaction to neoliberalism. Specifically, ordoliberalism as the backbone of the Social Market Economy will remain an interlacing of neoliberalism and corporatism.

Within Germany, even after the delegitimation of neoliberalism due to the unjustly managed crisis of 2007–2009, the representatives of neoliberalism and socio-corporatism seem to be in a “doctrinarian stalemate of power”.

A third possible direction for the Social Market Economy is **ethical, cultural, spiritual or religious values**. In the current national economy in Germany, ethical and religious values comprise more than cultural values. As we already mentioned above, cultural values are no longer the only part of the spiritual and religious perennial values. Cultural values are the mental effect of ethical and spiritual values that exist independently from cultural values. Ethical and spiritual values would endure even if all cultural values on earth disappeared at a certain point in time. The implementation of cultural values within material action leads to the creation of physical goods and services in the economy.

¹⁶ See Biedenkopf (2001) p. 15: “Nicht nur die Wirtschaftsmacht sondern, auch Sozialmacht in Gestalt des Sozialstaates droht die Freiheit . . . Heute ist es zunehmend der Staat selbst, der in Gestalt des Sozialstaates die Entfaltung der Marktfreiheit, unternehmerischer Initiative und individueller Verantwortung durch eine ständig wachsende Zahl von Interventionen, Reglementierungen und Bevormundungen, behindert oder unterdrückt”.

¹⁷ See Biedenkopf (2001) p. 15: “Der einzige Unterschied zwischen privater und staatlich begründeter Macht bestehe darin, daß die staatliche kein schlechtes Gewissen habe”.

It is important to say at the outset that ideologists supporting the foundation of economic activities on ethical values don't focus primarily on ensuring the features of freedom and equality in the marketplace—two fundamental values in the economic field. In Germany at least, they consider that these two features have already been created, secured, guaranteed and are obvious. Therefore, there is no further need of work there. Instead, by starting from this base already in place, the promoters of ethics tend to focus on searching for new developments for the future.

The Russian researcher living in Germany, Leo Nefjodow, a supporter of “Kondratieff's Long Waves” rather speculative theory, has divided human life into five levels, from the simplest to the most complex: the material level (sensorial life and instincts), the vital level (needs, feelings, intuition), the cognitive level (rationality, self-consciousness, mental symbolic knowledge), the emotional–soul and psychosocial level (grace, faith, conscientiousness) and, finally, the highest one, the spiritual level (prayer, contemplation, mystical experiences).¹⁸ According to Nefjodow, who is Eurocentric in his thinking and—although of Russian origin—has disciples among Germans as well, the human species had managed by the sixteenth century A.D., the Renaissance period, to reach the vital level. Renaissance, Humanism, Enlightenment and modern science meant later a big step forward in Europe. Therefore, on average, in the twenty-first century, most Europeans—and Western educated beings—lead a life at the cognitive level. The sociologist researcher believes that any human being can feel complete, fulfilled and healthy only after going through all these stages, including the reaching of the last level (*vivat Aristotle!*). Condition hereto is nevertheless for the labour force to have ways and means to regenerate its work power, resources and motivation.¹⁹

The supporters of this theory had not been challenged in their belief before 2007 that the European society will evolve, in the next decades, from the cognitive level to the spiritual and religious one.²⁰ If applying this assumption to economic theory and the Social Market Economy, according to them, a rapid development of “soft” economic sectors (production of services, software, intellectual property) using the already existing “hard” sectors (production of physical goods) will occur in the future. This transition will be equivalent to a spiritualisation of economic activities.

From this point of view, it is understandable that before the crisis, many Anglo-Saxon politicians repeatedly behaved in a paternalistic way to politicians of countries with Social Market Economies. German, Austrian and even French or Belgian politicians were advised to promote the implementation of such economic policies which move their country's people to “the next higher stage” in the sense of taking a step forward from the more material and industrial to the more spiritual or “soft” type of products and of economies. But, after the financial crisis of 2007–2009, they were delegitimised. It became obvious to all analysts that without a minimum of

¹⁸ Comp. Nefjodow (2001), pp. 209–ff.

¹⁹ Comp. Nefjodow (2001), p. 124.

²⁰ Comp. Nefjodow (2001), pp. 209–ff.

grounding into physical products and industries, no economy can survive based only on services.

It appears now that the spiritualisation process will no longer be the expected way of moving away from the industrial type of economics, but will bring about increased awareness for all citizens the various interdependencies. The links between company profitability, investment and unemployment, tax rates, inflation rates and monetary stability, the level of public and total debt and the amount of spending on social security will become increasingly visible, obvious and understood by many more parts of the population than before the crisis. The dispersion of information via the Internet and mass media contributed, as a Second Industrial Revolution, to making the world a lot smaller, even very small and interdisciplinary. Today, the productivity and profitability of a company equally depends not only on the demand of the market and the quality of the equipments used for production but a lot on the intellectual ability, interdisciplinary flexibility and emotional and social skills and competencies of the employees using them.

The entire industrial sectors and the jobs provided by these will depend more on the opinion of the consumers regarding the usefulness and appeal of products than on the technological capacity to produce the respective goods. Customer opinion is nothing more than a conviction or a “belief” that the product is good, useful and worth buying by giving money away. The conclusion is that the market is anyway led by the beliefs and ethical values of the consumers. And given the modern age of instantaneous and global communication, these beliefs and “faiths” of customers will mould, much faster than in the 1990s and before, the entire industrial sectors and thus even national economies.

We believe that, at least in the case of the Social Market Economy in Germany, the future could belong to those economic sectors which harmoniously combine the technical–industrial work with the work to revive creative energies—be they human or environmental. This “something” or interrelating element I would call “faith and ethical values”, i.e. such values which go far beyond the simple cultural values. This evolution can occur only if ethics and morals increase in importance and if, at the same time, ordoliberalism and socio-corporatism remain in stalemate. Another condition for this evolution is if a more extended military conflict—whether on Western ground or not, or whether only the economic backlashes of it will be felt in the West or not—does not damage the infrastructure²¹ (be it industrial or human) built until now. Those damages could throw the West (and the rest with it) back, if not to the Stone Age, then back to a point close to where its international development started: possibly the age of the Crusades.

²¹ Spiritual damages in a war will occur anyway, and recovery from these will probably take more time than those from material damages, because at first they will be less visible than material ones.

6.2 Immigration, Multiculturalism, Europeanisation, Globalisation: Germanisation or De-Germanisation?

Germany's identity is changing. And therefore so is the cultural basis of what has given birth to the Social Market Economy. This process has become evident halfway through the last decade of the twentieth century. The ongoing changes refer to the concentric spheres (Nefjodow) and to the genetic substance of the population.

First of all, at the national level, a **boost in the intellectual and cultural maturity of the population** has been noted in the Western world and in Central Europe including Germany, especially after the victory over communism.

As a result of the increased awareness, life expectancy has increased (better medical services), whereas the birth rate has declined (more awareness of risks and costs involved with having offspring). Demographic decline appeared because children have, unfortunately, increasingly been perceived as an extra cost factor for the family budget. In Germany, this perception affects children of German ethnicity to a higher extent than children of immigrants. This pattern is similar to most Western white populations with the exception probably of France and is the core of German domestic changes, or **the first circle** of problems.

International transactions of whatever nature fuel **migration**. This is a source of input on the maturity levels of the population, bringing multiculturalism and identity change as well. After 1960, when the European economies had been consolidated, international migration became more and more extensive. Most European countries were facing a higher demand for labour force due to economic reconstruction and a decrease in terms of birth rates. Even though a migration of the workforce from the West towards other regions of the world—I mean expatriate managers and experts—also takes place, most migration flows analysed by researchers occur by poorer people from poor countries towards developed nations. While the “poor people” migration is perceived as creating problems, the career progress-driven migration of managers or international civil servants seems to be welcome. Immigration has become a mass phenomenon in Germany: the overall number of resident foreigners increased from just over 1.1 % in 1960 to ca. 9 % in 1999 and decreased again slowly to 8.2 % in 2008.²²

These migration flows occur despite the restrictions imposed by developed countries upon the labour force from poor states. A good example to illustrate this statement would be the discriminatory structure of the restrictions imposed by EU member states in terms of immigration: on the one hand, member states of the EU “. . . have abolished all obstacles to labour migration between themselves (phenomenon called “freedom of movement”, o.n.) but retain strong migration restrictions towards workers in poor countries outside the EU (phenomenon called “immigration”, o.n.). . .”.²³ In spite of barriers erected, stopping migration is not really possible. Just recall the considerable

²² See Institut der Deutschen Wirtschaft Köln (Hg.) (2011) p. 133 and Geißler (2000a, b) p. 34.

²³ See Lundborg and Segerstrom (2000), p. 579.

increase in influxes of economic and political refugees from Northern Africa and the Middle East following the Arab Spring and ensuing civil wars in those regions after 2011. Probably this immigration pressure comes to some extent to alleviate the demographic problems in Europe.

The ageing of its population and the reduction of the number of citizens of German ethnicity will trigger by 2100—if no spectacular change occurs until then—a drop in the total population from 81 million in 2010 to ca. 48 million, including yearly immigration of 100,000 persons. The drop in total population could be diminished to ca. 73 million if ca. 300,000 new immigrants moved to Germany.²⁴ Still, the major impact for keeping a population level to around 80 million by 2100 would be a fertility rate of minimum 1.7 after 2010 plus a net yearly immigration of 200,000 persons.²⁵ To secure this, it will be needed more than only a government policy in this direction combined with an increased willingness of the native population to do this. This would produce a drop in business productivity as less time and resources would be available for the market economy side of the national economic system. Increased birth rates will also require a drop in consumption of contraceptives of all kinds, which will have a negative impact on the demand in the pharmaceuticals sector.

Thus, it seems that the sole solution to the demographic problem, apparently able to bear the costs of social security systems in place, is given by immigration of an educated labour force: foreigners among the total German labour force increased from slightly under 7.3 % in 1991 to almost 9.5 % in 2009.²⁶ Thus, parts of the policy responses over time are that society should be persuaded to accept immigration as a “necessary evil”. Another way of responding to immigration is by increasing development aid policies in the countries of origin of migrants. Although the EU is the biggest donor worldwide of development aid, this is still not enough. Much more is needed and possibly not only via sponsoring infrastructure projects in those countries but by investing in education and human capital. And the latter is where Germans are good at, especially in the field of vocational education and training and in engineering and chemistry. So the Federal Ministry of Economic Cooperation and Development (Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung BMZ) via its Gesellschaft für Internationale Zusammenarbeit (GIZ)²⁷ can do something in this respect, if not at global level, then at least in the regions around Europe.

There are two diverging directions where the migration of the German skilled workforce is concerned: migration of German individuals heading westwards, while German group emigration (companies) chose the eastward direction.

On the other hand, there is the worry that immigration from foreign cultures—which can no longer be stopped, but can at the most be steered in accordance with the

²⁴ See Otttnad (2006), pp. 72–73 and Schaubild 8.

²⁵ See Otttnad (2006), pp. 74 and Schaubild 9.

²⁶ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 11.

²⁷ GIZ headquarters have been moved from Frankfurt to Bonn where new offices are built, as if to prepare for a bigger challenge for it in the medium and long term.

interests on the labour market—does not decrease the general level of skills and training of the workforce in the country. Each election campaign focuses on the concerns among public opinion by the **potential disruptive effects on the German national identity**.

The first core circle presented above is surrounded by a second circle, external to the core and which comprises other processes and social transactions based on Europe or EU and which I call **Europeanisation**. It is a process perceived as the effect of the political decision which, among others, brought forward the free movement of labour. Through Europeanisation the cultures and nations of the European continent would be submitted to reciprocal integration by diffusion, thus creating the possibility of the emergence of a European identity. This change in identity is likely to induce a de-Germanisation process in Germany by the assimilation of elements from the other European cultures and a Germanisation process among the other European nations, through the export of German goods (more than half of all German exports go to European countries). One example in the change of identity is the many millions of Germans of Turkish origin. Although many of them speak fluent German, study public law and have even MPs in the Bundestag, such as Cem Özdemir with the Green Party, they look all rather like Mediterranean whites and not like Nordic Scandinavians as the post-war clichés about German ethnicity have made us used to.

Germany managed to transpose (export) a significant part of the principles, institutions and legislation specific to its Social Market Economy into the European treaties, legislation and institutions. “The European integration generated a new circumstance. From a conceptual point of view, ordoliberalism was the most prepared (doctrine, o.n.) to face it.”²⁸ The ordoliberal type of market economy will be preserved in Germany due not only to the promotion programme made by the political foundations such as the Konrad Adenauer Stiftung but also to the fact that it has managed to extend its influence beyond national borders. This extended influence has been done by including among the constitutive principles of the Statutes of the “Central European Bank” the principle of Bundesbank independence from the political sphere and the goal of monetary policy of targeting inflation. In this case of Europeanisation, we witness a Germanisation of Europe.

On the other hand, the merging process occurring with a monetary union will bring forth in the long run the end of the national character of any economy and therefore the end of the Social Market Economy in its current German—national form. But after the debt crisis hit the euro, it became imaginable that a monetary union will not last many more years. According to some, the other institutions of the Social Market Economy, such as the Federal Ministry of Finance, the Federal Cartel Office or the Deutsche Ausgleichsbank (now merged with the Kreditanstalt für Wiederaufbau which lost billions of euros in the bankruptcy of Lehman Brothers in 2008), will evolve in the same direction of Europeanisation. In this second case, we witness a de-Germanisation of the country, a phenomenon aggravated by the decrease of the number of citizens of German ethnicity—through demographic

²⁸ See Joerges (2002) p. 21: “Mit dem Projekt der Integration Europas aber entstand eine neue Lage. Der Ordoliberalismus war auf sie konzeptionell am besten vorbereitet”.

reduction—that leads to a weakening of the support given to the domestically built system of organisation currently in force.²⁹

Jean-Claude Juncker, long-time prime minister of Luxembourg, believes that in order for the European project to be successful, both national elements and a degree of competitiveness in what taxation and the opportunities offered to investors by each member state is concerned should be maintained in the economy. For instance, a “melting pot” of taxation policies that would lead to a single taxation system is inconceivable for him, just as it is expected by German fiscal politicians in the wake of the sovereign debt crisis of 2010 and onwards. The principle applied here in cohabiting diverging opinions is “unity in diversity” **and** belongs to the Catholic ideology. Maintaining the individual features of member states will determine internal dynamism but also an assertive EU at an international level. From this perspective, the Social Market Economy could be preserved in the future as it is now, without having to change due to European pressure of integration.

The other change that, according to more limited numbers, threatens the Social Market Economy (both in its European and its national versions) is the EU enlargement to the East. This enlargement is sometimes perceived by politicians as a “necessary evil” and by large public Western opinion as a mistake. Whether they admit it or not, enlargement is helping the West to enter new markets and provides it with opportunities to maintain the same rhythm for economic growth and to preserve jobs. Germany will be the state within which the positive effects of enlargement will have the strongest impact, in spite of the often hypocritical claims of the CSU about the alleged flooding of parts of the national labour market by cheaper labour force.

A third circle, comprising the first two, is globalisation. The effects of **globalisation** on Germany—a traditional, conservative and, unlike England, a simultaneously corporatist society—are deep. More precisely, globalisation triggers a process where dissolution of the model according to which groups were formed in German society until now has become possible and imaginable. “The effects of globalization have seized our community spirit and submitted our structures of organization to the pressure of adaptation. The transition from the machine era to the computer era demands its price: proven orders and institutions, but also recognised models are put to the test of international competition and need new motivations. . . (In a context—o.n.). . . of by far yet uncompleted restructuring processes within the state, economy and society, deep rifts within the consensual culture of the Federal Republic of Germany can no longer be ignored.”³⁰

²⁹ For this thesis comp. Sarrazin (2010).

³⁰ See Stoltenberg and Schlecht (2001), p. 9: “Die Auswirkungen der Globalisierung haben unser Gemeinwesen erfasst und setzen seine Organisationsstrukturen unter Anpassungszwang. Der Übergang vom Maschinen- zum Informationszeitalter fordert seinen Tribut: Bewährte Ordnungen und Institutionen, aber auch anerkannte Leitbilder stehen auf dem Prüfstand des internationalen Wettbewerbs und verlangen nach neuen Begründungen. . . (In einem Kontext—o.n.). . . bei weitem noch nicht abgeschlossenen Umstrukturierungen in Staat, Wirtschaft und Gesellschaft, zeigt die Konsenskultur der Bundesrepublik Deutschland nicht mehr zu übersehende Risse.”

The nature of globalisation should be explained in order to understand the national dissolution process.³¹ At first glance, it would seem that globalisation was born with the progress of the international aerial passenger transport in the mid-1960s and with the emergence of a new social category, envied by some of us: the professional group of “multinational managers”. “Globalization . . . is a finding of the American Schools of Management . . . The expression was coined in 1983 by Theodor Levitt in the “Harvard Business Review”. Only that one has a chance, who becomes a global co-player and gets involved worldwide instead of focusing on the preservation of the domestic acquis.”³² But Kräke is possibly not exactly right on the origins of globalisation. Long before 1960 and even before 1945, two epochs were strongly marked by globalisation. The epochs affected by the first wave of globalisation were of “. . .dramatic convergence, prior to World War I, followed by one of sharp slow-down—or even reversal—in the inter-war years. These two epochs coincided with distinct policy attitudes towards globalization. Prior to World War I, trade was relatively free, capital flowed in abundance and mass migrations were tolerated or even encouraged. These policy attributes held with even greater force in the “Third World” than in the Atlantic economy, but all this changed after 1914; trade policy became autarkic, mass migration was restricted to a trickle and world capital markets disintegrated in the wake of macroeconomic upheavals and government interventions.”³³ These changes were triggered by the need of transformation of national economies into centrally planned war (First World War) economies.

Today, globalisation refers again to the interpenetration, at a global level, of national economies, to the quasi disappearance of protectionist trade barriers and the adoption of liberalisation policies. A basic illustration of the processes going on in the globalisation with trade in goods and trade in services, can be made if we compare the figures for the status quo in 2000 with those a decade later in 2009. For this, we can have a look at the four Charts 6.2–6.5 and thereby notice how the country rankings changed. In this change, the multilateral organizations play a crucial role because they bring parties together. The WTO was and possibly will still remain the most important instrument here but cannot solve social problems.³⁴ Emigration generates high social costs both for the targeted states and for the origin states. International competitiveness is thus affected. On the other hand, migration fecundates diverging cultures and triggers processes of international convergence. If the view that “. . .a global framework for order for the international division of labour, gains more importance. . .”³⁵ was probable and sensible in 2002, by 2014 it

³¹ For a detailed analysis comp. Sarrazin (2010).

³² See Kräke (1999) pp. 18–19: “. . .Globalisierung ist eine Erfindung amerikanischer Managementschulen. Theodor Levitt hat den Ausdruck 1983 im Harvard Business Review geprägt (. . .) Nur wer zum globalen Mitspieler wird und sich weltweit engagiert, statt sich auf die Bewahrung heimischer Besitzstände zu beschränken, hat eine Chance.”

³³ See Williamson (2002), p. 55.

³⁴ See Siebert (2002) p. 25.

³⁵ See Siebert (2002) p. 24: “Ein weltweiter Ordnungsrahmen für die internationale Arbeitsteilung gewinnt größere Bedeutung.”

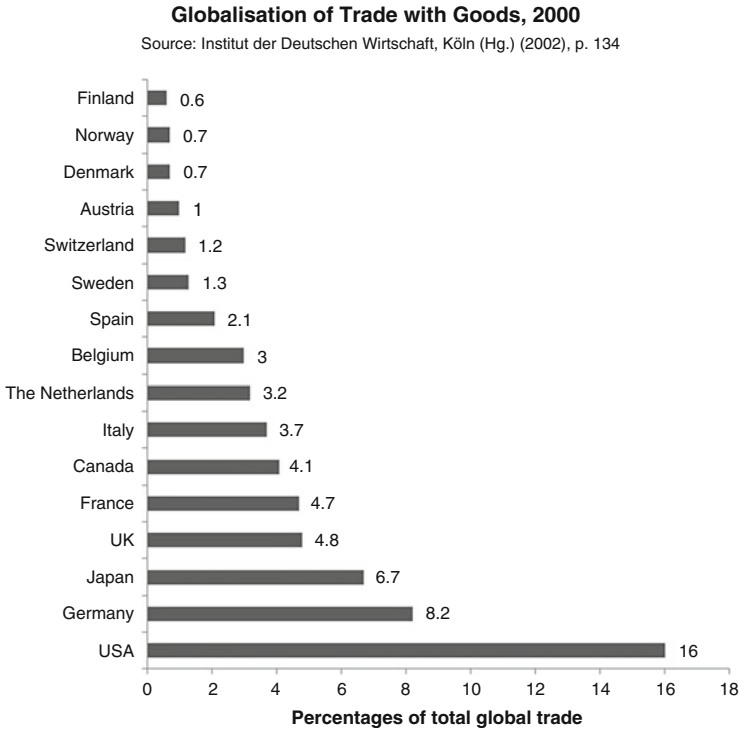


Chart 6.2 Globalisation of trade with goods, % of global trade, 2000

has become a certainty and recommended even by Vatican institutions such as the Pontifical Council for Justice and Peace.

In Germany, a part of the researchers and analysts in national economics perceive globalisation as a major obstacle against the national interest of the preservation of the Social Market Economy in its current form.³⁶ We doubt that they are right. The national interest is determined by the mentality of the people. As previously shown, the German mentality is inclined towards traditionalism and conservative values when it comes to innovation, to letting in new products from other parts of the world and to the acceptance of new owners or managers of German companies brought in by transnational mergers. For example, Germany adopted in summer of 2008 a law that requires parliamentary approval for foreign investments that are perceived to endanger national interests. This law refers to all acquisitions of more than 25 % of a German company’s voting shares by non-European investors.

Many analysts believe that the geographical area in which the German state has to ensure, through specific institutions and laws and equal conditions in terms of

³⁶ See Habisch (2001) pp. 197–199 where some of the perceived influences on the financial order are presented.

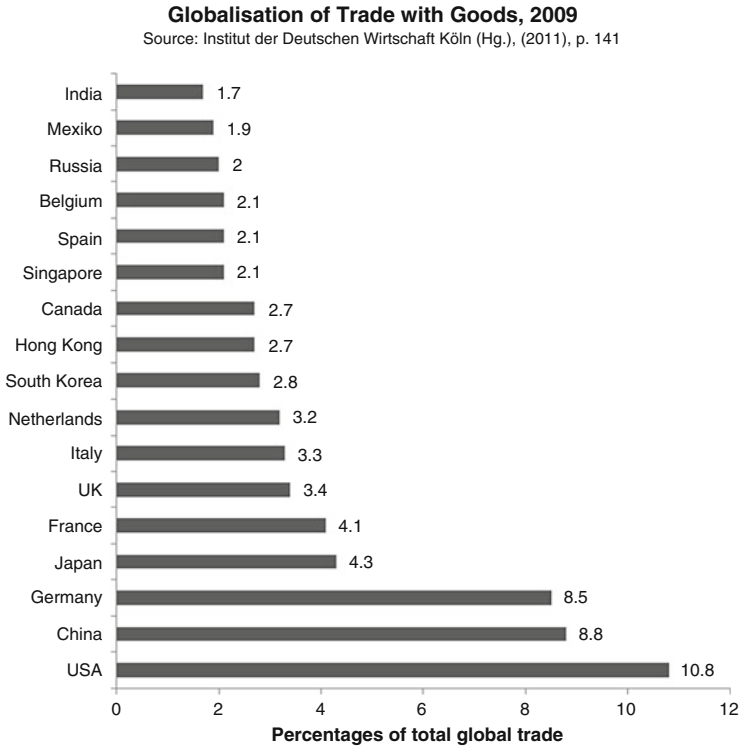


Chart 6.3 Globalisation of trade with goods, % of global trade, 2009

competitiveness, freedom, and enforceable contracts for its companies, should not be restricted to the domestic territory, but rather be extended to the entire European continent and even the entire world. This means that the Social Market Economy developed a global interest of its own in creating a new international economic order. Why? Because the survival of this economic system depends on its ability to export, if possible, to all and across the whole world. But which is the sovereign (today, in 2013) capable of guaranteeing equal and fair competitiveness in a globalised context for the products of its own companies? There is no such sovereign. As Henry Kissinger stated, Germany alone is too big for Europe, but too small for the world. There are forces acting for this new order. Some regard the rather theoretical debate, between the diverging neoliberal institutionalism path and the classical liberalism³⁷ path, in achieving a new post-crisis international economic order and tend to be overheard by the managers (regulators, diplomats and CEOs of multinationals) of such order, given the current atmosphere of unrest and uncertainty in international relations. Others work for a new world order and for fencing off immigration of poverty into Europe by using development aid policies.

³⁷ For a good presentation of the differences between the two paths, see Sally (1998), pp. 177–ff.

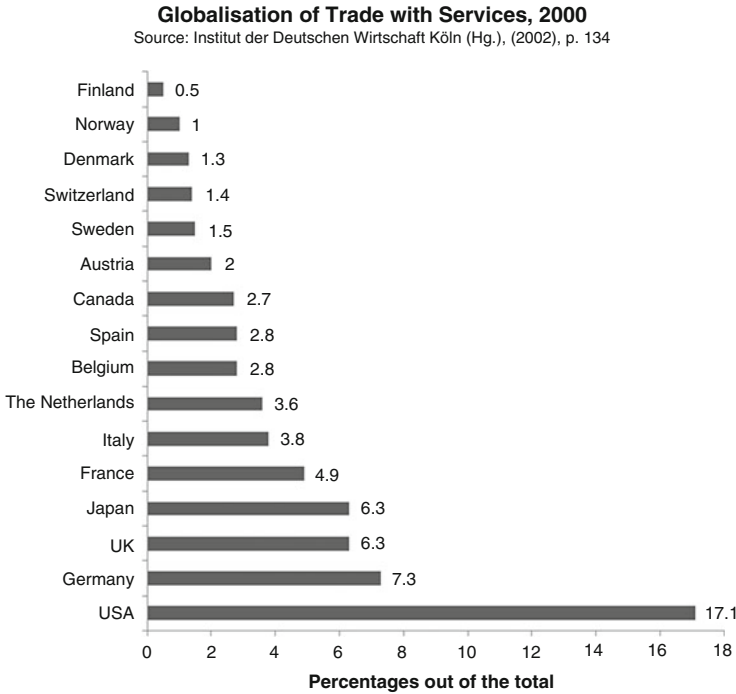


Chart 6.4 Globalisation of trade with services, % of global trade, 2000

Here, Germany and the EU converge. Not only that Germany has traditionally a strong development aid policy and international charity work, but the EU is also the biggest donor worldwide. Speaking with a single voice should not be difficult in this area of uncontroversial nature. Thus EU credibility would increase not only at global level but also for its own citizens.³⁸

Thus, until a credible new international economic system will have been put in place, it looks as if we are heading towards a brief re-nationalisation period. The Social Market Economy may have been deemed by many as outdated before the crisis of 2007–2009. The reason was that its framework institutional conditions for competitiveness, responsibility and law enforcement were limited mainly to domestic and European borders. But now, after the crisis, it is neoliberal free marketeerism and economies driven by financial services which fell into disgrace, and it is the Social Market Economy which has gained credibility. It has even been included in the Treaty of Lisbon under Art. 3 as a model for Europe’s economic development,³⁹ as we have seen above.

³⁸ Comp. Juncker (2001), p 7.

³⁹ Here, the British saying relative to the outcome of the Second World War might be appropriate: “We won the war, but Germany won the peace.”

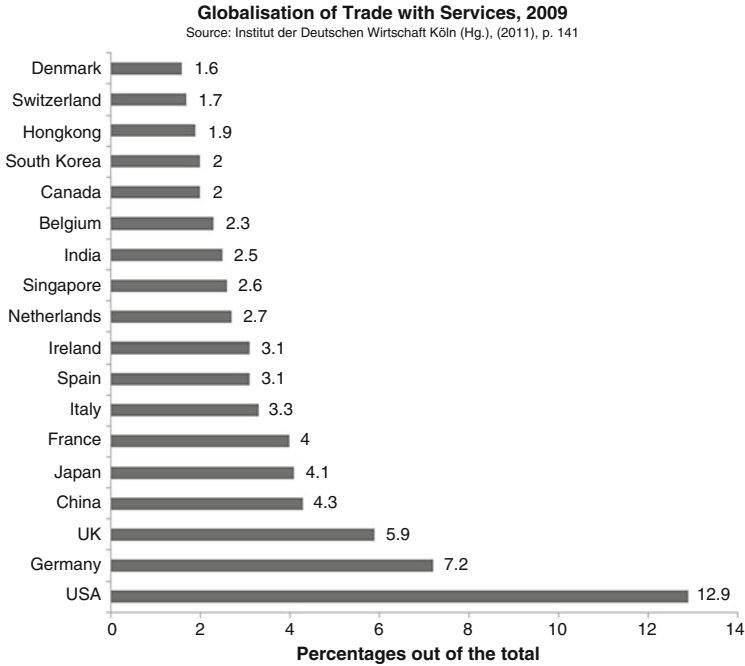


Chart 6.5 Globalisation of trade with services, % of global trade, 2009

6.3 Market Economy and Social Order: Keeping a Balance

Often, a lot of things have to change in order for most of the other things to remain as they were. There has to be a functional balance secured between the market economy part and the social order part of the Social Market Economy.

With respect to the market order, German business circles pursue interests by increasing their economic freedom and decreasing that of the social protection of their employees. These interest groups request that solidarity focus more on individual responsibility and equality of opportunities than on making everyone equal through redistribution. Moreover, even now, after the economic and financial crisis of 2007–2009, they still ask for increased liberalisation and increased competition on the labour market, a demand which obviously puts pressures on the labour force to deliver more and more.

As far as the social order is concerned, political trends and ideas seem to collide with employers' interests: "I do not believe that there are reasons to give up the participative model we have developed. On the contrary, I believe it is superior to all the other models and not just for socio-ethical reasons, but for economic reasons

as well.”⁴⁰ Former Chancellor Schröder defended the need and usefulness of keeping in place the social order offered by the Social Market Economy in the new context of globalisation. Here it appears that within the Social Market Economy there is a clash of interests.

The employees’ participation in the dividends of the companies, as actors of society, including in the social benefits brought by profitability, is the key to maintaining a free social consensus in Germany and key to a market economy which is meant to have a social character. The ingredients of the concept of social security are that it has to exist, its understanding must not be inflexible and it must be adapted to the evolution of international living standards. This means companies are expected to invest a part of the profits not only into company assets like machines or equipments but in the social security of their employees as well. The main mission for the Social Market Economy will be to “politically integrate globalization—related processes in such a way so as to continue to secure the principle of participation”.⁴¹

Looking at the vision expressed by former Federal President Roman Herzog, we can have an insight into the need for keeping a balanced relationship between the market economy and the social order as antagonistic partners within the system. He stated that in the ongoing search for new forms for the Social Market Economy in Germany, five aspects must be taken into consideration. These are: market economy, labour market policies or employment policies, salary policies (along with the important principle of collective bargaining remuneration, i.e. Tarifautonomie, Germ.), social security policies (with the five government components) and freely government-run social services (education, motorways, kindergartens, public utility infrastructures, support for culture and so on). In his opinion, with these five aspects in mind, the fundamental question to be asked is regarding the size of the share of the state (state quota): what should the proportion of financial funds, as part of the national revenue, at the disposal of each of these five pillars be? “These five factors cannot all have the same bearing... they cannot be allotted 20 % of the Gross National Product each... The decisive aspect shall always be the public expenditure quota. If more than 50 % of our Gross National Product passes through government or other public hands, then the line of the bearable has been obviously crossed.”⁴² We must first take note (Chart 6.1) that the funds run by the government

⁴⁰ See Schröder (1997), p. 33: “Ich glaube nicht, daß wir Anlaß haben, auf das Teilhabemodell, das wir entwickelt haben, zu verzichten. Ich halte es im Gegenteil allen anderen Modellen für überlegen und zwar nicht nur aus sozialetischen Gründen, sondern auch aus ökonomischen Gründen.”

⁴¹ See Schröder (1997), p. 35: “die mit der Globalisierung verbundenen Prozesse politisch so einzufangen, daß das Prinzip der Teilhabe weiter gewährleistet ist.”

⁴² See Herzog (1997), p. 20: “diese fünf Punkte nicht alle gleich groß sein können, daß man nicht auf jeden der Punkte 20 Prozent des Bruttosozialprodukts verteilen kann... Der entscheidende Ansatzpunkt im übrigen wird aber immer die Höhe der Staatsquote sein. Wenn mehr als 50 Prozent unseres Bruttosozialprodukts durch staatliche oder sonst öffentliche Hände gehen, so ist das Maß des Erträglichen deutlich überschritten.”

The Share of the State in the Developed World, 2001 and 2009

Source: Institut der Deutschen Wirtschaft Köln (Hg.), (2002), p. 129 and Institut der Deutschen Wirtschaft Köln (Hg.), (2011), p. 139

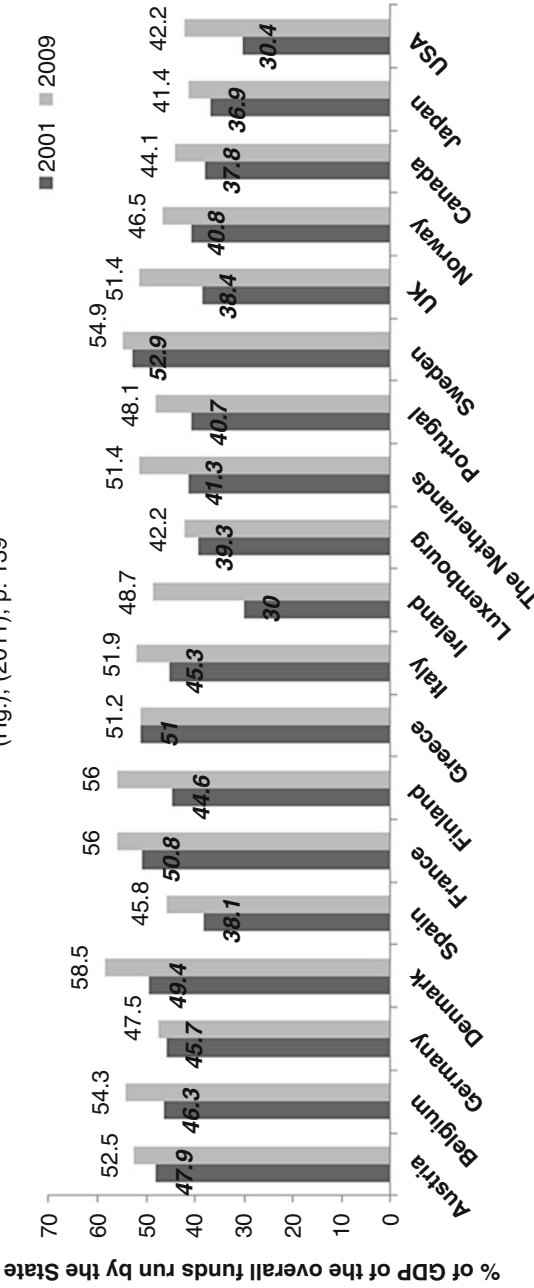


Chart 6.6 The share of the state in the selected countries of the developed world, % of GDP, 2001 and 2009

to deliver the various services it is expected to offer have not amounted over the 50 % threshold yet, like it did in several other developed Western countries (see Chart 6.6). Even the economic crisis of 2007–2009 did not convince the German government to cross the threshold: in 2007, 2008, 2009 and 2010 it was 43.6 %, 43.8 %, 47.5 % and 46.6 % of GDP, respectively.⁴³ This is good news where the focus is concerned of keeping the Social Market Economy inclined towards the market economy side.

As we can see in Chart 6.6, not as much good can be said of many other developed Western nations, which all exceed the academically correct principle of maximum 50 % of GDP for a market economy system. Looking at other major Western countries, we see that since 2001 also Austria, Belgium, Denmark, Finland, Italy, Netherlands and Norway have repeatedly crossed the 50 % threshold but returned to lower figures. In contrast, the USA has run state quotas of 30.4 % and 42.2 % in 2001 and 2009, respectively.⁴⁴

An example here, to understand the nature of the effects of a higher state quota or state intervention in the economy, is the “Crisis response programme II” (Konjunkturprogramm II) “Umweltprämie” (Abwrackprämie, in popular terminology). This programme which ran between January and September 2009 encouraged car buyers to buy new cars instead of old ones. For each new car bought, they got a fixed premium of €2,500 from the state budget and could hand in their own old car to scrap. Although this measure massively supported the manufacturers of new cars—and indirectly not only those of Germany since the German car market is fairly international—on the other hand, it indirectly forced into bankruptcy many thousands of German second-hand car dealers. This premium was paid for with taxpayer’s money and obviously supported a boom but created a distortion of the car market and an injustice towards the second-hand car dealers.

For this reason of upholding justice and credibility in front of all economic agents (big or small) in the national economic system, at least from the point of view of the Social Market Economy, any stabilisation measures run by the government must begin with **lowering government intervention and public expenditure quota**. As a result, companies will gain much needed room to manoeuvre and in medium term be able to adapt products to real market needs. However, the situation is trickier for the short term.

We know well that competition is not perfect on any market and of course also not in Germany.⁴⁵ It was distorted before the crisis of 2007–2009 and has been even more distorted given the massive state bail-out and state intervention schemes, such

⁴³ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 69, and for an international comparison, see p. 139.

⁴⁴ See Institut der Deutschen Wirtschaft Köln (Hg.) (2011), p. 139.

⁴⁵ Product price manipulations by informal cooperation of managers of corporations is in fact often day-to-day business in real life among middle-class companies, in spite of all the efforts of the Bundeskartellamt. Only a few get caught, the majority and especially the smaller ones are not really bothered by state supervision.

as government response measures to “save” the banks and the economy. By writing about distortion, we are referring to the mechanism of price formation.

Let us take for instance, the medical service market. According to the OECD statistics and classifications, when it comes to medical service quality only, Germany ranks 14 in the world. When the price factor is also calculated, Germany falls back to ranking 25. In other words, the same quality of “medical treatment unit” is more expensive in Germany than in other countries. The considerable growth of individual contributions to Public Medical Insurance Companies (Techniker, AOK, etc.) in recent years rose from 12 % in the 1990s to a capped value of 15.5 % of the gross monthly salary by 2012. It is partly due to the not always efficient self-administration of the Public Medical Insurance Companies and partly to the prices requested by the Doctors’ and Hospitals’ Associations. The latter negotiate in a group (corporatist model) the value of the medical services they provide to patients with the Public Medical Insurance Companies. In their turn Public Medical Insurance Companies are also often united among themselves and raise together the contributions required of individual medical insured persons, thereby forcing them as beneficiaries of healthcare services (patients) to pay more. Thus, a classical application of market force appears towards the patient. But this market force is often applied towards the medical practitioners and their negotiating arm (Arztekammern). In public debates taking up pages and pages of newspapers, many people go as far as this: “The cure is competition. Break the supplier cartels of the Doctors’ Associations and let doctors and hospitals sign (individual, o.n.) contracts with the Public Medical Insurance Companies directly. This would be the radical cure for the supply side.”⁴⁶

Of course this is only half of the truth, because a strong insurance company will more easily force lower prices for medical services on individual doctors than they could do on collectively bargaining doctors. Further, this regulatory activity of the state to prohibit the formation of cartels of providers is complicated and too technical to bring about. It would require the signing of several million new contracts, as each doctor would need to sign a contract with each Health Insurance Fund Company or hospital in their city or region. In other words, this change would take considerable macroeconomic effort to implement.

Along with competition distortions, there is a growing burden of expenditure on the health insurance systems. This expense burden will have indirect and growing negative effects on the state budget expenses. The state budgets are sometimes in a position where they are forced to subsidise all the funds that are a part of the social order pillar in order to avoid the collapse of the system. In 2001, Public Medical Insurance Companies had a total cumulated deficit of over 5 billion DM, despite the fact that they had received contributions from all the members and all government subsidies. Until a government has the courage to make structural reform, the deficit

⁴⁶ See Hank (2001), p. 1: “Die Kur heißt Wettbewerb. Zerschlagt die Angebotskartelle der Kassenärztlichen Vereinigungen und lasst Ärzte und Krankenhäuser direkt mit den Krankenkassen Verträge vereinbaren. Das wäre die radikale Kur auf der Angebotsseite.”

cannot be covered except with the continuing rise of individual contributions, immigration or a reduction in service quality. This is what happened. The phenomenon of raising contributions has been continuous since 1970: back then, medical insurance contribution was only 8.2 % of the gross monthly income; since then, they have risen to approximately 15 % for all health insurance funds. “**The Big Health System Reform**” of Chancellor Schröder seemed to be successful, at least from a monetary point of view, if not from that of the quality and amount of services provided. As of July 1, 2005, his government abolished the principle of strict parity of burden sharing 50–50 % between employer and employee and introduced an extra contribution of 0.9 % to be paid by the employee. Thus, the employer’s contribution was in 2012 of 7.3 % and the employee’s 8.2 %, also because the total contribution has been capped at 15.5 %. These measures, combined with the introduction of the quarterly fee of €10 to be paid in cash at each doctor visit by each patient and the cut in the number and quality of the services sponsored by the Public Medical Insurance Companies provided, created a positive situation. Thus, the statutory health insurance companies managed in a couple of years to accumulate surpluses. In 2011 these surpluses reached almost €20 billion⁴⁷ and allowed for returning some public subsidies back to public budgets. This is an example of successful reform by using a regulatory movement which inclined the balance towards the market economy away from the social order and implicitly diminished the state quota.

We shall now move away from looking at the options of cutting down on government intervention towards the possibilities of **increasing the share of the national wealth available to companies**. This share can be increased if economic productivity and, implicitly, international competitiveness can be boosted.

Productivity cannot be increased unless companies and employees participate more responsibly in economic transactions. One measure in this sense was the **reform of contract law**. Looking at the legislative proposals of contract reform, we can understand another dimension of the ordoliberal model of the state reforming the rules, but not intervening into the economic processes. It attempted to considerably simplify legislation on concluding commercial transaction contracts and thus reduce the administrative burden before getting into a commercial relationship. The legislative initiative introduced in the Bundestag in the fall of 2000 meant to make the contract concluding system more flexible and to decrease the contracts’ rigorousness and thus reform one of the principles of the pillar of the market economy side: responsibility. Easier contract legislation saves a lot of effort with concluding, performing and enforcing contracts, easing the tasks of the companies’ legal departments and inside the judicial system. Until the reform, a contract was considered signed and legally valid on the basis of only a verbal, not written, agreement between the parties, which is quite flexible. Once concluded, it had to

⁴⁷ See the magazine “Spiegel Online” of March 7, 2012: <http://www.spiegel.de/wirtschaft/soziales/19-5-milliarden-ueberschuss-reiche-krankenkassen-rechnen-sich-arm-a-819872.html> accessed May 26, 2014.

be abided by. The adoption of the bill made the contractual process even more flexible. In the new system through the contract, the parties would only make an attempt to make. And they would be allowed to be released from the liability of having to compensate following a breach if the transaction does not take place, by providing evidence of having made the prescribed effort to conclude the transaction. Similarly a deceived party would thus be able to withdraw easier from the contract.⁴⁸ This means economic agents will have more courage to enter contractual relations and to take on legal responsibilities, because the responsibilities will have become less. At a macroeconomic level, the effect will be a more dynamic commercial life than before it, and the entry level into business life and transactions has thus been lowered, i.e. business activities have been made more “social”.

Another concrete measure to decrease the need of public expenditure by the state is to **increase the number of companies**. This increases competition and lowers their market power. It also diminishes the danger of them becoming too big and creating a need to be saved/bailed out with taxpayer’ money. It can be done first by creating conditions for citizens to take gradually more risk, become more entrepreneurial and establish more new companies. They must try: “Our system foots on the principle of trial and error. Why is then that error is so mercilessly demonized?”⁴⁹ He is certainly right because since trial and error is at the basis of a free society, being free means not having to be ashamed of failure, should fate lead to that. However, increasing the number of companies is a measure which certainly comes against the natural process of any market economy. In this, every company attempts to “swallow” as many of his competitors as possible and get as much market share as possible at the expense of its competitors, becoming through mergers and acquisitions bigger and bigger. This natural process diminishes the number of companies. Therefore, intervention is needed. The government, although aware of this danger, did not respond in this way. As we saw during the bail-out schemes of the crisis of 2007–2009, banks especially had become (through various methods and tricks) “too big to fail”. Thus, they forced public budgets to bail them out at the expense of taxpayers and contradicted the very principle that a free-market economy regulates itself. It certainly does not, and free marketeers were proven to be wrong. On the other hand, imposing limits on company sizes would interfere with economic freedoms on the markets. Thus, capitalism is in a dilemma and appears to have reached some considerable limits.

These are some of the projects for the market economy pillar of the Social Market Economy, pertaining to domestic affairs. Now we should briefly look at the international dimension.

An improvement of the international competitiveness of Germany will come only from an increase in production innovation, from achieving higher earnings and turnover and not from cutting costs. This means letting go of the products and

⁴⁸ See the Ernst (2001) p. 8, column 1.

⁴⁹ See Herzog (1997) p. 28: “Unser System beruht auf dem Prinzip von Versuch und Irrtum. Warum wird dann jeder Irrtum so gnadenlos verteuftelt?”

services also offered by other countries with lower labour costs and focusing on delivering high-quality and high-tech products which can only be manufactured in an educated and healthy society. Product quality is a direct result of an educated workforce which, in turn, is the result of high social standards and education. A healthier and more educated society is certainly more expensive and has higher social standards. “We could uphold our social standards only when on the international markets we are two or three lengths ahead of our competitors”⁵⁰ according to former President Herzog.

These factors also lead to inequalities between the labour forces of competing countries. Education-borne creativity needs a free and open society or a society as free and as open to permanent change as possible. As a result, for Germany to be able to maintain its standard of social security, it will have to discover new top quality innovative products which other countries will only be able to develop in the future, perhaps two or three generations later.

The **internationalisation of standards of social security** has started. The high social standards in Germany have become desirable in other societies where they have become known, and this not just in Europe. Economic globalisation sweeps across countries with completely different social systems and brings them on a collision course. Outsourcing certain parts of the production process to countries with cheaper labour automatically produces a loss in revenue of the social security and taxation budgets in the outsourcing country. Everybody wants to keep their high social protection standards. Who wouldn't? Thus, we have a dilemma of the balance between the market economy and social order.

The biggest challenge created by globalisation of the markets is the **problem of financing the internationalisation of social security**. A relatively happy case (compared to cases outside Europe) is the case for the EU Social Charter. Ratified as a result of the European Commission's efforts, member states commit to respecting and aligning themselves to certain minimal standards valid in all EU countries. The European Social Fund (Europäischer Sozialfonds) subsidises minimal measures towards the harmonisation of completely different social systems, as are, for instance, those of Southern and Northern Europe. According to certain experienced politicians from the leadership of the Federal Finance Ministry, it is not very likely that such measures financed by European funds will ever translate into a coherent EU social policy,⁵¹ unless of course we pass to a political union. This means it is improbable that the absolute value of pensions, the value and duration of unemployment benefits, the income tax percentage and also other types of security, such as social benefits, their absolute value and the moment they start to apply, are

⁵⁰ See Herzog (1997) p. 25: “Wir könnten unsere sozialen Standards grundsätzlich nur erhalten, wenn wir unseren Konkurrenten auf den Weltmärkten stets zwei oder drei Pferdelängen voraus seien.” However, does this policy result in more integration with other nations, even European nations? Is it a sign of a distancing attitude? Is this the German solution for a dilemma: the choice between national preservation and integration?

⁵¹ Comp. Habisch (2001) p. 215.

ever going to be the subject of a common EU social policy. Not as long as we have the principle of competition between various countries within the EU.

Social levelling, through the redistribution of income across classes and regions, as well as government subsidies to the pension and unemployment funds directly, depends on the performance and profitability of the economy. We have previously stated that it is desirable for the state's contribution to this to be as low as possible or to be constantly decreasing. So the harmonisation of social standards cannot be the work of government spending, it must be that of the economy, under a gentle regulatory push by the state.

On the other hand, for the economy to work and produce trade, there must be differences in costs and between social classes, regions and countries. From this perspective, social harmonisation policies, such as the accomplishment of the "formed society", seem absurd because once they are in place all "movement" will stop.

The attractiveness of Eastern European markets for Western ones stems from the very fact that the former are different to the latter, as they have (still) comparably low costs of social security and labour, combined with a high level of professional training. If European integration will be accomplished by legal decree, the harmonisation of social standards will be achieved, but Western investments in Eastern Europe will automatically stop and massive distortion of competition on the markets will be produced. This was observed in the case of the former DRG: here, salaries and social systems have more or less been aligned by legal means to those in the Federal Republic of Germany. The more this happened, the lower were the investments made by West German companies in the East. The investment that did nevertheless continue was rather political in nature, intended to prove solidarity and the need for unification and spend the already earmarked monies from the German Unity Fund (Solidaritätszuschlag).

In conclusion, the expansion of social systems of developed countries and their globalisation through legislation in the target countries is not possible. Social systems and the social order cannot be globalised that way. They could though be globalised but via an initial period, where the free market would have the say and after this will have had for a long enough time dominated over the social order, bringing indirectly the bad social impact of free markets and thus helping the maturation process of the population. Once a critical percentage of the population will have matured, it will find new solutions for social security in a globalised world.

This is why we must ask ourselves if (rather) it is better to let free markets produce the desired social standards later, maybe after a few decades of it acting in concert with efforts backed by development aid policies and projects targeted at improving education levels in the target countries. Is it not better to support globalisation in order for it to achieve its goal of social harmonisation sooner? Furthermore, in such a way, social harmonisation would be a natural result accomplished through the pursuit of personal interest (free markets and personal gain in responsibility). Supporting globalisation could be an intelligent move if the political class saw the road ahead and tried not to restrain this process. This kind of international economic policy would be simply government intervention towards globalization and not against it; it would be liberal intervention. As we have seen, it

was proposed for Germany's internal economic policy by Alexander Rüstow. Still, the crucial principle of justice is to be obeyed here when implementing the rules on the markets. Ordoliberalism could integrate the need for international competitiveness and that of domestic social order and balance these with an interest for a clean and healthy environment.⁵² But unfortunately, neither in Germany nor elsewhere, there are not enough far-sighted politicians who think firstly about public and only thereafter about party or individual interests.

6.4 Production of Goods and Services: International Position Due to the Social Market Economy

What happens in Germany has a large impact at the global level on the evolution of the industrialised world. The country was the biggest exporter in absolute figures until 2011, when it was for the first time overtaken by China. In 2000, Germany's share of the global GDP was just over ca. 4.5 %, so it was the fourth country in the world according to the absolute value of the GDP. Back then only the USA (over 22 %), China (over 11.5 %) and Japan (over 7.5 %) were ahead of Germany as a contribution to global GDP.⁵³

By the year 2000 some neoliberals had believed that onwards "under the pressure of global competition, there is in Germany a transformation process of the employment structure from industry to modern services . . . The countries left behind in development will supply us with industrial goods. Here, we will satisfy more cultural needs and we will have more free time; in the developing countries, if we allow the price mechanism to continue to produce its effects, it is possible for unemployment to gradually disappear . . . This is connected to a devaluation of the human capital typical of the industry sector."⁵⁴

These were questions asked and faiths professed in 2001, 2003, 2005 and even 2007. Before the crisis of 2007–2009, there was a trend in economic policy towards relying more on services than it had been in the past. In the case of Germany, the

⁵² Comp. Habisch (2001) pp. 193–196.

⁵³ See Sachverständigen Rat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2001/02), tab. 38, p. 177. So Germany succeeded in fulfilling Friedrich List's dream of getting ahead of Great Britain, as far as GDP and industrialisation are concerned. The ranking order shown in McKay et al. (1991), p. 704, table 22.1 represents the situation in 1900 when the most developed countries were the UK, the US and Belgium. The situation is reversed now in 2014.

⁵⁴ See Giersch (1998), p. 29 and its footnote 7 where he quotes himself: "Unter dem Druck der weltweiten Konkurrenz, vollzieht sich in Deutschland ein Wandel der Beschäftigungsstruktur von der Industrie zu den modernen Dienstleistungen. . . <Die zurückgebliebenen Länder werden uns . . . mit Industriewaren beliefern. Bei uns wird man mehr kulturelle Bedürfnisse befriedigen und mehr Freizeit haben, in den Entwicklungsländern kann, wenn wir den Preismechanismus spielen lassen, die Arbeitslosigkeit allmählich verschwinden>. . . Damit verbunden ist eine Entwertung des industriespezifischen Humankapitals."

rise in Gross National Product between 1991 and 2000 was (in spite of the costs of reunification) a cumulated total of almost 33 %.⁵⁵ This growth was due to a large extent, to the rising turnover in services. The total turnover for manufacturing did not rise in those ten years by more than with 11.5 %. However, in services, the registered growth was of almost 47.5 %.⁵⁶ This shift towards services, in the origin side of the national economy, was even more visible if we look at the change of proportion of manufacturing activities and services in the total Gross National Income for this time frame.

Germany before the crisis was seen as the country on one of the last places on the continent, being called by “The Economist” of the early 2000s as “the sick man of Europe”. Back then, “the small” were “the big”. In 2001, in Europe the highest GDP growth rate was that of Ireland, 6 %, and it had been forecasted that in 2002 Luxembourg would have the highest GDP growth rate in Europe, with over 5 %.⁵⁷

Not only that countries like Ireland were back then living to a large extent from taking on debt, which the public opinion did not really know of, but in the 1990s and early 2000s in Germany, there were several events and historical stages which hindered growth. Besides the reunification costs from 1990 onwards, the floods in the summer of 2002 led to losses of tens of billions of euros, and there was a decrease in exports following the 9/11 attacks. These had to be compensated for by the second Schröder cabinet through the postponement of the third stage of the Tax Reform Law (Steuerentlastungsgesetz 1999/2000/2002) adopted on July 14, 2000. This law was meant to increase entrepreneur initiative in Germany in order to make it a more attractive country for foreign investors, but it is held to not have moved Germany significantly up on the scale of attractivity for investment.⁵⁸ 9/11, the wars in Afghanistan and Iraq, and sanctions on Iran meant disturbance of international trade links and forced Germany in 2003, 2004 and 2005 to loosen the strict interpretation of the Maastricht criteria for financial discipline.

Further, Germany and France allowed themselves to take more public debt in order to keep up (at least to some extent) with the then “European tigers” seen above. The declarations of Germany and France in the fall of 2002, regarding the loosening of the interpretations of the provisions of the Stability and Growth Pact, meant that they would no longer be applied to the letter, but would act as guidelines for economic policies. In December 2002, Germany announced that its budget deficit for that year was ca. 3.8 %, above the EU Stability and Growth Pact

⁵⁵ See Appendix E. These percentage rises can be given only with approximation because there are slightly different statistical calculation methods used by the Institut der Deutschen Wirtschaft Köln and by the Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, respectively.

⁵⁶ This data are calculated from Sächverständigen Rat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2001/2002) Table 18, p. 392 by using the respective year prices and do not take inflation into account.

⁵⁷ See Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung für die Bundesrepublik Deutschland (2001/02) table 38, p. 177.

⁵⁸ See Schreiber (2000), pp. 525 and 537–538.

provision of maximum allowed 3 %. It was followed by other countries (Portugal, Spain, Greece) in this lack of fiscal discipline.

With the advent of the economic and financial crisis of 2007–2009, this trend towards services stopped. What happened to the manufacturing sector of the German economy is quite the contrary of being pushed into the corner. The German economy was reinforced not by services but by that part of its productive economy which manufactures physical goods.

Germany currently (2013) has a GDP of ca. €2,500 bn and is by far the biggest economy in Europe. We know now that those high growth rates of allegedly “tiger” economies, Greece, Ireland, Spain and Portugal, had been caused in the 1990s by the accumulation of unsustainable levels of public and private debt allowing for budgets to spend in deficit and create jobs and demand. All countries, after the first euro crisis suddenly returned to fiscal discipline, to austerity and to saving instead of spending. This change of heart indicates that politicians and civil servants in the ministries of finance simply did not see the crisis come. If it is such, the situations grave because it means that incompetents run the finances of countries.

In such situations of monetary crises, it is to be expected that it is those who have the physical products who enjoy the most stable economies, as they can relate their policies to products at hand. All the former tigers in Europe have been shed from their pedestals and are looking in surprise at the German economy, formerly regarded as sluggish, and at its comparatively very low unemployment rates for adults and youths. Nevertheless, one aspect which throws some shadows on the stability of the German economy in relation to ethics and morals should be mentioned here. After the crisis of 2007–2009, the German industry has taken up a lot more orders from defence budgets from abroad. Large companies like Rheinmetall, Kraus Maffei, EADS, etc. but also small and medium enterprises made the country in the meanwhile to the third biggest weapons exporter worldwide. Whether this is ethical or moral is a question which nobody can really answer.

It is especially in the countries that had taken up the highest levels of debt and where foreign capital was withdrawn as a consequence of lending becoming more expensive, that taking up further domestic debt had to be stopped, that consumption and economic growth plummeted, and where we currently witness the highest rates of unemployment. Thus, if in Germany in March 2012 we had an unemployment rate of just over 6.5 %, in Greece and Spain we had over 20 % and close to 24 %, respectively.⁵⁹ As we saw after the crisis, Germany had proven that it had managed to establish a better relationship between manufacturing and services as engines of economic growth. Other countries like the UK, whose ministers previously attempted repeatedly to teach the Germans to finally leave the “lower” level of industrial (more primitive) manufacturing and move to the “higher” level of services and financial industries, have themselves returned in the meanwhile to policies more friendly to industrial manufacturing and production of physical goods. This is true even about the USA: “Support for manufacturing is back on

⁵⁹ See *The Economist* (2012) Vol. 403 Number 8779, p. 86.

the agenda in America, thanks in part to concerns about long-term growth prospects and the <challenge> posed by China.”⁶⁰ Maggie Thatcher appears now in the post-crisis era in a worse light because it was her reforms in the 1980s which practically deindustrialised the UK and contributed to the high unemployment and social tensions we see now.

The conclusion is that countries relying on their own products and industries have automatically low unemployment rates and are in better shape. Therefore, as long as countries are able to cling to industrial production which is also innovative and keep the core of its national economy based in it, their economies will be more resilient to shocks than those who do not.

We witness a time in which the Social Market Economy is seen as source of German international attractiveness. At least for a time, this model of economic and social organisation will become more and more attractive on a worldwide scale, replacing neoliberalism and pure free marketeerism in countries where the latter had seemed only a short time ago as being forever established. The ordoliberal model of the Social Market Economy appears to be a model for the future, if it can integrate some of the fundamental changes which the IT revolution has in the meanwhile brought to the processing industry. It has done this through the concept of intellectual property and the new technology of “3D printing”. As we can see from the recent failure of the Anti-Counterfeit Trade Agreement (ACTA) negotiations and contradictions with WTO rules regarding intellectual property rights, the **nature of property is in a process of change from “ownership” towards “usage”**.⁶¹ Just as drones used for military enforcement will change the concept of sovereignty, the concept of domestic security threats within national borders and the way the UN is working, similarly the Internet revolution, is affecting the markets. The Internet not only makes market bigger and even global, but it blurs the capacity of states to uphold regulations only within their own national borders. The Internet moves us away from the Adam Smith model of national economics. This shift will not only be relevant for intellectual property rights affecting publishers, the entertainment industries, etc. but will certainly influence trade with physical merchandise as well. This is due to the new technology of 3D printing.⁶² Such 3D printing software will be possibly downloadable from a website hosted in a foreign country and the product printed on a special printer at home. This means products will be physically created within the borders of the home country, thus circumventing any international trade and any need of supplying it by known international transaction types and transportation. But one or two decades are still to pass until this new technology and machines will have multiplied to an extent for an ordinary company to perceive the market demand shift. Until then, we remain within the known status quo.

⁶⁰ See *The Economist* (February 22, 2012c).

⁶¹ Comp. Floridi (2012). A copy of the report is available at <http://www.ecipe.org/publications/acta-ethical-analysis-failure-and-its-lessons/>.

⁶² See *The Economist* (April 21, 2012).

6.5 Social Security: Investing in Human Capital, the Environment and Sustainability

Of course, from a pure theoretical point of view, a country can stay a leader if it has an edge over the others, be it technological, educational, etc. Germany has succeeded to leave most other Western nations behind and it is a respected country worldwide. But this success is being paid for with a high social cost. And this is not being spoken about openly enough by politicians and the media. The sky-high expectations of innovation and productivity by the employers from their employees set the latter under high strain. Obsession with holding tight on the job, especially in times of economic crisis, overburdens many employees. A large part of the labour force suffers from burn-out syndromes and inability to hold in the long term to personal relationships and emotional bindings. There is a large Parship market with at least ten million singles who are looking again and again for a new relationship. Of course this has an impact not only on sexual morality but also on demographic figures. Indeed, German companies are probably the most productive in Europe: Germany has the highest current account surplus. But given the signs from the demographic arena, as well as the signs from the consumption of anticonceptive drugs plus antidepressants, politicians have to come up soon with a solution to **keeping the balance between economic productivity and social life**. Long-term wealth and social well-being in Germany depend on the solution found here. The discussion about and for a “new gender contract”⁶³ in relation to the “social contract” from the point of view of achieving a sustainable economic productivity and innovation is the area where the debate should be and the solution sought.

Thus, we assert that social security policies and social order within the Social Market Economy can have a long-term future if regarded as investments in human capital and the maintenance of a healthy environment.

Reforming social security systems in this sense is possibly the most comprehensive and difficult government task in Germany and in Europe too.

With respect to Germany, from their creation under Bismarck and until now, under the pressures of growing expenditures needs, the successes in reforming these systems have been that of adaptation only. A radical solution for these challenges was actually postponed. The adaptation measures taken were meant to adapt the systems to the relative historical age. Thus, temporary revenue growth (e.g. immigration and increasing contributions) and expenditure control (e.g. more competition, diminished costs and expenditure) were secured. But their structure and principles remained more or less the same as in the 1880s.

The public expectations when talking about reform of social security systems are not necessarily to further adapt the existing concept, but to eventually create a wholly new concept and principles. Those developed in the 1880s, 1950s (e.g. dynamically adapted retirement benefits) and 1960s are unfortunately no longer applicable in the

⁶³ See Haug (1999) p. 174: “neuen Geschlechtervertrag”.

second decade of the twenty-first century. This is simply because they do not realistically address pressures grown out of the globalisation of markets and international relations. This applies to retirement benefits, on the one hand, and to unemployment, health, nursing and social security, on the other hand. Until an alternative concept will be defined and agreed upon, we still remain in the area of adaptation.

A difficult problem for governments will be to counter the effects on the **statutory pension system** by demographic decline in birth rates of ca 1.4 per woman and the life expectancy increase with 6 or 7 years of the last 20 years. Paying pensions is de facto an investment in retirement and seems to have rather an emotional than an economic value. So far, the Western and German population had high pensions. This generated hope for the younger generations that they too would enjoy the same lifestyle when they retire in their turn. This hope creates a pressure on the government of not deceiving them and letting them down. Unfortunately some deceit already occurred because the public pension funds produced by the intergenerational contract principle (Umlageverfahren) were not and will not be enough to provide decent pensions in old age, around 2040–2050, without changes in the pension contribution and retirement age.

In Germany a change in the retirement law was introduced in 2007: it raised the retirement age gradually from 65 to 67 years, starting from 2012.⁶⁴ More deceit of younger generations would occur by raising the retirement threshold to, say, 75 years old, even though this measure might provide for healthy public finances. There are other ways of backing up the state pension funds, for example, with private capital accumulation, public capital or company pension schemes. All of these three are already at work. Whereas the first has the nature of a life insurance, the second and third are known as Riester Rente (named after the German labour minister Walter Riester in the Schröder cabinet) and Betriebsrente, respectively. It seems, though, that they will not be sufficient either. So other mechanisms will have to be found in order to carry the burden of old age, for example with the help of growing social solidarity, i.e. by some retired persons volunteering to get involved. Could the retirement benefits be regarded as an investment in each of the respective pensioners and as a remuneration for their professional expertise and life experience which they will then make available for free to professional advisory companies and institutions?⁶⁵

On the other hand, an imaginable reform of the pension systems based on the intergenerational contract (Umlageverfahren) could be that of caring for the elderly not by paying them (with retirement benefits), but according to the model in Southern European countries where each family cares for its own elderly at its own expense.

⁶⁴ See Deutscher Bundestag, 16 Wahlperiode, Drucksache 16/4372 of February 23, 2007, accessible online at: <http://dip21.bundestag.de/dip21/btd/16/043/1604372.pdf>.

⁶⁵ In fact, Germany already has a Retired Expert Personnel Service (Senioren Experten Service, <http://www.ses-bonn.de/>), an agency sending pensioners who are experts in their respective fields, to developing countries in order to support economic restructuring or to educate local labour. These “seniors” live in those countries for about 6 months on their German high-level pensions, get some country-specific extra allowance and have the joy to still be allowed to work and make themselves useful.

When discussing the reform of other social security categories mentioned above, I can think of a new vision in economic policy. Could there be a direct connection between social security benefits and education, qualification or professional competence? Why wouldn't **unemployment benefits** be regarded as a "temporary study scholarship" with the purpose of professional reorientation? Professional qualifications are precious assets. Investing in them can equal investment in human capital that must be consolidated and helped to adapt to changing market demands. German job centres regard the unemployed receiving unemployment benefits as their clients. Further, they are obliged to send out a specific number of applications per week in order to uphold their rights of receiving unemployment benefits. Reducing the amount of compulsory weekly (often blind) applications and doing instead professional re-specialisation could help the unemployed in adapting to the new requirements for getting a new job in this quickly changing market.

Then, looking at **health insurance** in an alternative way is also possible. Why should the statutory health insurance contribution paid by a company for their employee not be regarded as its investment in the employee's capacity to deliver labour? Why wouldn't government health subsidies be regarded as public investments in human capital in order to expand the productive capacity, both quantity and quality of the labour force? What else will one use his/her health for if not mainly for work? There are few people who wish to or even can sleep their active years away.

Further, why should **social security benefits** that ensure the minimum necessary for the survival of the needy not be regarded as an education or crime-preventing premium? This would lead not only to a decrease in the destruction of goods by looting and of destruction of social relationships by crime but also to a decrease in policing and prison-running costs. For example, the fact that the USA has one of the smallest social security benefits and smallest state quota in comparison to other OECD countries backfired into higher crime rates. Thus, at the beginning of 2000, for the over 2 million convicts in the USA, which is a quarter of all the convicts in the world,⁶⁶ prison costs in certain American states were much higher than the budget allotted for education.

There are several types of education in Germany which can be delivered in this context. Worthy of mention here is the vocational education and training which is applicable to all social classes. In Germany there is the quasi-unique so-called *Dual Vocational Education and Training System*.⁶⁷ This system is one of the other export hits of the post-war German Federal Republic, which has been spreading it not only into Eastern Europe and the CIS but also in Africa, Asia and South America, by signing many bilateral agreements on the topic.⁶⁸

⁶⁶ See Habisch (2001), p. 220.

⁶⁷ For details regarding this system called "Duales Berufsbildungs System", look at the institution coordinating its running at federal level, the Bundesinstitut für Berufsbildung based in the former federal capital of Bonn. Its homepage is accessible at: www.bibb.de.

⁶⁸ A good comparative analysis of vocational education systems among EU countries can be found in Arslan et al. (2013), pp. 4–18.

Then there is the increasingly important need of education with social and emotional competence. This becomes more and more relevant the more individualistic attitudes the market economy order brings into social behaviour and thus the social order.

At the same time, the need for geographic mobility driven by more flexible and demanding markets will grow and will affect the social order at the expense of that family member who will have to move with the main earner and of their offspring. Offspring might have to change schools and with that lose social relationships, thus being endangered of emotional isolation hampering their personal development. **Compatibility between job and family** is still an unresolved matter in large parts of the employee sections of society in most European countries and is reflected in the increasing rate of divorce and the inability to uphold social and emotional relationships over long periods. There is awareness and many programmes running to address this challenge. There are special audits running, which assess whether the respective company or institution correctly allow for the integration of professional and family life (*Beruf und Familie*) and subsequently award compliance logos.

To sum up, those countries where social policies will be run such that social security expenditure will be more and more seen as a public investment in education and compliance with dignified human needs will feel in the short term in their social security systems the shock stemming from globally competing market forces but will be advantaged in the long-run competition⁶⁹ because they will enjoy sustainable development.

In conclusion, countries which have almost no social welfare institutions are unattractive for future investment in innovative and sustainable business, in spite of the low cost of labour. This is precisely because they cannot offer a level of health and qualification of labour force able to innovate and deliver good-quality products.

It should be hoped that many countries will succeed in changing their perspective on the governance of social policies and social order in this direction and become attractive places for the production of high-quality goods and services. Those who cannot make these changes, for lack of skills, or time, or interest, will lag behind. Here, as a reverse to all being able to succeed, just ask yourself the question: if all countries are focusing on innovation, who will do the cleaning jobs?

Whether it is investment in social security, education or learning, whether acknowledged or not, education is de facto an investment in *human beings*⁷⁰ and *citizens*. In Germany, this has a special connotation: human beings are regarded as “half” of the environment. As we have seen, in the German understanding of the word “environment” (*Umwelt*), a representation of both the physical nature and the surrounding human environment is understood. The exact meaning is chosen by each interlocutor, depending on the context. Here again we come across the ethical and moral dimension defined by Nefjodow, by the churches, but also by the

⁶⁹ Comp. Habisch (2001), p. 219.

⁷⁰ See Habisch (2001), pp. 217–220: “Humankapital”.

ordoliberal school of thought in Freiburg. Investment in human beings as the fabric of a nation is also an investment in the environment. The principle of environmental order in the Social Market Economy is being applied even in the sector of education and we have an intersection of the second pillar of the social order with the third pillar of the environment.

Leaving aside investment in the human component of the **environment**, a new field of research opens up: investment in environmental protection, ecology and prevention of climate change. This field is important because of its major effects on human health and integrity. Such investment is regarded more and more as an ethical investment and, a generation from now, it can become the new main global booming sector, just as computers, IT and Internet communication are now.

Germany already gathered significant experience in environmental protection investment and this will continue to grow. With globalisation came a new set of demands from non-governmental organisations and industrialised countries having only limited natural resources, such as Germany, UK and especially Japan.

First, there is a new demand to integrate ecological goods, such as the atmosphere (air) and biodiversity into national economic policies not only of countries in Europe. The calculation of production costs for companies and the definition and universal acceptance of a set of environment norms are principles which should be adopted at global level. In this respect, German environmental policies already in place have two components: a global one implemented as foreign environmental policy, and a domestic one implemented through the Federal Ministry of the Environment and the other national environment agencies.⁷¹

Second, there is a new need to continue applying and perfecting environmental policies which, from an institutional point of view, already had good results. The national interest of Germany, which developed because there is a Social Market Economy in place, is that the country needs to get involved in building an international framework of norms, legislation and working institutional instruments in order to implement environmental policies and be thus able to sell its own products abroad. An example here is that of Germany's leadership for the ratification and implementation of the 1997 Kyoto Protocol to the Framework Convention on Climate Change adopted in Rio in 1992. This Protocol stipulated the systematic and compulsory reduction, during 2008–2012, of polluting gas emissions into the atmosphere in all countries acceding to it. Not all the countries agreed with the Kyoto Protocol and some developed alternative ways to address the issue: "... While European countries are lamenting the U.S. defection from the Kyoto Protocol, a major U.S. unilateral initiative in research and development oriented toward phasing out fossil fuels over the next century, would both produce welcome returns and display American seriousness about global warming. The greenhouse gas issue will persist through the entire century and beyond. Even though the developed nations have not succeeded in finding a collaborative way to approach the issue, it is still early. We have been at it for only a decade (. . .) Global climate change may become what nuclear arms control

⁷¹ Comp. Mureşan (2002) pp. 202–204.

was for the past century. It took more than a decade to develop a concept of arms control. It is not surprising that it is taking that long to find a way to come to consensus on an approach to the greenhouse problem.”⁷² Here, the diverging interests of the USA and Europe and Germany are obvious: while the latter have environmental and ethical principles in mind, the former rather wish to acquire energy independence from other fuels such as the fossil fuels. Germany successfully championed its interests, and in 2005 the Kyoto Protocol came into force and was implemented. Moreover, the UNFCCC has developed and expanded its areas of activities beyond the Kyoto Protocol activities and duration (Conference of the Parties in Bali, 2007). Programmes like adaptation to climate change such as insurance policies for affected regions developed with the UN University in Bonn and Munich Re appeared anew. The expansion of the Emission Trading System in Europe, Japan, etc. and other programmes such as the increasing involvement of the business sector into the multilateral negotiations (Conference of the Parties in Copenhagen and Cancun in 2009 and 2010) were other steps taken since 2002. Returning to Germany now, although policies of supporting with finance the solar energy industries were capped in 2012–2013, similar policies will certainly continue, even though possibly in another form or area. A good example here is that of the German decision of full withdrawal from the nuclear energy sector in the wake of the Fukushima catastrophe of spring of 2011. This type of foreign policy by Germany towards multilateral environment protection and renewable energy processes will continue if it is accompanied by business participation where such participation is key to the success of the multilateral political process.

Maintaining the characteristics of the Social Market Economy in its home country will depend on the success of the regulations and international agreements in the above mentioned fields. The Social Market Economy has been and will remain a system for the future and even more so after the crisis of 2007–2009. It can contribute to a more educated participation of the population in their respective economic life in all corners of the globe: it remains to be seen what the degree of influence of German neo-institutionalism is going to have in the shaping and consolidation of economic systems of developing nations.

6.6 Any Applicability of Aspects of the Social Market Economy Outside Its Genesis Space?

What exactly is the Social Market Economy? Sally is right only up to a certain extent when writing that it is “the astonishingly successful political label used by Ludwig Erhard for his economic policy programme from 1948 onwards”.⁷³ This economic system is more than a label on a policy programme. If it was only this, it would not be

⁷² See Schelling (2002) pp. 8–9.

⁷³ See Sally (1998), p. 121.

applicable as a system in any other part of Europe or the world, except for aspects of it. The Social Market Economy can be more precisely defined as being a national or regional European system of economic and social organisation consistent with itself, based on the political doctrine of ordoliberalism and adapted to the national identity and specific history of German-speaking lands and the Rhineland capitalist style. If such, then many parts of it are applicable elsewhere. “The similarities between German ordoliberalism, on the one hand, and the New Institutional Economics and New Political Economy, on the other hand”,⁷⁴ are the first bridgeheads needed for successfully transferring parts of the Social Market Economy elsewhere because they deal with economic fundamentals on which any system can stand. Thus, large parts of the system are transferrable in countries or regions where New Institutional Economics and New Political Economy are giving the tone, such as in Commonwealth countries or even in emerging markets stemming from the former First World.

Germany certainly has an interest not only to export but also to project abroad its political philosophy. On the one hand, the proverb “it is at the hands of German essence that the world should heal”⁷⁵ reflects a quest for leadership, a profound political aspiration of being an example on a global scale to other nations. On the other hand, most non-native Germans perceive a specific tendency among mainstream native Germans, and even Austrians or Swiss, towards introversion, a certain clumsiness in running relationships with non-Germans (foreigners and internationals in general). This quest and aspiration is less implemented via politics or political inputs, but much more by economics: Germany holds the position of largest exporter on earth (at least until 2011). In view of this and given the increasing transparency of international life, it is probable that the country will overcome its shyness and introversion and push for more and more visibility. Thus, it is expected that the country may try to expand its model of the Social Market Economy, or parts of it. Of course it will not do it on its own, but by remaining inside European and North-Atlantic international organisations.

The Social Market Economy will no longer be “a national biotope... On the basis of the experience of the Social Market Economy in a national context, regulatory structures for the larger growing economic areas of the 21st century can be conceived and created. Herewith is required, a regulatory policy not against, but for globalization.”⁷⁶ Germany is currently working to create international regulations which fit its interests. Whether it is true or not that some non-German historians were “animated by the desire to eliminate the German people from Western history (and) consequently attempted to marginalise the history of

⁷⁴ See Sally (1998), p. 126.

⁷⁵ A German proverb goes: “Am deutschen Wesen soll die Welt genesen”.

⁷⁶ See Habisch (2001), pp. 211–212 : “ein nationales Biotop... Auf der Grundlage der Erfahrung der Sozialen Marktwirtschaft im nationalen Kontext können Ordnungsstrukturen für die größer werdenden Wirtschaftsräume des 21. Jahrhunderts konzipiert und geschaffen werden. Gefordert ist mithin eine Ordnungspolitik nicht gegen, sondern für die Globalisierung.”

liberalism in Germany”,⁷⁷ the fact is that specific parts of the Social Market Economy are already being transferred elsewhere.

6.6.1 North-East and South-East Europe: Estonia, Romania

For various reasons, pertaining to foreign policy and cultural compatibility, it is improbable that the Social Market Economy as developed in Western Germany will be taken as a whole and implemented as a system in other countries around the world. Still, there are two atypical exceptions here: one is the former German Democratic Republic, where the West German system was de jure fully and de facto partly adopted with the treaty of unification of 1990. The other exception is the economic model of the European Union, adopted in the Treaty of Lisbon. Here, the Social Market Economy was nominated as a desirable target for the *European economic model*.⁷⁸

Besides the above, many of the economic principles, legislation and economic style pertaining to the Social Market Economy in Germany and Austria are currently making way for themselves, not only within some EU member states but also, in the meanwhile, worldwide. Competition, political independence of the Central Bank, inflation targeting in monetary policy, environmental protection and the dual vocational education and training system are just five of the often transferred elements.

If we are to briefly look at the transfer of the principle of competition abroad, we see that the German-speaking area (Austria, Germany, Switzerland), with a population of almost 100 million, enjoys primarily a Central European identity. This allows the region to identify itself with mainstream contributions of Europe abroad. Its many upheavals, border changes and population migration which took place there bear thus the main traits of the European political model: competition among powers. It is precisely this characteristic which defines the European contribution to civilisation on a global scale: “Contrary to . . . especially China, India and the Islamic world, Europe transformed itself after the fall of the Western Roman empire into a system of separate, decentralised and competing powers and jurisdictions.”⁷⁹ Thus, the competition principle has roots in Germany, Austria and Switzerland and is going back not only to the seventeenth century of the 300+ principalities but even further back to Charlemagne’s parliaments or assemblies of feudal lords.

⁷⁷ See Raico (1999), p. 6 “vom Wunsch beseelt, das deutsche Volk aus der Geschichte des Westens herauszutreiben; folglich versuchten sie die Geschichte des Liberalismus in Deutschland zu marginalisieren.”

⁷⁸ See Treaty of Lisbon on European Union, article 3(3) on the legislative portal EUR LEX of the EU <http://eur-lex.europa.eu/>.

⁷⁹ See Raico (1999), p. 2: “Im Gegensatz zu . . . vor allem China, Indien und die islamische Welt, verwandelte sich Europa nach dem Fall des weströmischen Reiches in ein System geteilter, dezentraler und konkurrierender Mächte und Rechtsprechungen.”

6.6.1.1 Estonia

Northern Europe is definitely different to Southern Europe and to Central Europe. While Germany does not really have a southern identity, it certainly does have a northern one.

The former East Prussian regions are part of the genesis space, not only of modern post-Napoleonic Germany but also of its Protestant identity. It is a cultural area belonging to the Eastern Vikings which was never part of the Roman Empire.

In the first Christian millennium and before the fall of Byzantium, the Eastern Vikings and the Estonian lands looked up towards Constantinople. These moved in century long migratory flows up the rivers from the Baltic Sea, across today's Poland and Belarus, towards Constantinople as they were attracted by the legendary wealth of Byzantium and the warm seas of the Mediterranean. Known as the Kievan Rus, the city of Kiev, founded in 862 by Eastern Vikings, Finns, Swedes and Estonians and some Slavs,⁸⁰ is the root of today's Ukrainian state.

East Prussia had, to a large extent, belonged to a similar mentality and culture called Baltic Germanic to which also Estonia belonged from the mid-1500s (the advent of the Christian reformation) until its incorporation into Russia by 1721. Although subdued to subsequent Russification processes, the Estonians managed to keep their identity alive, not least due to their intense grounding in Protestantism. Following the chaos created by the Soviet Revolution, in 1918, the country declared independence and fought a brief but successful two-sided war against both Germany and Russia, being internationally recognised in 1920. Estonia was an independent state until 1940, when it was occupied following the Ribbentrop–Molotov pact of non-aggression of the same year. After 1944, it remained under Soviet occupation as the Soviet Socialist Republic of Estonia after its second declaration of independence in 1991, following the years of gradual opening during Gorbachev's perestroika.

Having cultural affinities and compatibilities with Baltic Germanic style and identity, as well as sharing common interests, rather with Germany than with its "big brother" eastern neighbour Russia, it is understandable that post-Cold War Estonia looked steadily towards the West and especially towards Germany and Great Britain as its anchors. This dimension is the backbone of any post-Cold War Estonian interest in models of organisation in Western Europe, including in Social Market Economy and those of its parts which are based on Protestant ethics and ascetic labour mentalities. Besides this, the successful reorientation of Estonia away from Russia and towards the West is also due to several other specific factors which make the Social Market Economy, as developed in West Germany, highly attractive.

I have to say that post-Cold War Estonian, and especially those who were then young, were not only willing to start anew, which all young élites from the former Soviet camp countries were, but they were willing to stand firm and keep their heads up in an independent manner. As an example, we can mention the Estonian

⁸⁰ See Kean (2005), the map on p. 105.

government's refusal in 1991–1993 to accept humanitarian and economic and technological (of course outdated equipment) aid from major Western countries like the USA.⁸¹ This attitude induced respect and made it clear to both domestic and international politicians and potential foreign investors that Estonia did not want to be treated as a developing country and had its own clear agenda. Estonia introduced a clear-cut market economy system. It deregulated the inherited Soviet legislation and wanted to start by demonstrating its decisiveness in adopting key elements of the German Social Market Economy. As a first such step, Estonia introduced a monetary reform by coupling the Estonian currency to the Deutsche Mark, with a fixed exchange rate of 8–1. Copying more or less ad litteram the economic and German monetary reform of June 20, 1948, the Estonian monetary reform was introduced on June 20, 1992.⁸²

The introduction of the tough principle of economic competition and related legislation, which Prime Minister Mart Laar confesses to have learned from Erhard's book "Wohlstand für Alle",⁸³ the privatisation programme, the land reform of 1993 as well as the crucial role given to private property as a principle in the economy were further decisive steps. The sustained governmental policies for creating jobs proved to be successful incentives for foreign direct investment to settle in Estonia and gave the native business sector a needed boost to restart quickly domestic manufacturing. They also began to use the international markets, and relationships established during Soviet times, along with new relationships with the West.

Now Estonia is a member of NATO and since 2004 has been of the EU. Its nominal GDP of ca. US\$ 18,000 per capita, as well as sustainable and responsible economic policies, made it possible for the country to join the OECD in 2010 and the euro area in 2011. Estonia's current economic success is to a large extent due to the clear choices made immediately after the collapse of the Soviet Union to link itself to the West. In implementing this political choice, German affinities of parts of the population and certainly of its élites made possible the adoption of core elements of the Social Market Economy system. Nevertheless, we should not forget that this was done with the acceptance of ca. 25 % of its population which is Russian and stayed on after the withdrawal of Soviet troops.

In this context, probably its lack of natural resources, the not so interesting geostrategic position compared to South-Eastern Europe, its small size population and administrative structures and the absence of a ravaging war as happened in that neighbourhood in Yugoslavia at a time of post-Cold War decisive choices are all part of the explanation for the success Estonia had. This secured the fact that there were not so many interests which could have dragged the political élite in diverging directions and the country could thus pursue its desired path: westwards. Further, the whole of Estonia is not very much like a country, but rather like a large German

⁸¹ See Laar (2002), p. 131.

⁸² Comp. Laar (2002), pp. 51–52.

⁸³ See Laar (2002) p. 133.

city. Its 1.3 million is less than half of the population of Berlin and is about the same size as Munich. It is obvious that a very small country is much easier to govern and to create consensus than in a larger one.

6.6.1.2 Romania

To put it from the beginning, one has to state plainly, that in Romania, just like in any country around the world, the systemic way in which the Social Market Economy has been holistically adapted in Germany and grafted on the specificities of the German identity is the right thing to do when constructing new economic systems. Of course it would do Romania good to call together a team of experts who will holistically study national identity and look for national products (Produktisierung) who would make a Romanian economy sustainable. Looking at interdependencies in the economy, at the social consensus, and at the needed legislation and institutions would be the right thing to do. Such a study should not last more than 1 or 2 years. Then it could be implemented. What is, therefore, needed is political will and that several consecutive governments continue the project from where its predecessor stopped. Thus, a system sustainable for at least three or four generations could be put in place, or the existing one corrected accordingly.

But the prerequisites for these conditions to come together are different to those of Germany. They are due to cultural, identity, social consensus, and to reasons of style.

Although Germany has been for many years since 1989 the biggest global trading partner of post-Cold War Romania, reaching an estimated €18 billion of cumulated bilateral exchanges (trade and services) in 2012, and Austria has been the hub through which many (if not the majority) of German and Western multinationals chose to operate in Romania, a systemic applicability of the Social Market Economy as developed in Germany or Austria is still less possible in Romania than elsewhere in Eastern Europe.

This is not only due to a limited compatibility in terms of mentalities and style of the culture of state institutions but also to historical reasons. If in Estonia the German Social Market Economy's strength is mainly seen as an anchor, Romania's politicians sometimes think whether implementing elements of such a system could potentially be developing the bilateral relationship into one of a hegemonial nature.⁸⁴

Unlike the Baltic States, Romanian culture has not been a part of the Germanic Central European mentality and style. It never wanted to be, although across Romania the economic achievements of the post-war German system are respected. Because Romania is a country with a noticeably exuberant Mediterranean

⁸⁴ For a more detailed analysis here, see *The Economist* (June 15, 2013a, b).

population of 23.8 million,⁸⁵ having a Latin-based identity with documented historical roots reaching as far as ancient Thracia in the sixth century B.C., Romania has other strong points in its identity and capabilities and thus another vocation than being a nation leading through industry and the economy like Germany and Austria are. Nevertheless, there have always been pockets of German influence in Romania. These were not only due to the several hundred thousand strong German minority inherited by Romania from Transylvania in 1918 but also parts of the Romanian elites were educated in Germany between 1849 and 1914 and the population itself values Germanic discipline, craftsmanship, creativity in industry, sustainability of its work and achievement in culture, music and literature.

Given its traditional alliance with Byzantium and the Byzantine Church in spite of having large parts of its genetic substance and language inherited from the Latin identity of the Roman Empire, in Romania it was traditionally neither desired nor possible to develop a Rhineland type of capitalism. Although it has a natural vocation to have a productive agriculture, which Germany does not have, there were two industrialisation periods in Romania.

The first one was successful and is known as the **post-1866 Romanian modernisation**.⁸⁶ It benefited consistently from having been led by a German Hohenzollern dynasty, but during the Great War, most of the infrastructure built then was destroyed during German and Bavarian occupation. Romania's expansion to include both the North-Western provinces and today's Republic of Moldova, which joined Romania with the Treaty of Versailles in 1918, brought a compensation with the solid industrial and professional infrastructure which had historical strong connections to the West. The **second industrialisation programme** occurred under the development dictatorship during its totalitarian episode, lasting from the agricultural reform of 1946 until the fall of the regime in 1989. Compared to all the other former communist countries which were not part of the Soviet Union, such as the former Romanian-inhabited Republic of Moldova which was a Soviet Republic, the dictatorship was the most ruthless in Romania. Between October 25, 1944, and December 22, 1989, the country was run by quasi full communist dictatorship. This was possible due to the security architecture for post-war Europe agreed by Churchill and Stalin at the Yalta conference in 1944. According to this agreement, in post-war Romania, the UK and the Soviet Union agreed to share their influence by using percentages. The percentages proposed in handwriting by Churchill and approved over Romania by Stalin with the tick were as follows: 90 % influence over Romanian government should be given to Russia and 10 % to the others, i.e. to the West, composed of primarily the USA, UK and France together. The percentages agreed for the other countries in South-Eastern Europe can also be seen.⁸⁷

⁸⁵ This was the highest population the country ever had and was registered around 1990.

⁸⁶ See Kroner (2004), pp. 69–72.

⁸⁷ For details of the official related discussions between Churchill and Stalin in 1943–1944, Foreign Office officials, King Carol II and other involved leaders between 1936 and 1946 see Mureşan (2005), pp. 59–70. The other countries mentioned on the paper are Greece (90 % for Great Britain in

This time, a large industrial infrastructure and a professional workforce was built between 1950 and approximately 1982. Later it was hit by gradual decomposition, driven by the lack of technologically updated investment during the 1980s, and by an increasing secession of a politically oppressed population from the state. Both drives have to do with the unrealistic and exaggerated policies of the country leadership in the 1980s when it did all it could to become fully independent from both the manipulation by the Soviet Union and from Western technology or finance. It had invested all monetary resources into paying off all foreign debt. It is common knowledge by now that Romania succeeded this by 1988, but it was tired and on its knees.

The abrupt fall of the totalitarian system in 1989 was a point where an opportunity to adopt an economic and social model of another country was at hand. But the country had not had any realistic chance to enjoy at least a couple of years of “perestroika policies” as Estonia or most other Soviet camp country of Eastern Europe had.⁸⁸ Romania’s economy was suddenly left as unprepared prey to national and international market forces. The political class was not able to seize the moment in a constructive way. The reset button of political and economic organisation was pressed, but nothing sound was available immediately to replace the old system in a systemic way. For copying an existing system elsewhere in Europe, even that of the Social Market Economy, early 1990 would have been the right moment. But this was not done. The country drifted economically astray during all of the 1990s, being deindustrialised and ended up devaluing its currency Romanian Leu (ROL) with a factor of ca. 1,000 until the monetary denomination of 2005.⁸⁹ The denomination of 2005 introduced the Romanian New Leu (RON) to a rate of ROL 100,000 for RON 1. The reason was that unlike Estonia which chose to connect its system and its currency to a Western country, i.e. Germany, Romania had not decided for a clear economic and social model which would have been adopted smoothly but consistently over several governing sequences. Furthermore, a steered transition to a new free-market-based economic system, which would have made use of the then still existing international markets in South America, the Middle East and North Africa and of the large industrial base, may not have really worked without a transition dictatorship. Consider also that the political class and

accord with USA), Yugoslavia (50–50), Hungary (50–50) and Bulgaria (75 % for Russia, the others 25 %). The original of the percentages papers can be found in the Foreign Office Archive, Public Record Office in Kew, London at file PREM 3–434/2. After the Hungarian uprising of 1956, the influence of the Soviets increased to ca. 75 % and the West remained with the rest.

⁸⁸ The systematic intimidation policy of the population during the Cold War had deprived the country of the much needed open debate for the formation of a healthy public consensus. This is still lacking in economic policy, foreign policy, social security, etc. Even if there have been after the 1990s many media debates with active politicians, these addressed rather superficially the country’s problems. Scientific debates at national level are needed. The contributions to the spirit of open debates at national level by Academician Solomon Marcus are worth evoking. Although a mathematician, he contributed to national debates with scientific publications and media broadcasts on most diverse topics such as astronomy, economics, political history, domestic policies, music, theatre, etc. The list of his publications going as far back as the 1950s can be seen in Marcus (2013).

⁸⁹ See Mureşan (2010) pp. 142–ff.

former communist business bosses started wrangling for chunks of the economy. The “original model of democracy” or the Swedish model of a Social Market Economy quoted by former President Iliescu was unacceptable to a majority of the population. This was not because it wanted to bring its own country down, but because there was an atmosphere of revenge against authorities and against what came from them, especially if it was Romania’s own state institutions or politicians. That the inherited economy from the totalitarian past is a “pile of scrap iron” or an “amount of new iron with a value of scrap iron” as former Prime Minister Roman incredibly declared in early 1990 in a speech to the nation,⁹⁰ instead of looking for solutions on how to immediately restart production and sales, showed the inability or possibly lack of will of the élites to concentrate on a creative and future-oriented approach of using what was readily available in order to move on. There was an awareness and willingness among the population of not being willing “to sell our own country”, as there was a sizeable industrial infrastructure. Back then, Romania had the largest steel production per capita in the world, with a chemical industry being able to refine over 32 million tons of oil per year and a strong textile-, cement- and wood-processing industry, and there were established international markets. These could have been used all if the élites would have been able to find to themselves. But they did not. Rather, the reformist approach was to bring down most that was created before 1990 and give the rest to foreign investors from Western Europe or North America that were seen by too many parts of Romania’s élites and by some parts of the population as rescuers on white horses. Such a state of mind of the political élites in the capital brought the country to where it is now, i.e. an outsourcing economy at the rather low end of the Western production chains (exceptions excluded) and a market for Western products.⁹¹

Certainly, comprehensive deregulation after 1989 and the introduction of market economy structures were good.⁹² But they went too far. For example, many shops are open 24 h a day even now after Romania joined the EU, and there is virtually no protection of employees against unlimited exploitation. This is not because there are no laws against exploitation, but because existing legislation is not applied or is only randomly applied. The Americanised or rather Latin-Americanised character in the economy and society which have come up in the meanwhile is but the natural result of a state with institutions not strong enough and with large parts of the

⁹⁰ See Marcu (2011), Mormanul de fiare vechi, article on June 26, 2011, in the online news portal Hotnews accessible at <http://economie.hotnews.ro/stiri-companii-9151993-mormanul-fiare-vechi.htm> accessed May 26, 2014.

⁹¹ Florin Constantiniu, one of the most prominent and outspoken historians of post-Cold War Romania and Member of the Romanian Academy of Science, said that in the post-1989 age Romania “came into the hands of political-mafia gangs who, under various party labels, started robbing the country and which they transformed into a market for foreign products” in Constantiniu (2011) p. 4. Moreover, he wrote that “The post-1989 petty barons are a thousand times greedier, more incompetent and arrogant than any other petty barons in Romanian history”, in Constantiniu (2009) p. 3. A couple of years later, he died of cancer.

⁹² For a synthesis of the first 20 years of transition of the economy after 1989, see Mureşan (2010).

population not educated enough, for coping with the market forces and with the behaviour of large multinational companies, or with the forces of globalisation. Nevertheless, there were some systemic responses to wild market forces, but Romania picked only parts of the systems of several Western countries and not one single system of its own. There were not many countries it wanted to choose from. Those perceived to have an interesting economic model worth copying were France, the USA, the Netherlands, Sweden and Germany. But there was not enough compatibility between the culture of state institutions and the style of social consensus with any of these. So Romania picked à la carte.

From Germany it tried to pick parts of the system of the social order, but not the part on market economy. The model of the market economy chosen was a neoliberal US one. Among the reasons for not picking the German market economic organisation was the level of bilateral trust. Historical suspicions were rekindled by the support which Germany gave for the secession of Slovenia, Croatia and Kosovo from Yugoslavia in the wars of the 1990s. Yugoslavia and Serbia were traditional allies of Romania and countries with which it had by far the closest economic relations in the region. In evaluating the level of trust, one should also take historical reasons into account. Among these is the especially close relationship between Germany and Hungary, Romania's old archrival. Another historical reason which hindered a closer German–Romanian institutional economic cooperation on the level of principles of organisation is that the countries found themselves twice at war. This was both at the end of the First as well as the Second World War.

Now, as in the past, the bilaterally cautious, polite and prudent relationship reminds us of times of old. That Romanian (Wallachian) princes are indeed mentioned in the German national epos of the *Nibelungenlied*⁹³ of visiting in the Western High Middle Ages the court of Kriemhild, the German princess. Visiting does not mean more than they were just visitors and is rather telling of bilateral cautiousness, of trying to avoid bilateral irritation. This brings us to a further example from even earlier history. If we look at the way Roman historian Tacitus defined ancient Germania, where he probably included all Germanic-speaking tribes of the time, we read that Germania is separated from Romania's forerunner state of Dacia "by mutual fear or mountains."⁹⁴ What would indeed be doing good to the Romanian reform, is a holistic approach to its economic and social system. This would mean to study the mentality of the population, the resources of the country and propose an economic system adapted to these. Until this will be done in a manner similar to what Germany did for itself, it remains to copy this or the other element in a direct or indirect manner.

However, the bilateral political relationship might be what is nevertheless possible now is the adoption by Romania of aspects and parts of the Social

⁹³ See No authors (1999) *Das Nibelungenlied*, verse 1343–1344.

⁹⁴ See Taciti PC (98) [1] "Germania ... a Sarmatis Dacisque mutuo metu aut montibus separatur...", p. 6. Or online available at <http://www.fordham.edu/halsall/source/tacitus-germ-latin.html#1> accessed May 26, 2014.

Market Economy system. Here, I think of elements of the social order which can act now as a brake to the dangers stemming from a too deregulated and de-supervised free-market economy. This can be said because although enough legislation exists in Romania, some of it is applied only randomly, and supervision by the state and enforcement of legislation are not done with enough precision. The need of social protection models for the social order in Romania's national economic and social system is related to the distance between the theoretical principles of political philosophy and which could generate such models and the principles' implementation in practice.

The Romanian fundamental preference for job or income security, rather than for risk-driven but unsustainable high revenue, could be a good political motivation to generate and implement such a political social philosophy. Like most of the Orthodox Churches, the church in Romania (the largest such church in the EU) never had, and still does not have, a social teaching like that of the Catholic Church in order to bring forward principle-driven motivations for policy. There are some attempts at creating such a social Orthodox teaching⁹⁵ but their results have yet to be seen.

Nevertheless, some elements of the social order have already been copied in Romania at the level of "final product" of the social order from Germany. It is the case in the mid-1990s with the welfare system. This comprises statutory health insurance, statutory pension insurance, minimum social security benefits for the unemployed, child allowance, maternity leave and a progressive taxation (replaced in 2005 with a flat tax rate of 16 %—in order to keep pace with its neighbouring countries in the competition of attracting foreign direct investment). Other aspects imported in Romania relate to the German dual vocational education and training (VET) system. This is admired by many, and at least the legal possibility of its implementation at a national level came about by the adoption of a chapter related to VET in the Education Law of 2011. However, this German dual VET system cannot really become that what it is for Germany, because Romania does not have the same tradition with guilds or craftsmanship and does not have the middle-class industry or economy needed for an implementation of such a system. It is possible that some multinationals operating there can apply this, but it would rather be at a limited company or local scale.

Given the above, it can be seen that what Romania took on are only some parts of the Social Market Economy system. It copied in a direct manner the few elements mentioned.

In an indirect manner there are some other copied elements, such as the principle of the independence of the Central Bank from political interference and the drive for aspects of the environmental order. But these were not adopted in a deliberate manner by a political decision targeting the German model but by the manner in which the EU accession treaties were negotiated between 1999 and 2005. Thus,

⁹⁵ See the contributions of Dr. Radu Preda from the Chair of Orthodox Social Theology at the University of Babes-Bolyai in Cluj-Napoca.

Central Bank independence came indirectly via the EU.⁹⁶ In the area of environmental protection, we see renewable energy projects (windparks, hydroelectric production, solar panels) in Romania. An emerging organic raw material sector for the food-processing industry looks promising. The desperately needed afforestation projects started in several regions after 2010. But these examples are some initiatives coming mainly because they were seen as the sound path ahead and were not adopted in a deliberate manner by a political decision targeting the German model.

A hope that more aspects of the Social Market Economy will be adopted in this country in the future lies with a probable gradual change of Germany's identity and with the willingness of a critical mass in the German population to review its rather negativist vision on Romania, its identity and history. It will also depend on the ability of Romania to keep its social substance above a certain level of institution building capacity. The first is a function of the influx of immigration and demographic change. The more Germany can become multicultural, the more it will be able to make its model acceptable across the world. Insofar as Romania is concerned, not only the import of German cars for the business and political élites is good for both countries but also much more systematic discipline and respect for institutions would do Romania good. Important will be here Romania's ability to channel the development of its gypsy (Rroma) population in a constructive way, to stop brain drain, bring back at least some of the intellectual émigrés and reverse immigration trends and demographic decline.

6.6.2 *Outside Europe China, Brazil, South Africa*

6.6.2.1 **China**

To an outside observer, it appears that China is a country for which it does not really matter whether it is imperial and absolutist monarchist, feudal, communist, socialist or even unleashed free-market capitalist, as long as it is the process of developing at any cost. Developing its economy, and through this opening the path for gaining enough political weight in order to be a global leader, seems to be a long-term project of China.

After being for centuries a semifeudal absolutist monarchy until as late as the first decades of the twentieth century, Imperial China was a semicolonial country

⁹⁶ Here I refer to the principle of political independence of the Central Bank from the fiscal policies of the government. This is in fact tacitly followed in Romania at least since the currency denomination of 2005. The Romanian Central Bank had at that time envisaged to adopt the euro sometime in the future and was trying to follow at least the core principles enshrined in the European Central Bank. Thus, it would not appear to have adopted this principle directly from Germany.

when occupied by the Japanese in 1932.⁹⁷ Subsequent turmoil and war finally made the country into the People's Republic of China (PRC) in 1949, a turning moment when it adopted the model of a centralised, planned and Marxist economic system. Thirty years later, after Mao's cultural revolution, China's economic boom set in. It is by now common knowledge among economists that the major reasons for the economic rise of China by the second decade of the twenty-first century to the second biggest actor was its massive dictatorial and state-driven investment in industrial fixed assets as of 1978, including in purchasing complete turnkey factories imported from industrialised Western countries, combined with the West's debt problems and its outsourcing towards East Asia. Unlike other former communist countries, China did not decide to change its Marxist system of national political economy abruptly but chose to develop itself within this socialist framework by gradually allowing economic liberalisation of its state-owned and state-planned economy. Party leadership give in to the theory that the only more abrupt "1989 moment" in China was in 1992 when "the goal of the economic reform... to establish a market economic system with Chinese characteristics"⁹⁸ was introduced and the "Central Committee of the Chinese Communist Party declared China's economy to be a **socialist market economy**".⁹⁹ By doing this, there was no replacement of élites or an abrupt "revolution" like in Romania or the DRG.

It is only in 1992, after it had reached a level of economic development where a state-planned centralised economic system showed its limits to allowing further development, and after the communist system had collapsed in Eastern Europe and the Soviet Union, that it thought of reforming itself. Chinese authorities admitted in the meanwhile that the political system "overemphasized the role of planning while ignoring the market's role in allocating resources. Rigid economic planning and excessive centralization, to a large extent, hampered companies' management initiatives and led to insufficient production of consumer goods and severe shortages of commodities."¹⁰⁰ This meant only that Chinese strategists believed that the centralised state-planned economy had fulfilled its role in developing the country, but not that a planned economy is bad in itself. The difference seen by them was that in a free-market economy those who plan are private businesses which plan for themselves, whereas in China the ultimate planning was done by the state.

The innovative element in Chinese economic thought was that it was able to free itself of the bias that "the planned economy belongs to socialism, while market economy belongs to capitalism... The planned economy does not belong to socialism, since the capitalist system also uses the planning methods. The market

⁹⁷ Comp. Whiting (1992) p. 223.

⁹⁸ See <http://www.china.org.cn/english/features/Q&A/161615.htm> accessed January 15, 2014. The authorized government portal site to China, China.org.cn, is published under the auspices of the State Council Information Office and the China International Publishing Group (CIPG) in Beijing.

⁹⁹ See Chow (2004), p. 136.

¹⁰⁰ See <http://www.china.org.cn/english/features/Q&A/161615.htm> accessed January 15, 2014.

economy does not belong to capitalism either, since the socialist system also uses market means. Planning and market, both of which are ways to regulate the economy, are indispensable at certain development phases of a commodity economy, which is based on socialized production.”¹⁰¹ This is true. The main difference between the Chinese self-entitled socialist market economy and the Social Market Economy made in Germany and Europe is that while the former is based on a one-party dictatorship and envisages primarily national good and national development at the expense of the individual, the latter envisages first individual well-being and personal development in freedom and starts development based on these. The main principles and ideas on which the Social Market Economy is based (Illustration 2.1) have already appeared in China. The country **pursues de facto** and wants to enjoy the benefits created by values and principles (liberty, free markets, etc.) which it **de jure rejects** by its declarative adhesion to communism. Western analysts are aware of this and concisely characterise the situation by concluding that “China’s prevailing cultural ethos could be described as exhibiting the worst of America’s materialism with none of its—admittedly tarnished—idealism”.¹⁰² The principles which are rejected now will probably be legalised but only after the economy will have been further developed and when a major political reform will appear possible for turning political ideology away from socialism or communism. To be noted is that the pathway pursued to reach economic development here had contrary directions. While the Social Market Economy in Germany and Europe started from individual freedom, responsibility, private property, competition, church teaching, etc. to achieve prosperity, the Chinese started the other way round: from dictatorship, patronage by the state, state ownership, secularism, atheism, etc. In this sense, 1992 might be a similar moment in Chinese economic history to that which Muller-Armack describes with the concept of the “second stage” of the Social Market Economy of the mid-1960s in Germany. The difference is that Germany had reached that stage after the economic and monetary reform of 1948, plus the subsequent steps presented above by passing first through a free-market-driven capitalist economy, whereas China passed through the centrally planned and state-owned economy only and did not have the historical build-up as was seen in Europe.

From this point of view, the pillar of the market economy of the Social Market Economy is not really applicable as a whole now, because it is based on principles other than liberty, private property, competition, responsibility and independence of the Central Bank. This does not mean that China did not already copy some and will not copy bit by bit some more of these principles. But given its pride, China will never recognise that it does, it will not copy the system as a whole, and, given issues of rank among countries in international economic affairs, it will not admit having copied from Germany. By now, China has already embarked on its own pathway of

¹⁰¹ See <http://www.china.org.cn/english/features/Q&A/161615.htm> accessed January 15, 2014.

¹⁰² See de Jonquières (2012), p. 9.

becoming a Chinese style socialist market economy. This has been adopted in Article 15 of its Constitution of 2010.

With respect to the social order of the Social Market Economy, Chinese Social Security is defined in Article 14 par 4 of the Chinese constitution of 2010. The political philosophy behind it stipulates that social security is state driven: “The State establishes a sound social security system compatible with the level of economic development.”¹⁰³ Thus, although it is not admitted, the Chinese Constitution hereby indirectly places the social order with a lower importance rank than the market economy which creates the level of economic development. This priority order or rank is the same in the Social Market Economy. A structure for the Chinese social security system is already in place although its size is not comparable to that of any European country with respect to the percentage of population it reaches. Therefore, it no longer really needs a major systemic input.

Nevertheless, a point that can still be relevant for doing some systemic transfers to China is the environmental order, the central pillar of the Social Market Economy. The Chinese now urgently need working principles and legislative mechanisms for regulating environmental protection and reversing the pollution trend. The Chinese environment was neglected over decades during the wild post-1978 industrial development it experienced and pollution has reached unsustainable levels. China needs the respective technologies for this. Finances are readily available and they can go to countries that have the technologies readily available, as Germany does. Here are some new opportunities for the environmental protection businesses from the area of the Social Market Economy which should be seized as soon as possible. These opportunities come at the right moment when weakened European and German finances can no longer really support the sector of renewable energies which has since been developed.

6.6.2.2 Brazil

As in many other countries, the Konrad Adenauer Stiftung is one of the most prominent promoters of the Social Market Economy from Germany. In Latin America, Chile and Guatemala seem to be leading the group of active countries with this model. They are followed by Uruguay, Peru and Brazil.¹⁰⁴ Thus, not only Brazil is to be analysed when talking about applicability in Latin America. But since Brazil is the largest economy in Latin America, I deem it more relevant to dwell on some of its aspects rather than on other countries.

¹⁰³ See homepage of the USA Constitution online, where the text of the Chinese Constitution is presented too. Article 14 can be read at <http://www.usconstitution.net/china.html#Article14> accessed December 18, 2013.

¹⁰⁴ Comp. the activities done in Latin America by the Konrad Adenauer Stiftung in these countries at <http://www.kas.de/wf/en/>.

Brazil had quite an early exposure to Catholic social teaching, the basis of ordoliberalism and social market economic doctrine. This exposure is first due to Jesuit missionaries¹⁰⁵ who administered to Guarani indigenous populations in the South of today's Brazil a specific applied Catholic social theology. For about 150 years after the Jesuits entered Brazil in 1609 and until 1767, when Jesuits were expelled from many countries across the world as well as from Brazil, there existed in South Brazil, East Paraguay, Uruguay and North Argentina a prosperous region enjoying economic development and social harmony in a Jesuit (sort of) theocracy of tens of trading cities. At times, this "theocracy" was viewed as an authoritarian and paternalistic construct often called Utopia. It involved Platonian traditions and of course Catholic traditions including of the English martyr Sir Thomas More, and it became known as a sort of "pilot project" for setting up from scratch new models of statehood or economic organisation.¹⁰⁶

The theocracy was part of the Portuguese colonial system of Brazil. The whole of Brazil was administered as a colony and was not allowed to industrialise, to print and to have any higher education. It was also forced to import only Portuguese or British manufactures and industrial products. This led to a situation where, as late as the end of the nineteenth century, Brazil remained a plantation society, using slave labour and exporting agricultural and raw materials. Brazil wood, sugar, gold (eighteenth century), coffee, rubber (nineteenth century until ca. 1945) and the slave trade (until 1853 and its abolition in 1888) were its main exports. Other exports were tobacco, cotton and cocoa.¹⁰⁷ With the abolition of slavery, labour suddenly became needed to do the jobs left unstaffed. The jobs were staffed with immigrants. Thus, Brazil's exposure to Catholic social teaching, rather than to Protestant ethics or to liberalism, was fuelled by the extensive immigration from Catholic countries like Portugal, Germany,¹⁰⁸ Italy, Spain and Poland rather than from Protestant or liberal countries like England, Scandinavia or even France.

Another specific aspect of Brazilian tradition is that the country was from the beginning exposed to international trade simply because it was taking part into the Portuguese colonial and also the postcolonial system after its independence in 1822.

Later, after the overthrow of the monarchy by a coup, Brazil became a Republic in 1889. New efforts to industrialise and modernise were put in place. Successive administrations, especially during the era of President Getulio Vargas between 1930 and 1945, achieved remarkable success in creating conditions for the building of industrial infrastructure in the country. Vargas and his strategists were looking for sources of inspiration. Among these sources was also Manoilescu, a Romanian

¹⁰⁵ Sao Paulo was founded by Jesuits in 1554.

¹⁰⁶ Comp. Koebel et al. (1912).

¹⁰⁷ See Baer (1965), pp. 4–ff.

¹⁰⁸ One such example of German immigrants are the Odebrecht family. Their company is now one of the major Brazilian multinationals. Their philosophy is "learning by doing", in other words teaching at work and educating the workers on the spot while working. See Vigna (2013), p. 8. These are fundamental ideas of the dual vocational education and training system too, both in Germany and Austria. This model is also part of the Social Market Economy.

economist and Minister of Foreign Affairs. Being from Romania and of Latin mentality, a country with some of its less developed aspects similar to those of Brazil, the ideas of Manoilescu found open doors in Sao Paulo. Manoilescu's doctrine of protectionism was supposed to be a means for gaining time in order to develop industries and production infrastructures within an economy which is still mainly agrarian. Manoilescu's books¹⁰⁹ which conveyed corporatist ideas were of interest to the Portuguese Prime Minister Antonio de Oliveira Salazar in Lisbon. There, Brazilian politicians came into contact with these books and brought them home. Manoilescu's ideas played a part in the development of the business sector, of businessmen associations, of industrialisation, of the legislation for social protection and of the international trade during the Estado Novo¹¹⁰ regime and under Vargas. In 1931 the Brazilian Employer Association requested Manoilescu for permission to publish his book *Teoria Protecționismului* in Portuguese and serve for the drafting of a customs code for Brazil.¹¹¹

By the mid-1960s Brazilian industrialisation had produced results and those who profited from it unwillingly came into conflict with the more backward parts of Brazilian society. Thus, a political and social crisis appeared, and the traditional military coups succeeded one another putting the one or the other president and party in government. During the rightwing military dictatorships of 1965–1980, Brazil experienced a sort of economic miracle era with sustained high growth rates. The country is a good example to show that, with the exception of the USA, Canada and Australia, it is not the markets but always the state and public institutions which create the first infrastructures and core business structures which then generate economic development. In Germany, among the strong men were Bismarck (Commercial Code, Social Protection Code), even the Nazis (under their direction were built the main motorways) and later Minister Erhard (the term Social Market Economy is due to him). In France, strong men were Louis XIV (e.g. the Saint-Gobain company, France's territorial expansion), Napoleon (Code Napoleon) and de Gaulle who oversaw the creation of strong industries and a consistent social security system.

In the case of Brazil, it was neither the free-market economy nor the social order but the "proactive and (antisocial) policies of the dictatorship . . . (who promoted a—o.n.) . . . strategy for autonomous economic development and import substitution" which created a growing economy with a stronger manufacturing base. Among this base should also be counted the large companies which managed to grow, given the public procurement which fed them. Among the autochthonous large companies which grew steadily after 1945, and especially after 1965, was the entrepreneurial group Odebrecht, founded by a German immigrant family. Odebrecht and others emerged as a result of the state having commissioned "dams, roads, underground, railways, oil installations and nuclear power

¹⁰⁹ His main book "Théorie du protectionnisme et de l'échange international", published by Giard in Paris in 1927, was translated into Portuguese in 1931.

¹¹⁰ Comp. Love (1996).

¹¹¹ See Manoilescu (2010) p. 33 and comp. Baer (1965), p. 8.

stations”.¹¹² By the time the economic miracle ended in the late 1980s, Brazil’s companies had grown large enough to expand into foreign markets and do the same type of business with those states which they had done with the Brazilian state where they had started and by whom they were nurtured.¹¹³

The trade union style nationalisations under President Lula da Silva (2003–2011) brought capital, privatised in the 1990s under the pressure of the IMF, back to the public sector. The state had a stake in more than 120 companies in 2012 compared to ca. 30 in 1996 before the age of Lula. Nationalisation is, of course, not a measure in the liberal sense of Röpke or Rüstow, just as the massive bail-out made by the German government with public funds in the wake of the economic and financial crisis of 2007–2009 is also not a liberal measure and, under certain terms, equals in its effect to nationalisation performed for political reasons. Rescuing the car industry and bailing out large banks, such as Commerzbank in 2009, is certainly not a measure in the spirit of the Social Market Economy, but it was needed at that time. Similarly, the Brazilian nationalisation under Lula was a measure needed to give an answer of stability to the effect coming from the East Asian fiscal crisis and the Russian default of the late 1990s. The fact that President Lula’s Brazil became worldwide the sixth largest economy, and the largest economy of Latin America, could be seen as a confirmation that the measures were good for that time, even though they might have had motives of a more political and ideological nature than the German nationalisations which were of purely economic nature. If it was correct for that time in Brazil’s stage of development, it does not mean it will always be correct from an economic policy point of view. It certainly helped large Brazilian companies get access to safe public funds like that of the National Bank for Social and Economic Development BNDES,¹¹⁴ whose funds are larger than those of the World Bank.

The brief episode of the Brazilian economy cosying up in the 1990s to the US capitalist neoliberal and Anglo-Saxon model showed that adopting a model of economic organisation from another country with a very different mentality (with traditions that are individualistic, Protestant, and where national consensus and economic style are wholly different) can be counterproductive for the adopting country. The pegging the Brazil real to the US dollar in 1994 was not the best measure. Although the country returned to free-floating its currency in 1999, it had, in the meantime by 2002, been made dependent on a rescue package from the IMF. The package amounted to a US\$ mid-double-digit billion.

Given its roots in Catholic social teaching, being part of the Western chain of international trade and industries and having about half of its population of

¹¹² See Vigna (2013) p. 8.

¹¹³ Multinational groups such as Odebrecht with a turnover of over US\$ 43 bn and over 250,000 employees in 2012 had entered even the US market in 1991. Earlier it had built business operations in Peru, Chile, Angola, Portugal and the Middle East. For details see <http://www.odebrecht.com/culturaodebrecht/> accessed December 23, 2013.

¹¹⁴ See Vigna (2013) p. 8.

Continental Western European descent, we daresay that the Social Market Economy as developed in Continental Europe has more open doors in Brazil than a neoliberal Protestant one. But, as in the case of China, if the whole system is not needed and is not fit to be adopted, at least a set of its individual elements might be fitting. With respect to the system as a whole, unlike Estonia, Romania or any other former communist country, or even post-war West Germany itself, which each had to make changes to their system after a political reset moment, there was no such reset moment in Brazil. The country did not experience the shock of having to abruptly change its system from left to right and not even from right to left. Economically, it continued its more or less continuous development, even though from a political point of view, its military coups or pressure disappeared only in the 1990s after which the country can be called a democracy.

The possible advantages of adopting the system as a whole or even only of parts of it, Latin-American analysts close to the Konrad Stiftung argue that in order for parts of the policies of the Social Market Economy to be transferred into Latin America's and Brazil's specific economic style, they would have to produce four results, a more shock proof economy, address the insufficient small and medium enterprises and insufficient networks of production, create more social policies which will alleviate poverty and modernise state institutions, which are the "sine qua non" of any normally working and sustainable economic and political model.¹¹⁵

Parts of the Social Market Economy in Latin America and in Brazil certainly were already present there and constituted good seeds and already produced good results. One such element is the universal access to health care which has already been achieved also in Brazil. Good results were confirmed in late 2013 by global institutions. The OECD acknowledged the progress was made by Brazil in the sense of successful growth integrated with social aspects (alleviation of poverty) and with use of natural resources in a sustainable manner.¹¹⁶ All are key aspects to the Social Market Economy but are not necessarily proclaimed as such by the Brazilian leadership.

It is not necessarily that the policies which have been transferred/implemented in Brazil were implemented as policies of the Social Market Economy or policies of Germany. They were economic policies or social protection policies implemented as such. Economic policies and social protection policies also exist elsewhere, in France, Sweden and in many other non-Social Market Economy countries, even in the UK and the USA and those which do not originate in Germany or Austria. But if those principles, policies and legislation in place in Germany were explained and put in place in Brazil because they were considered to be better and because they had given good results in Germany or its Social Market Economy, such as the

¹¹⁵ See Resico (online publication 2014), pp. 11–12.

¹¹⁶ See the introductory speech on the occasion of the launch of the OECD's publication "Economic Survey of Brazil 2013" available at: <http://www.oecd.org/about/secretary-general/secretary-general-remarks-at-launch-of-the-economic-survey-of-brazil-2013.htm>, accessed May 26, 2014. The survey is available in OECD (2013).

ordoliberal economic policy style and the principles of economic freedom of the entrepreneur coupled with responsibility, common good, minimum social security, universal access to health services, etc., then this is the intellectual property right of the latter.

A last aspect to be mentioned is the environmental order. Less acute than in the case of China, Brazil too can learn a lot from the environmental protection system in advanced social market economies in Europe and especially in Germany. One such eventual positive result could be the better protection of the Amazon forests. This improvement would finally benefit not only Brazil but the global climate protection measures and the international community. Again, as in China, the environmental protection and related technologies can produce business opportunities for countries with such strong sectors like Germany.

6.6.2.3 South Africa

The background of South Africa is quite different from among all the countries analysed above. While it is four times less populous than Brazil, it is characterised by multi-ethnicity and rich resources. Majority (approximately 80 %) are native black multi-ethnic groups and have been superseded by immigrant structures of originally ca. 10 % of the total population, primarily of Northern European descent, combined with another ca. 10 % of non-African ethnic groups, resettled from elsewhere in the British Commonwealth (e.g. India,¹¹⁷ Australia, Canada, etc.); South Africa has 11 official languages. Although it also was a colony, both its statehood and independence are later than Brazil's. They are based on Dutch (Boer) colonial systemic sources which were later superseded by elements of government stemming from South Africa's incorporation into the British Commonwealth in 1899 and its pro-Western sentiments.¹¹⁸ Unlike Brazil, which is Catholic from its roots, and despite the indigenous black majority's native African and animist tradition, South Africa's predominant theology is Christian and stems overwhelmingly from Protestant and Anglican sources.

During the twentieth century in which although Boers and British colonists practised a "de jure" and "de facto" Apartheid policy, South Africa enjoyed decades of relative prosperity and succeeded in developing relatively solid industrial structures. South Africa has long been a focal point of British foreign policy interests which attempted to make the big African country a model of success for the other African nations and to inspire them. Essential here is that as long as the country was a British colony and later a part of Her Britannic Majesty's Commonwealth, it benefited from the often wise British government programmes. Thus, it was part of

¹¹⁷ The leader of independence by peaceful protest of India, Mahatma Gandhi, was originally a practising lawyer in South Africa.

¹¹⁸ Comp. Wright (1992) pp. 345–346.

the project of *Export Production Zone*¹¹⁹ along with other countries of the Commonwealth, such as Mauritius. Under this policy, the British government ran a programme attempting to create, in selected countries of the Commonwealth, national economies which specialised in a small number of products, all of which they were to be champions at exporting. Thus, if, for example, Mauritius was a champion of sugar exports, South Africa excelled in gold export.

The period of Apartheid, lasting from 1948 until the elections of 1994, should be looked at from the point of view of models of social and economic organisation transferred by Eurocentric South African white élites from North-Western European countries and especially the UK and the Netherlands. From the 1948 parliamentary elections onwards, blacks were not allowed into parliament. This institution was designated only for whites, mainly Boers and British, even though these two groups did not converge on core political aspects.

Until 1994, the systemic design had virtually no, or at most only indirect, ties with principles and values of the Social Market Economy derived from post-1948 Germany. White South African entrepreneurs, who used black labour, had their economic doctrinal origin in Anglophile and Dutch Protestant private property and free marketeerism, while entrepreneurship leaned to the British model of management leadership and not to a Social Market Economy. The national South African economy developed along the lines of exploitation of and international trade with natural resources such as gold,¹²⁰ platinum and uranium and on a strong banking system. While the national economy had the nature of Anglo-Saxon capitalism, before 1994 free-market access existed de facto and also de jure only for whites. This continued after the country's independence in 1960. On the other hand, South Africa's pre-1994 social security system which, like the free-market economy, was designed for whites only had indirect ties via Christian social teaching and via the Dutch consociationalist¹²¹ model, where social welfare driven by the churches is at the heart of the system, with the Social Market Economy. While the churches systematically encouraged the principle of equality between whites and blacks, it trained skilled labour from among the black population, even though the amount of training delivered was small compared to the size of society. The lion's share in professional training, market access and the social security system practised before 1994 benefited the white part of the population. For example, with respect to access to the labour market, until 1994 a ranking was practised with respect to prioritised access. Thus, if a vacancy was to be filled, the order or priority commenced with white male, continued with white woman, Indian man, Indian woman and ended with black man followed by black woman.¹²²

¹¹⁹ See Mureşan (2005), p. 38.

¹²⁰ Gold was for a long time the principal export commodity of South Africa. In the early 2000s yearly exports amounted to ca. US\$ 4 bn. See *The Economist* (2004) p. 213. The country apparently was the main provider of the gold reserves of the IMF.

¹²¹ See Sect. 3.3.2 above.

¹²² Based on a personal contribution from Festus Luboyera, former South African civil servant of Ugandan origin, currently a UN official.

It was only after Nelson Mandela's release from prison in 1990, and the subsequent rapid popularisation of his political idea of a *South Africa for all*,¹²³ that the trend began to extend the achievements of the economic and social system from the white minority to the whole of the population, i.e. the black majority. And this extension succeeded. Why?

Unlike the African National Congress' paramilitary arm, which had trained in Ethiopia, Uganda and Zimbabwe all through the second half of the twentieth century with a view to getting revenge and throwing the whites out, the key element for South Africa's success was Mandela's political idea and purpose. He stood not for revenge or for throwing the whites out, after having won the 1994 general elections, but for extending the achievements for the whites to the blacks as well and for upholding the system, with the exception of Apartheid. As a result, between 1994 and 1997, a process started at a national level where legal restrictions existing hitherto for blacks were lifted and the whites lost the privileges behind which they had hitherto hidden. A transition period commenced for extending the existing system of social security and of all other systemic elements to the blacks. Thus, the post-1994 period should be regarded as a process driven mainly by the black majority and in its style.

Unlike the Netherlands and the UK, Germany had virtually no tradition of colonial links outside Europe. Although pre-First World War Germany had developed its own colonies in the few African countries of Togo, Tanzania and Namibia (but not in South Africa), it lost them via expropriation at the hand of the Versailles Peace Treaty in 1919. These are reasons enough to start the analysis of any applicability of elements of the Social Market Economy to South Africa, with the moment of 1994 and onwards. It is with the abolition of Apartheid that a window of opportunity opened there, for the Social Market Economy to become known and commence influencing the economic and social transition and systemic build-up done under black leadership.

The German political public foundations, especially the Christian-Democratic-oriented Konrad Adenauer Stiftung, developed a comprehensive programme for promoting and disseminating knowledge about the Social Market Economy in many African countries. Whether former British, French or Portuguese colonies such as Uganda, Zimbabwe, Angola, Tunisia or Mozambique, the political foundations sponsor dialogue via conferences and other schemes similar to development aid programmes among those countries' élites. In South Africa the terrain opened in 1994 for taking on elements of the Social Market Economy and for informing the black population, civil servants and parts of the élites. An example to be cited is Franz Josef Stegmann's contribution *Social Market Economy and Morality—Contradictory or Complementary?* published in 2001 by the Konrad Adenauer Stiftung. Stegmann dwells on elements of Christian social teaching which he discusses in his paper. The discussion here is rather on a more theoretical levels and regarding principles than a practical level.

¹²³ Comp. Mandela (2004).

Other proposals and a comparative analysis of economic and social systems of a more applied and practical nature came from authors close to the Nelson Mandela Centre of Memory. Here, in a paper intitulated “A Social Market Economy for South Africa—Prerequisites”, the author O’Malley picks up some elements of the Social Market Economy but on others makes a confusion in the analysis. The capacity of the economy to perform and produce GDP growth is presented as a condition for introducing a Social Market Economy in South Africa. Apparently the analyst had not realised that a Social Market Economy is not only a wealth redistribution system created by the economy but a model of overall economic and social organisation molded on the national identity of the country, which creates the output capacity itself of the economy.¹²⁴ Still, the core element of the Social Market Economy which is an educated labour force is nevertheless addressed. The status quo of virtually having achieved by 2005 universal primary education in South Africa is presented as a landmark for being able to have an educated and skilled labour force which can become the backbone of an entrepreneurial and responsible middle class. The participative model of co-determination from the Social Market Economy is also addressed and presented as a possible model of cooperation in South Africa between state, business and labour.

Proposals and analysis also came from political parties like that of the Democratic Party which proposed the system of a Social Market Economy as model for the country.¹²⁵ But these proposals are still mainly at the theoretical level of discussions among élites.

The chances run high now that more elements from the Social Market Economy system of German style will be able to influence the adaptation of the old white-driven system to the new system to be adapted by the black majority leadership. This chance is not only due to some historical burden laying on the South African relationships with Britain and the Netherlands as former colonial landlords but also due to the mainly unstained German image to its offensive development aid policy¹²⁶ and its political proselytism in Africa. On the other hand, the penetration process of church-driven principles into the South African system is a natural continuation of the support given during Apartheid to the black majority by the Anglican Church (e.g. Bishop Desmond Tutu) and by other churches. Thus, I believe that those parts of the Social Market Economy which can present themselves as dwelling on church teaching, be it Catholic social teaching or Protestant labour ethics, have credibility among South African élites. It is a pity though that in their country of origin in Europe, these sound Christian values are not being

¹²⁴ Comp. O’Malley P (online publication 2014), p. 3.

¹²⁵ See the Democratic Party of South Africa’s Economic Proposal of a Social Market Economy. A link to the material can be seen at http://books.google.de/books/about/Democratic_Party_Economic_Proposals_A_So.html?id=B8VHAAAAYAAJ&redir_esc=y accessed March 1, 2014.

¹²⁶ Comp. Seitz (2010). For the amount of aid spent by various European countries and EU institutions, consult the portal of DEVCO of the European Commission at: <https://euaidexplorer.jrc.ec.europa.eu/DonorAtlas2013.do>.

observed any longer by the mainstream society, being increasingly replaced by a secularised disoriented individualism.

6.7 Case of a Western Monetary Reset or Reform

A monetary reset in the medium term seems unavoidable in the post-2007–2009 crisis world. The programmes of quantitative easing worth thousands of billion of US dollars and thousands of billion of euros in process since 2008 run by the US Federal Reserve and the European Central Bank, respectively, as a response to the above crisis gave rise to bubble formation processes. As inflation is not perceivable, this means the bubbles are getting bigger and bigger. They will burst at a moment when the markets will not perceive enough confidence in the capacity bond issuers to buy back their bonds and equity.

For the restoration of the buying back capacity and in order to avoid the bubbles to destroy the real economy again as they did in 2007–2009, the current debt burden will have to be reduced (hair cut). Debt-ridden governments, companies and individuals will probably opt for balancing existing debt with existing savings. It is this type of operation that will have to be done at a certain point via political decision. If we wish to keep democratic systems in place, no public national authority will ever be able (for various reasons, systemic—related to the need of consumption in a market economy—and political, both national and international) to gradually reduce in the foreseeable future public expenditure from the very high level it is now to a sustainable level. Thus, a setting of debt against savings is the easiest (even though the less just) solution for political decision makers.

A monetary reset will come as a solution and it will have a big impact on the whole world. It will relate to the major Western currency areas, i.e. the euro and the US dollar, possibly the pound sterling and the Japanese yen. Since almost 90 % of currency reserves of most central banks worldwide are in euros and US dollars,¹²⁷ quasi all countries will be affected by such a monetary reset. The only question left open is when and at what cost will this come to savings and public order.

For bringing any hints of possible solutions for addressing this major global transformation to come, we have to ask whether any elements of existing systems of national economic and social organisation, such as the Social Market Economy, could be useful when building the new order. The more an analysis will be based on well-defined sustainable principles and values, the more will it be useful and even necessary for the new institutional framework after such a reform. With respect to the details of the monetary reform processes, we learn from econometrics that in order to conduct them successfully, certain key conditions have to be met. These have to be “rule bound. . . (with, o.n.) creating credibility and stability. . . be backed by a strong determination of the government to stabilise. . . (with, o.n.) the

¹²⁷ See Eichengreen (2011) p. 64, Fig. 3.1 in what the dollar is concerned.

requirement that governments strictly separate monetary and fiscal policy... in accordance with the institutional setting...¹²⁸ We hope that government circles performing such operation in major Western countries will have the heads clear enough to entrust the track of such reforms to experts and not leave the process prey to political interests.

Various groups in major international governmental multilateral organisations are already working, more or less in the open, for setting up a new system with global legitimacy. Even the Vatican is in favour of a global financial and monetary reforms and possibly even of a global financial supervisory authority. The Pontifical Council for Justice and Peace holds that a new system, which will take into account the level of globalisation already reached, will have to be put in place under the supervision of “a supranational Authority (...) favourable to the existence of efficient and effective monetary and financial systems...an Authority with a global reach...”.¹²⁹ In order to avoid a long and painful transition from the financial and monetary system as we have known it since the first introduction of banknotes in the second half of seventeenth-century England, existing systems of national economy should be used. Out of these, the more systematised an economic model is, the more will it be useful for quick drafting national and international legislation and creating national and international viable and legitimate institutions. In a process of consultation at global level, the Social Market Economy can certainly contribute with creativity because it is one of the worldwide best-defined systems. Its specific creative nature comes to view if thinking, for example, only of the etymology of its name in German “Wirtschaft” compared to the English “economy” or French “économie”. While the latter terms stem from the Greek *oikonomia*, i.e. to household efficiently with those resources available at hand, “Wirtschaft” stems from the noun “Wirt” (landlord, publican, host) and the verb “schaffen” (to create) and targets the creation of new values and products. Thus, the concept “Wirtschaft” is expansionist in its nature and focused primarily on the creation of new values, rather than operating efficiently with existing ones.

References

- Arslan R, Özdemir E, O’Mahony P, Parsons R, Di Bono S, Battipaglia A, Jociunas J, Lovsin M, Muresan SS (2013) A comparative study: challenges and opportunities for european union dual vocational training systems. *J Co-operative Educ Internships* 47(1):4–18, Cincinnati
- Baer W (1965) *Industrialization and economic development in Brazil. The economic growth center* Yale University. Irwin, Homewood, Illinois
- Bello W (2013) *Capitalism’s last stand? De-globalization in the age of austerity*. Zed Books, London, New York

¹²⁸ See Freytag (2000) pp. 197–200.

¹²⁹ Pontifical Council for Justice and Peace (2011), pp. 21–22.

- Biedenkopf K (2001) Sozialmacht bedroht die persönliche Freiheit. Notwendig ist eine öffentliche Debatte. In: Frankfurter Allgemeine Zeitung Nr. 137, 16 June 2001, p 15
- Chow GC (2004) Economic reform and growth in China. *Annals of economics and finance*, vol 5. Princeton University, Princeton, pp 127–152
- Constantiniu F (2009) *Istorie si Civilizatie*, Anul I, nr. 3. București. www.isciv.ro
- Constantiniu F (2011) *Istorie si Civilizatie*, Anul III, nr. 27. București. www.isciv.ro
- de Jonquières G (2012) China's Challenges. Policy Brief no. 01/2012. European Centre for International Political Economy, Brussels. www.ecipe.org
- Deutscher Bundestag, 16 Wahlperiode, Drucksache 16/4372 of 23.02.2007 accessible online at: <http://dip21.bundestag.de/dip21/btd/16/043/1604372.pdf>
- Eichengreen B (2011) *Exorbitant privilege. The rise and fall of the dollar and the future of the international monetary system*. Oxford University Press, Oxford
- Ernst W (2001) Neues Vertragsrecht für die deutsche Wirtschaft? Wieder eine unzulänglich vorbereitete und inhaltlich folgenschwere Reform. In: Frankfurter Allgemeine Zeitung nr. 116, 19 May 2001, p 8, column 1
- Floridi L (2012) ACTA—The ethical analysis of a failure and its lessons. ECIPE Occasional paper no.4/2012. European Centre for International Political Economy, Brussels. www.ecipe.org
- Freytag A (2000) *Monetary Commitment and the Role of Institutions—Theory and Evidence of Monetary Reform*. Habilitationsschrift zur Erlangung der venia legend für Wirtschaftswissenschaftliche Staatswissenschaften der Wirtschafts- und Sozialwissenschaftlichen Fakultät der Universität zu Köln, Köln
- Friedrich-Ebert-Stiftung (ed.) (2001) *Die Schattenseite des Wachstums. Die soziale Dimension der Globalisierung. Ein Weg zu Internatinaler Stabilität ? Globalisierung sozialer Gerechtigkeit*. Infoheft 4—2001. Presse- und Öffentlichkeitsarbeiter Friedrich-Ebert-Stiftung e.V. (Hg.)
- Geißler R (2000) *Struktur und Entwicklung der Bevölkerung*. In: Bundeszentrale für politische Bildung (Hg.) *Informationen zur politischen Bildung*. Heft No. 269/ 2000. Sozialer Wandel in Deutschland. Franzis' Print, München, pp 3–9
- Geißler R (2000) *Ethnische Minderheiten*. In: Bundeszentrale für politische Bildung (Hg.) *Informationen zur politischen Bildung*. Heft No. 269/ 2000. Sozialer Wandel in Deutschland. Franzis' Print, München, pp 29–36
- Giersch H (1998) *Arbeitslosigkeit in Deutschland: Was geht sie uns an?* In: Walter Eucken Institut (Hg.) *Beiträge zur Ordnungstheorie und Ordnungspolitik* 157. JCB Mohr (Paul Siebeck), Tübingen
- Giersch H (2001) *Abschied von der Nationalökonomie: Wirtschaften im weltweiten Wettbewerb*. Frankfurter Allgemeine Zeitung, Frankfurt am Main
- Habisch A (2001) *Die Zukunft der Sozialen Marktwirtschaft*. In: Schlecht O, Stoltenberg G (Hrsg.) (2001) *Soziale Marktwirtschaft. Grundlagen, Entwicklungslinien, Perspektiven*. Herder Verlag, Freiburg, pp 193–228
- Hank R (2001) *Gesundheitspolitik. Die Krankheit steckt im System*. In: Tagesspiegel, 1 Sept 2001, p 1
- Haug F (1999) *Plädoyer für einen neuen Geschlechtervertrag*. In: Altvater E, Haug F, Negt O et al and Fehrmann E (Hg.) (1999) *Turbokapitalismus. Gesellschaft im Übergang ins 21. Jahrhundert*. 2. Auflage. VSA Verlag, Hamburg, pp 172–191
- Herzog R (1997) *Im Zweifel für den Wettbewerb. Im Zweifel für die Freiheit. Mit der Sozialen Marktwirtschaft in die Zukunft*. In: Wünsche WF (Red.), Ludwig Erhard Stiftung (Hg.) (1997) *Ludwig Erhards Soziale Marktwirtschaft: Erbe und Verpflichtung*. 40. Symposium der Ludwig-Erhard-Stiftung am 11. Juni 1997 in Bonn. Sinus Verlag, Krefeld, pp 11–30
- Hotnews. Internet portal in Romanian. www.hotnews.ro
- Institut der Deutschen Wirtschaft Köln (Hg.) (2011) *Deutschland in Zahlen 2011*. Deutscher Instituts Verlag, Köln
- Joerges C (2002) "Good Governance" im Europäischen Binnenmarkt: Über die Spannungen zwischen zwei rechtswissenschaftlichen Integrationskonzepten und deren Aufhebung. In

- Europarecht, 37. Jahrgang 2002, Heft 1, Januar–Februar. Nomos Verlagsgesellschaft, Baden-Baden, pp 17–40
- Juncker J-C (2001) Für Gefühlsstarke. Die Europäische Union muß für die Bürger kein Buch mit sieben Siegeln sein. In: Frankfurter Allgemeine Zeitung, nr. 177, 2 Aug 2001, p 7
- Kean RM (2005) *Forgotten power: Byzantium, Bulwark of Christianity*. Thalamus Publishing, Ludlow
- Koebel WH et al (1912) *In Jesuit Land. The Jesuit missions of Paraguay*. St. Paul, London
- Krätke MR (1999) Kapital global? In: Altvater E, Haug F, Negt O et al und Fehrmann E (Hg.) (1999) *Turbokapitalismus. Gesellschaft im Übergang ins 21. Jahrhundert*. 2. Auflage. VSA Verlag, Hamburg, pp 18–59
- Kroner M (2004) *Die Hohenzollern als Könige von Rumänien. Lebensbilder von vier Monarchen 1866–2004*. Johannis Reeg Verlag, Heilbronn
- Laar M (2002) *Das estnische Wirtschaftswunder*. Konrad Adenauer Stiftung, Tallinn
- Love JL (1996) *Crafting the third world: theorizing, underdevelopment in Rumania and Brazil*. Stanford University Press, Stanford
- Lundborg P, Segerstrom PS (2000) International migration and growth in developed countries: a theoretical analysis. *Economica* 67(268):579–604, The Suntory and Toyota International Centres for Economics and Related Disciplines on behalf of The London School of Economics and Political Science, Oxford
- Mandela N (2004) *The long walk to freedom*. Abacus, London
- Manoilescu M (2010) *Etica Politică*. Spandugino Publishing House, Bucureşti
- Marcu M (2011) Mormanul de fiare vechi. In: Hotnews (25 June 2011), online portal. <http://economie.hotnews.ro/stiri-companii-9151993-mormanul-fiare-vechi.htm>. Accessed 25 Jan 2014
- Marcus S (2013) Solomon Marcus. Doctor Honoris Causa Universitatea Apollonia din Iaşi. 7 martie 2013 (cu ocazia aniversării a 88 de ani de viaţă). Universitatea Apollonia, Iaşi
- Margies W, Fritsch S, Heinrich VII. Prinz Reuss H VII (2001) *Deutsches Geschichtsbuch für Beter. Deutschlands Schuld. Deutschlands Berufung*. 2. Auflage. Aufbruch Verlag, Berlin
- McKay JP, Hill BD, Buckler J (1991) *A history of western society. From absolutism to the present*, vol II, 4th edn. Houghton Mifflin Company, Boston
- Mureşan S (2002) Umweltschutzpolitik. Beiträge aus der Sozialen Marktwirtschaft und Auswärtigen Politik Deutschlands. In: *Studia Universitatis Babeş-Bolyai, Studia Europaea Anul XLVII*, nr. 1–2. Cluj-Napoca, pp 197–212
- Mureşan S (2005) British interests in Romania? Elements of British foreign policy towards Romania in the twentieth century. An interdisciplinary analysis. Cartimpex, Cluj, 118p
- Mureşan SS (2010) Die ökonomische Transformation in Rumänien. Zwanzig Jahre nach dem Systemwechsel von 1989. In: Veen HJ, März P, Schlichting FJ (eds) *Die Folgen der Revolution: 20 Jahre nach dem Kommunismus*. Böhlau Verlag, Köln, pp 141–162
- Nefjodow LA (2001) *Der sechste Kondratieff. Wege zur Produktivität und Vollbeschäftigung im Zeitalter der Information*. Rhein–Sieg Verlag, St. Augustin
- No authors (1999) *Das Nibelungenlied. Mittelhochdeutsch/ Neuhochdeutsch. Nach dem Text von Karl Bartsch und Helmut de Boor*. Philipp Reclam jun., Stuttgart
- No authors. China News, Internet portal in English. www.china.org.cn
- O'Malley P (online publication) A social market economy for South Africa – prerequisites. The Nelson Mandela Centre of Memory, Johannesburg. Accessible online at: <http://www.nelsonmandela.org/omalley/index.php/site/q/03lv01538/04lv01584/05lv01590.htm>. Accessed 1 March 2014
- O'Rourke KH (2002) Globalization and inequality: historical trends. In: *Aussenwirtschaft. The Swiss review of international economic relations*, 57. Jahrgang, Heft 1, März 2002. Verlag Rütger, Zürich, pp 65–101
- OECD (2013) *OECD economic surveys: Brazil 2013*. OECD Publishing, Paris. http://dx.doi.org/10.1787/eco_surveys-bra-2013-en. Accessed 27 Feb 2014

- Ottnd A (2006) Steigende Abgaben—sinkende Leistungen. Die Politik auf schmalem Grat. Unter Mitarbeit von Tobias Menz. Eine Studie der IWG Bonn. Olzog Verlag, München
- Pontifical Council for Justice and Peace (2011) Towards reforming the international financial and monetary systems in the context of global public authority. Libreria Editrice Vaticana, Città del Vaticano
- Raico R (1999) Die Partei der Freiheit. Studium zur Geschichte des deutschen Liberalismus. (Schriften zur Wirtschaftspolitik. Neue Folge—Band 7. Donges JB, Eekhoff J (Hg.)). Lucius&Lucius, Stuttgart
- Resico MF (online publication) La Economía Social de Mercado. Una opción de organización económica para Latinoamérica. Universidad Católica Argentina, Buenos Aires. Accessible online at: http://www.uca.edu.ar/uca/common/grupo12/files/La_Escuela_Social_de_Mercado-una_opcion_de_organizacion_economica_para_Latinoamerica.pdf. Accessed 1 March 2014
- Roberts JM (1990) The penguin history of the world. Penguin, London
- Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2001/02) Jahresgutachten 2001/02. Für Stetigkeit—Gegen Aktionismus. Wiesbaden. www.sachverstaendigenrat-wirtschaft.de
- Sally R (1998) Classical liberalism and economic order. Routledge, London, New York
- Sarrazin T (2010) Deutschland schafft sich ab. Wie wir unser Land aufs Spiel setzen. Deutsche Verlags-Anstalt, München
- Schelling TC (2002) What makes greenhouse sense? Time to rethink the Kyoto protocol. *Foreign Affairs* 81(3):2–9, New York
- Schreiber U (2000) German Tax Reform 2000—an international perspective. *Finanzarchiv* 57:525–541, JCB Mohr (Paul Siebeck), Tübingen
- Schröder G (1997) Die Globalisierung der Wirtschaft und der Wirtschaftskultur aus deutscher Sicht. Globalisierung als Herausforderung an die Politik. In: Koslowski P (Hg.) (1997) *Weltwirtschaftsethos. Global Economic Ethos. Globalisierung und Wirtschaftsethik. Globalization and Business Ethics* Passagen Verlag, Wien, pp 29–35
- Seitz V (2010) Afrika wird armregiert oder wie man Afrika wirklich helfen kann. Deutscher Taschenbuchverlag, München
- Siebert H (2002) Die Angst vor der internationalen Arbeitsteilung—eine Auseinandersetzung mit den Globalisierungsgegnern. In *Aussenwirtschaft. The Swiss Review of International Economic Relations*, 57. Jahrgang, Heft 1, März 2002. Verlag Rügger, Zürich, pp 7–28
- Stoltenberg G, Schlecht O (2001) Prolog. In: Schlecht O, Stoltenberg G (Hrsg.) (2001) *Soziale Marktwirtschaft. Grundlagen, Entwicklungslinien, Perspektiven*. Herder Verlag, Freiburg, pp 9–15
- Taciti PC (98) *De origine et situ Germanorum Liber*. Recensvit Alfred Holder (1878) Lipsiae, available online at <https://archive.org/stream/deorigineetsitu00woltgoog#page/n9/mode/2up>
- The Economist (2004) *Pocket World in figures*. 2005 Edn. Profile Books, London
- The Economist (2011) America's debt. Shame on them. The Republicans are playing a cynical political game with hugely high economic stakes. Leaders section (July 7 date in online edition), Print edition, London
- The Economist (2012) *Economic and financial indicators*. Print edition. Vol 403 Number 8779, London, p 86
- The Economist (2012c) *Industrial policy. Manufacturing concern*, available online at <http://www.economist.com/blogs/freeexchange/2012/02/industrial-policy>
- The Economist (2013a) *Germany and Europe. The reluctant hegemon*. Leaders section. Print edition, London
- The Economist (2013b) *Special report on Germany. Europe's reluctant hegemon. German leadership. Overcoming the demons*. Print edition, London
- Vigna A (2013) *Brazil's biggest business*. *Le Monde Diplomatique*. English edition, October 2013. Paris, pp 8–9

- Whiting AS (1992) Foreign policy of China. In: MacRidis R (ed) (1992) Foreign policy in world politics, 8th edn. Prentice-Hall, New York, pp 222–267, International Editions
- Williamson JG (2002) Land, labour, and globalization in the third world, 1870–1940. *J Econ Hist* 62(1):55–85, Cambridge University Press, Cambridge
- Wright S (1992) The foreign policy of Africa. In: MacRidis R (ed) (1992) Foreign policy in world politics, 8th edn. Prentice-Hall, New York, pp 330–356, International editions

Chapter 7

Principles and Economic Style Moulded Into Sustainability and Foreign Policy Interests

“The concept of the Social Market Economy links the principle of freedom on the market and the instrument of competitive economics with the principle of solidarity and with mechanisms of social compensation. This link is not a mere smart decision of a purely institutional wisdom, but it lays on a decision on values which is borne by the moral foundations of our European culture”.¹ This is the statement of the Commission of the Bishops’ Conferences of the European Community. Most politicians and even academics who see themselves as Catholics normally take seriously most doctrinal declarations of this church’s leadership. Thus, it is expected that such declarations are to be found to a larger or smaller extent in drafted legislation and in created institutions. From such statements, the Social Market Economy develops advantages and shortcomings. Its advantages are related to its purpose of organising economic and social life at a national level in such a way that a competitive and creative balance of power between the economic agents, government and individuals as actors is achieved. Another advantage is its attempt at inclusiveness which is done via the corporatist approach in social and professional relations. Convincing individuals to join professional groups and defend their common interest is an inclusive and integrative approach. Nevertheless, corporatism can also be a shortcoming of the Social Market Economy because it induces a danger. If professional groups defend their interests in common, they have quite a big chance to dominate not only some of the members of parliament via their professional affiliation but even minister and thus parts of government. Particular interests are served here, even though they are not individual interests but small group interests. This happens at the expense of the general interest when such

¹ See COMECE (2011) pp. 136–137: “Das Konzept der Sozialen Marktwirtschaft verbindet das Prinzip der Freiheit auf dem Markt und das Instrument der Wettbewerbswirtschaft mit dem Prinzip der Solidarität und Mechanismen des sozialen Ausgleichs. Diese Verbindung ist keine bloße Klugheitsentscheidung einer rein institutionellen Vernunft, sondern beruht auf einer Wertentscheidung, die getragen wird von den moralischen Grundlagen unserer europäischen Kultur”.

corporatist groups from within the Social Market Economy delay and sometimes block necessary economic reforms. Following the economic and financial crisis in 2007–2009, the national economic and social system in place in Germany and Austria had become known enough in order for the term “social market economy” to be adopted in art. 3 (3) of the EU Treaty of Lisbon. Thus, this system managed to pass from a national terminology in economic policy, which at times was even taken for a mere political label given in Germany, to a legally consecrated term enshrined in the EU Treaty texts.

But before getting here, it had undergone several stages. The US American policy of raising the European continent out of the ashes and rubble left by the Second World War bore fruit. From 2007 to 2009, Western European economies were booming and they became, with regard to certain products, a competition for the USA. Western Europeans have never been so powerful as they are now compared to any period in history since the collapse of the Western Roman Empire in 476 AD. Civil servants from the West, or from Westernized countries, lead quasi all multilateral global institutions. Now, the global economic and financial crisis in 2007–2009, which is nothing other than exported US and Western debt crisis due to systemic contradictions between real economics and finance, has slowed both Western credibility and the speed of the region’s development significantly. We should not forget that the global credibility and identity of the European white man originally stems from Southeast Europe, from the “dreaded” Balkans, i.e. from ancient Greece, Thrace, and only thereafter from ancient Rome. The power and credibility at a global level of these Mediterranean and European cultures have been continuously rising since then, passing through the Byzantine Empire to Charlemagne into the Western Christian Middle Ages. The latter ended with the naval battle at Lepanto (Nafpaktos, Gulf of Corinth—Greece again) in 1571 against the Ottoman Empire.² Only after that the tide of Ottoman westward expansion could be reversed and a Western expansion eastwards could be induced. This process became visible after the end of the siege of Vienna in 1683. Since then, we saw the European civilisation flourishing; its culture exported across the world and created probably the highest level of credibility as any other culture in history ever had at global level. This credibility and legitimacy was shaken by the debt crisis in 2007–2009 when a slow erosion process set in. With levels of total debt of around 300 % in Germany and the USA, 390 % in France, 280 % in Spain and a stunning ca. 500 % of GDP in the UK,³ the whole West is now in need to come up with sustainable solutions for itself and thus implicitly for the rest of the world. Whether the Transatlantic Free Trade Area and the Transatlantic Trade and

² Comp. Kean (2005).

³ See *The Economist* (2011, July 9). If it is to keep with a strict econometric view, we have to add that this is the minimum level of debt. Nobody (possibly with intelligence reports and forecasts which often go even 50 years into the future) seems to really know how much total debt is. The reason is due to the type of obligations of payment taken into account when calculating total debt.

Investment Partnership for which negotiations started in 2012 can bring sustainable solutions to secure Western leadership will have to be seen.

Returning now to German policy, we note that it adhered to this post-1571 ascending Western path, being a national state with the creation of the Second German Reich under the “iron and blood” Chancellor Otto von Bismarck in 1871. Two world wars later, the economic policies announced by the first Chancellor of the Second German Republic, Konrad Adenauer, in 1949, were meant to regain Germany’s national sovereignty as the largest Central European nation inside the Atlantic and Western European world. It had become again part of this world in 1945. In his address to the Bundestag in 1949, Chancellor Adenauer stated the new direction the country had taken: “. . .For the German people there is no other way of attaining freedom and equality of rights than . . . in concert with the Allies. There is only one path to freedom. . . : to extend our liberties and prerogatives step by step and in harmony with the Allied High Commission”.⁴ Thus, Germany had back then no realistic choice but to set up a new model of economic and social organisation. It started in 1948 and progressed through various stages of adaptation as it set up an original model of economic and social organisation called the Social Market Economy based on a specific model of political philosophy called “ordoliberalism”. Given the end of the global domination of neoliberal doctrines in economics after 2007–2009, Germany seized the opportunity and presented the European Member States with an alternative model of economic and social economy, namely, its own model. Thus, the Social Market Economy was adopted in the EU Treaty of Lisbon at a favourable moment when European governments were looking for alternative models of organisation to save and “bail out” the fallen neoliberal way.

As a highly complex legislative and institutional construct, the Social Market Economy intends to organise and profile the German state and society in the post-war security framework of Europe. The Social Market Economy is based on the Germanic heritage, on the philosophical and roots of ancient Greek and Latin thought, on Central European mediaeval Christian beliefs and on modern rationalism, secularism, institutionalism and individualism. This is a system which on this base succeeded in capturing the German penchant for systematisation, loyalty, order, technology and (sometimes) bluntness. The Social Market Economy is the expression of these character traits with a cosmopolitan touch. It also introduces the idea of personal dignity applied to a spirit of individual liberty, imbued with a post-war Anglo-American style of conquering international markets but with mainly technical products rather than services. An outside observer, whether businessman, politician, academic or diplomat, could retain from this paper that one may reach a full understanding of the Social Market Economy only if she/he understands that this is the creation of an economy-based and economy-centred country, i.e. Germany. Social Market Economy is to a significant extent this country’s form of expression: quiet, yet observant, analytic, rational and clear headed indeed.

⁴Quoted in Joffe (1992) p. 69.

The Germans' introverted temperament, their quiet, analytic, sometimes distant, seemingly cold character, is different from that of their artistically creative, warm, extroverted, joyful and sometimes charmingly loud "rivals"—the French. This is precisely why these two character types complete each other well in building an axis for a united Europe. Still, this association of the two peoples can only produce its fruit provided that each one lets the other be herself/himself.

7.1 Can Elements of the Social Market Economy Model Be Useful for a New Global Economic and Financial System After an Eventual Western Monetary Reset?

Any analysis based on sustainable values will be useful and even necessary in such a case. As things currently are, a monetary reset in the near future is unavoidable. Various groups in major international governmental multilateral organisations are already working, more or less in the open, for setting up new system with global legitimacy. Even the Vatican is in favour of a global financial and monetary supervisory authority. The new system which will have to be adapted to globalisation will have to be put in place under the supervision of "...a supranational Authority... favourable to the existence of efficient and effective monetary and financial systems...an Authority with a global reach...".⁵ Furthermore, in order to avoid a long and painful transition from the monetary system as we have known it since the introduction of banknotes as means of payment in James I's England in 1688, the more systematised an economic model is, the more will it be useful for drafting legislation and creating viable and legitimate institutions. In this process of consultation at global level, the Social Market Economy certainly can contribute a lot as it is one of the best defined systems (at least at theoretical level, if not more). Its specific nature comes to view if thinking only of the etymology of its German name "Wirtschaft" compared to the English "economy". While the English stems from the Greek *oikonomia*, i.e. to household efficiently with the resources available at hand, "Wirtschaft" stems from the noun *Wirt* (landlord, publican, host) and the verb *schaffen* (to create) and targets the creation of new values, products. Thus, the concept "Wirtschaft" is expansionist and focused primarily on creating new values rather than operating efficiently with existing ones.

In this book, we presented the historical and philosophical origins, principles as well as the creation and application of the model of organisation called "Social Market Economy", starting right after the end of military hostilities in 1945. Along the almost seventy years, as it was gradually created and applied, there has been considerable fluctuation in the manner and style of implementation. This fluctuation should not be regarded as a decline in German consistency and stability but as a quiet response to outside stimuli and as attempts to adapt to outside pressure

⁵ Pontifical Council For Justice and Peace (2011), pp. 21–22

coming from globalisation. There are many factors, both domestic and foreign, which led to the different styles in implementing the Social Market Economy. These made the Social Market Economy a construct which is not uniform in its structures.

Domestically, implementing the Social Market Economy meant building parts of the theory and doctrine first for the Economic Constitution on the basis of the ordoliberal and corporatist models. This had happened at a theoretical level between the two world wars. Later, this theoretical model, which to some extent was like a collection of individual law pieces, was adopted into practice in the post-war period mainly at the leadership of Ludwig Erhard.

Müller-Armack wrote that the purpose of Social Market Economy is “...to establish the triangle of tension between growth, personal freedom and initiative and social equilibrium, embracing the whole complex of social security, from full employment to individual assistance. . .”.⁶ To a large extent, this objective was met by the 1970s. The creation of the backbone legislation and institutions adapted to national style went hand in hand and step by step; thus, the Social Market Economy gained a complex base. To this backbone, there were added new items which were constantly being added, according to the needs which arose along the path. The degree of wealth and self-awareness of the population rose steadily after 1948, and a satisfying level of reconstruction had been reached already by the early 1970s. This success led to a certain degree of complacency and permissiveness, which provided then for some errors of economic policy.

Presenting the Social Market Economy as a syncretic construct or as a mix of styles does not seem unrealistic or exaggerated. The main external factors (such as economic, financial or political crises) leading to fluctuation in implementation are the sizeable changes in international political and technological circumstances after the oil crises in 1971 and 1979. Later, the German reunification came at a moment when the maturity of Konrad Adenauer’s, Ludwig Erhard’s, Willy Brandt’s, Helmut Schmidt’s and Helmut Kohl’s *formed society* was of the opinion; it could afford to take on the “bumps” of the road ahead. Today, Europeanisation and globalisation are not challenges but opportunities offered to Germany to have its say as a power on the international economic, commercial and, maybe in the future, political scene.

The ordoliberal model behind the Social Market Economy appears to be able to constitute a model for the future, if it can integrate some of the fundamental changes, which the Internet has in the meanwhile brought to the concept of property and hence to all economic international consequences connected to it. As we can see from the recent failure of the Anti-Counterfeit Trade Agreement (ACTA) in the context of ongoing negotiations of TTIP and its objectives,⁷ the nature of intellectual

⁶ See Müller-Armack (1965), pp. 263–264.

⁷ See Erixon (2013). Here, one can read a comprehensive but brief analysis of the new meaning for trade liberalisation in the context of the ongoing EU–US TTIP negotiations. The article can be found on the portal of the European Centre for International Political Economy, accessed March 2, 2014: http://www.ecipe.org/media/media_hit_pdfs/TTIP_and_the_Shifting_Structure_of_Trade_Policy.pdf.

property rights influences the known understanding on the nature of property. These are in a process of change. They move from “ownership” towards “usage”.⁸ Just as in international politics, drones which are used for military enforcement will change the concept of national sovereignty, of the domestic security within national borders and of the fundamentals on which the UN stands in a similar way to how the Internet revolution changes the markets and international trade. It not only makes markets bigger and bigger and even global, but it blurs the capacity of states to uphold regulations within its own national borders. **The Internet and new technologies move us away from the Adam Smith model of national economics and from the model of national state as known after the Westphalian peace of 1648.** This shift will not only be relevant for intellectual property rights affecting publishers, the entertainment industries, etc., but will certainly influence trade in physical merchandise as well.⁹

Analysts see a link and interdependence between globalisation, international security and trade. Some assert that it “seems necessary to improve the knowledge about the effects of international trade, besides keeping markets open to further reduce the potential of international conflict”.¹⁰ In this sense, knowledge of the Social Market Economy is a contribution to global peace. The stability given by the Social Market Economy has become more evident after the economic and financial crisis in 2007–2009 and the Greek, Irish, Portuguese and Spanish debt crisis mirrored on the Euro. It is known by now that, thanks to the Social Market Economy, the European Stability Mechanism (ESM) as a permanentisation of the former European Financial Stability Facility (EFSF)¹¹ will have its main share being borne by Germany and only second by France. If the ESM will truly become a new international governmental organisation, it will have Germany as its biggest stakeholder and thus with the greatest voice. It seems that by the permanentisation of the EFSF in 2012, Germany succeeded to shape the international economic and financial system in Europe and thus to a considerable extent also influence the new world order which is to come. The British proverb circulating informally among

⁸ See Floridi (2012). A copy of the report is available at <http://www.ecipe.org/publications/acta-ethical-analysis-failure-and-its-lessons/>.

⁹ See The Economist (April 21, 2012) p. 47–ff. This will be the case, for example, with the new technology of 3D printing. Such 3D printing software is already available for download from websites (hosted who knows where) and the product printed at home (ordinary 3D printers are already available at hand for € 3,000). This means that the software could be downloaded (or hacked) from a website abroad, but products will be physically created within the borders of the home country. Thus, international trade transactions will be circumvented, and any need of supplying it by known international transaction types and logistics will be deleted from the list of demanded services on the market. Still, one or two decades separate us until the market price for this new technology and machines will have lowered to a critical level and become accessible en masse. Until then, we remain within the known status quo.

¹⁰ See Freytag (2009). p. 51.

¹¹ Comp. Gianviti et al. (2010), p. 25–29.

experts—*We won the war, but Germany won the peace*—could be taken more seriously into account.

The Social Market Economy helped Germany gradually rebuild its political self-confidence and its role in international organisations, both economic and political. German positions became increasingly visible since 1955 when the new German democracy had been joined into NATO. Other high positions were taken as well, both at a European and global level: since 1994, the headquarters of the powerful ECB is in Frankfurt am Main; from the summer of 1999 to 2004, the German Horst Köhler was the managing director of the IMF; and Klaus Töpfer, former federal minister of the environment, headed for a long time the UN Environment Programme (UNEP). Moreover, in 2001, Germany took over the leadership of a military peace-keeping mission outside its borders, for the first time since the Second World War: the UN Mission in Kosovo (UNMIK). Then, there followed the German presence in Afghanistan. Kofi Annan was the first UN Secretary General to speak in front of the German Federal Parliament in 2002, thereby also pleading for a consolidated German policy for development assistance in poor countries. What is perhaps more relevant is that Germany—at least at the official government policy level—has become the closest ally of Israel in Europe. This is due not only to deliveries of weapons and related high-tech equipment¹² at preferential rates and other gifts to the Israelis but to a genuine widespread feeling (at least among the élites) that there has to be some sustainable compensation for the Holocaust.

Germany is becoming now more and more a global player. This is visible at the hand of several processes. The political weight has increased due to the good economic results¹³ produced by the Social Market Economy. Thus, should there be a structural reform of the UN system, it is not out of the question to discuss again permanent seat for Germany (and perhaps Japan and Brazil) in the UN Security Council. Then, the big contributions the German Social Market Economy brought to environmental policies contributed visibly to the sustainability debate going on within multilateral organisations. There are proposals from the Club of Rome to “upgrade the status of the United Nations Environmental Programme (UNEP) to that of a full-fledged UN organization” and to “enhance the policy-making and coordination role of the UN Economic and Social Council (ECOSOC) with a main focus on sustainable development”.¹⁴ In case any of the two proposals would be

¹² Comp. Bergman et al. (2012), p. 20–ff and the cover of that weekly magazine with the title “Geheimoperation Samson. Wie Deutschland Atommacht Israel aufrüstet”. The article alleges that the German arms industry delivered, possibly just as it also delivered to Greece, high-tech submarines with nuclear propulsion and which can easily be transformed into carrying nuclear missile heads.

¹³ The remark to be made here is that German economic stability is largely based on defence contracting. The country has become after the crisis of 2007–2009, the third biggest weapons exporter worldwide. This should have not the best impact on the ethical and moral legitimacy of the Social Market Economy.

¹⁴ See Celac (2012), pp. 2 and 3.

adopted, they would open several new doors for German environmental policy style, for socially bound market economics and for German seats in permanent multilateral bodies. And if the third proposal of institutional reform of the UN towards sustainability like the promotion of “science-based solutions and respect for proven expertise”¹⁵ would be adopted, classical institutionalism (a creation of the German system) would penetrate once more a multilateral organisation. In any event, it can be said without error that in the eyes of the international community, unified Germany’s growing economic leverage is slowly turning into political leverage.

Moving on to the academic level, we can state that the German model of the Social Market Economy had a major contribution to the Euro-Atlantic academic environment by changing intellectual thought and fashion regarding economics to the benefit of neo-institutionalism. Germany’s special contribution is the highlight within the doctrine of neo-institutionalism and of the vision of national economies and commercial transactions as processes: “The neo-institutionalists do not pattern their economics on physical sciences, they view the economic system as an evolving process which changes its structure and functioning over time”.¹⁶ Many Germans are known for regarding all change performing events as “processes”. They have also put this touch on the Social Market Economy.

To conclude, the Social Market Economy is the instrument with which Germany regained its place as a “major power” among the leading Euro-Atlantic states and economies after having lost it first in 1806 with Napoleon’s secularisation, second in 1918 after the Great War and again in 1945. Its position relative to other countries is about the same as it was in 1750, meaning the third or the fourth in the Western world.¹⁷ The economic results delivered by the Social Market Economy show that the integration of most ethnic Germans into the Holy Roman Empire’s set of values was a success, a German-style success.

Thanks to the Social Market Economy, a large majority of Germans and several million foreigners living and working in Germany have the opportunity to live dignified lives within an economic system, providing them with public, individual and social security. In many ways, the Social Market Economy can be a reference for other nations, as it is for the some EU member states indirectly via the Treaty of Lisbon and directly for few countries from among these. This is so regardless of the amount of natural sympathy for the German-speaking peoples the one or the other might have, although Adam Smith ascribed in his theory that sympathy has the role of being crucial for the working of any economy and international economic relations.

¹⁵ See Celac (2012), p. 3.

¹⁶ See Gruchy (1972), p. 292.

¹⁷ Comp. McKay et al. (1991), p. 704, Table 22.1 where the relative development indexes of Western countries in 1750, 1850, 1880, 1900 and 1913 are shown.

References

- Bergman R et al (2012) Made in Germany. In: Der Spiegel 23/2012, p. 20–ff
- Celac S (2012) Institutional and regulatory support for the big shift toward sustainability. Paper presented on the Occasion of the General Assembly of the Club of Rome “The Power of the Mind” held in Bucharest, Romania on October 1–2, 2012. București
- COMECE (2011) “Eine Europäische Solidaritäts- und Verantwortungsgemeinschaft”. Erklärung der Bischöfe der COMECE zum EU-Vertragsziel der wettbewerbsfähigen Sozialen Marktwirtschaft. In: Schallenberg P, Mazurkiewicz P (Hrsg.) Soziale Marktwirtschaft in der Europäischen Union (Christliche Sozialethik im Diskurs. Band 3). Ferdinand Schöningh, Paderborn, p 135–151
- Erixon F (2013) The transatlantic trade and investment partnership and the shifting structure of global trade policy. CES ifo Forum 04/2013 (December), München, p. 18–22, also available online at: http://www.ecipe.org/media/media_hit_pdfs/TTIP_and_the_Shifting_Structure_of_Trade_Policy.pdf
- Floridi L (2012) ACTA—The ethical analysis of a failure and its lessons. ECIPE Occasional paper no.4/2012. European Centre for International Political Economy, Brussels
- Freytag A (2009) Globalisierung, Sicherheit und Wirtschaftspolitik. In: DIW (2009) Vierteljahrshefte zur Wirtschaftsforschung, Ökonomie der Sicherheit, Heft 4/2009, pp 51–60, accessible online at <http://ejournals.duncker-humboldt.de/doi/pdf/10.3790/vjh.78.4.51>
- Gianviti F, Krueger OA, Pisani-Ferry J, Sapir A, von Hagen J (2010) A European Mechanism for Sovereign Debt Crisis Resolution: A Proposal. Bruegel Blueprint Series, Volume X. Brussels
- Gruchy AG (1972) Contemporary economic thought. The contribution of neoinstitutional economics. Kelley, New Jersey
- Joffe J (1992) The Foreign Policy of the Federal Republic of Germany: tradition and change. In: Macridis R (ed) (1992) Foreign policy in world politics, 8th edn. Prentice-Hall, New York, London, pp 68–107
- Kean RM (2005) Forgotten power: Byzantium: Bulwark of Christianity. Thalamus Publishing, Ludlow
- Koslowski P (ed) (1998) The social market economy. Theory and ethics of the economic order. Springer, Berlin, Heidelberg
- McKay JP, Hill BD, Buckler J (1991) A History of Western Society. Vol II. From Absolutism to the Present, 4th edn. Houghton Mifflin Company, Boston
- Müller-Armack A (1965) The principles of the social market economy. In: Koslowski P (ed) (1998) The social market economy: Theory and ethics of the economic order. Springer, Berlin, Heidelberg, pp 255–274
- Pontifical Council for Justice and Peace (2011) Towards reforming the international financial and monetary systems in the context of global public authority. Libreria Editrice Vaticana, Città del Vaticano
- Schöllgen G (1999) Die Außenpolitik der Bundesrepublik Deutschland. Von den Anfängen bis zur Gegenwart. C.H. Beck’sche Verlagsbuchhandlung für die Bundeszentrale für politische Bildung, Bonn
- The Economist (2011, July 9) Debt reduction. Handle with care. “Deleveraging” will dominate the rich world’s economies for years. Done badly, it could wreck them. Leaders section (with July 7 date in online edition), Print edition, London
- The Economist (2012, April 21) Special report: Manufacturing and innovation. A third industrial revolution. Print edition, London, p. 47–ff

Appendix A: Presidents and Chancellors of Germany After 1949

Federal Presidents (Bundespräsidenten)¹

1949–1959	Theodor Heuss
1959–1969	Heinrich Lübke
1969–1974	Gustav Heinemann
1974–1979	Walter Scheel
1979–1984	Karl Carstens
1984–1994	Richard von Weizsäcker
1994–1999	Roman Herzog
1999–2004	Johannes Rau
2004–2010	Horst Köhler
2010–2012	Christian Wulff
2012–	Joachim Gauck

Federal Chancellors, Prime Ministers (Bundeskanzler)²

1949–1963	Konrad Adenauer
1963–1966	Ludwig Erhard
1966–1969	Kurt Georg Kiesinger

¹ See the official Internet portal of the Presidency www.bundespraesident.de.

² See the official Internet portal of the Federal Government www.bundesregierung.de.

1969–1974	Willy Brandt
1974–1982	Helmut Schmidt
1982–1998	Helmut Kohl
1998–2005	Gerhard Schröder
2005–	Angela Merkel

Appendix B: Federal Ministers of the Economy After 1948³

Ludwig Erhard	20.09.1949–15.10.1963
Kurt Schmücker	17.10.1963–01.12.1966
Karl Schiller	01.12.1966–13.05.1971 and 13.05.1971–07.07.1972
Helmut Schmidt	07.07.1972–15.12.1972
Hans Friderichs	15.12.1972–07.10.1977
Otto Graf Lambsdorff	07.10.1977–17.09.1982 and 04.10.1982–27.06.1984
Manfred Lahnstein	17.09.1982–4.10.1982
Martin Bangemann	27.06.1984–09.12.1988
Helmut Hausmann	09.12.1988–18.01.1991
Jürgen Möllemann	18.01.1991–21.01.1993
Günter Rexrodt	21.01.1993–27.10.1998
Werner Müller (independent)	27.10.1998–28. 10. 2002
Wolfgang Clement	29.10.2002–2005
Michael Glos	2005–2009
Karl Theodor Freiherr zu Guttenberg	02.2009–10.2009
Rainer Brüderle	10.2009–05.2011
Philipp Rösler	05.2011–12.2013
Sigmar Gabriel	12.2013–

³ See the Internet portal of the Federal Ministry of the Economy and Technology www.bmwi.de/DE/Ministerium/Geschichte/ministergalerie.html.

Appendix C: Selection of Important Legislative Acts⁴: 1884–2000

- 1884 Health Insurance Act (Krankenversicherungsgesetz)
- 1896 Civil Code (Bürgerliches Gesetzbuch)
- 1897 Commercial Code (Handelsgesetzbuch)
- 1898 Limited Liability Companies Act (GmbH Gesetz)
- 1948 Monetary Act (Währungsreform) (Military Act no. 61)
Issue Act (Emissionsgesetz) (Military Act no. 62)
Act for Normalising the Financial System (Military Act no. 63)
Fixed Accounts Act (Festkontengesetz)
Act regarding supply norms and the price policy following the Monetary Reform (Gesetz über die Leitsätze für die Bewirtschaftung und Preispolitik nach der Geldreform)
Act against artificial price rises (Gesetz gegen Preistreiberei)
- 1949 Federal Constitution (Grundgesetz)
Tariff Wage Contract Act (Tarifvertragsgesetz)
- 1950 Ordinances regarding the market—minimal prices for key products (Marktordnungen—Mindestpreise für Schlüsselprodukte)
Highway Code (Verkehrsgesetze)
Federal Act of Material Insurance—services for war victims (Bundesversorgungsgesetz Leistungen für Kriegsofopfer)
- 1951 Act regarding work carried out from home (Heimarbeitsgesetz)
- 1952 Company Setup Act (Betriebsverfassungsgesetz), amended in 1972
Act for the Protection of Employed Mothers (Gesetz zum Schutz erwerbstätigen Mütter)
Labour Management Relations Act (Betriebsverfassungsgesetz)
- 1953 Act for the Seriously Disabled (Schwerbeschädigtengesetz)
- 1954 Child Allowance Act (Kindergeldgesetz)

⁴ See Bundesministerium der Justiz (2002) Fundstellennachweis A and Fundstellennachweis B.

- 1955 Personnel Representation Act (Personalvertretungsgesetz)
- 1957 Pension Reform (Rentenreform)
 Anti Trust Act (Gesetz gegen Wettbewerbsbeschränkung—GWB)
 Act for Establishing the Central Federal Bank (Gesetz zur Gründung der Bundesbank)
- 1961 Social Aid Federal Act (Bundesozialhilfegesetz)
 Establishment of the Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung
 Federal Annual Leave Act (Bundesurlaubsgesetz)
- 1962 Act for Insuring the National Budget (Gesetz zur Sicherung des Staatshaushalts)
 Public Limited Companies Act (Aktiengesetz)
- 1967 Act for the Promotion of Stability and Economic Growth (Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft)
- 1969 Labour Promotion Act (Arbeitsförderungsgesetz)
 Act for Community Responsibilities and for Improving the Regional Economic Structure (Gesetz über Gemeinschaftsaufgabe und Verbesserung der regionalen Wirtschaftsstruktur)
 Act for Protection against Dismissal (Kündigungsschutzgesetz)
 Professional Training Act (Berufsbildungsgesetz)
- 1971 Federal Act for the Promotion of Education (Bundesausbildungsförderungsgesetz)
 Appointment of the Experts' Council for Ecological Matters
 The Lead-free Fuel Act
- 1974 Act for the Seriously Injured (Schwerbehindertengesetz)
 Act for the Protection against Emissions (Immissionsschutzgesetz)
 Establishment of the Federal Office for Environment Protection
- 1975 Ordinance for the Organization of Employment (Arbeitsstättenverordnung)
- 1976 Act for Co-decision within Companies (Mitbestimmungsgesetz)
 Residual Water Tax Act (Abwasserabgabengesetz)
 Social Code (Sozialgesetzbuch)
- 1980 Chemical Substances and Environment Act (Umwelt-chemikaliengesetz)
- 1984 Pre-Pension Stage Act (Vorruhestandsgesetz)
- 1985 Act for Employment Stimulation (Beschäftigungsförderungsgesetz)
 Act for Protecting Adolescent Work (Jugendarbeitsschutzgesetz)
- 1986 Establishment of the Ministry for the Environment (Schaffung des Umweltministeriums)
 Loans Act (Kreditwesengesetz)
 Act for Employing the Injured (Schwerbehindertengesetz)
- 1989 Health Reform Act (Gesundheitsreformgesetz)
- 1992 Health System Structure Act (Gesundheitsstrukturgesetz)
 First Pension Reform Act (Rentenreformgesetz)
- 1994 Work-time Act (Arbeitszeitgesetz)
 Unsocial Hours Allowances Act (Entgeltfortzahlungsgesetz)

- Federal Education Allowances Act (Bundeserziehungsgeldgesetz)
- 1995 Act on notification of conditions governing an employment relationship (Nachweisgesetz)
- Revised Federal Constitution
- 1999 Second Pension Reform Act (Rentenreformgesetz)
- 2000 Fiscal Act 1999/2000/2002 (Steuerentlastungsgesetz)
- Renewable Energies Act (Gesetz für erneuerbare Energien)

Appendix D: Components and Monthly Spending of a Standard Salary

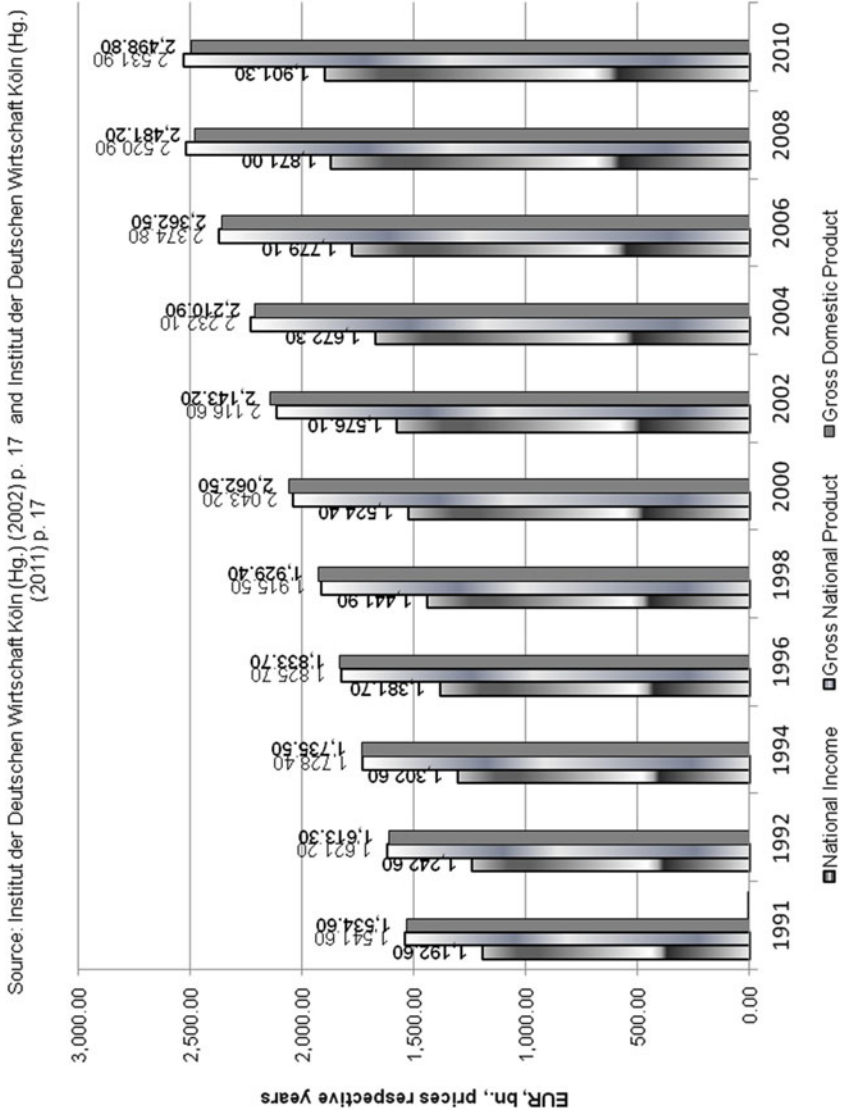
Employee in compliance with the “Federal Employees Act” (Bundes-Angestellten-Tarif), August 2001, *when the world was still doing alright*

For instance, at the Federal Trade and Industry Chamber, DIHK, in Berlin

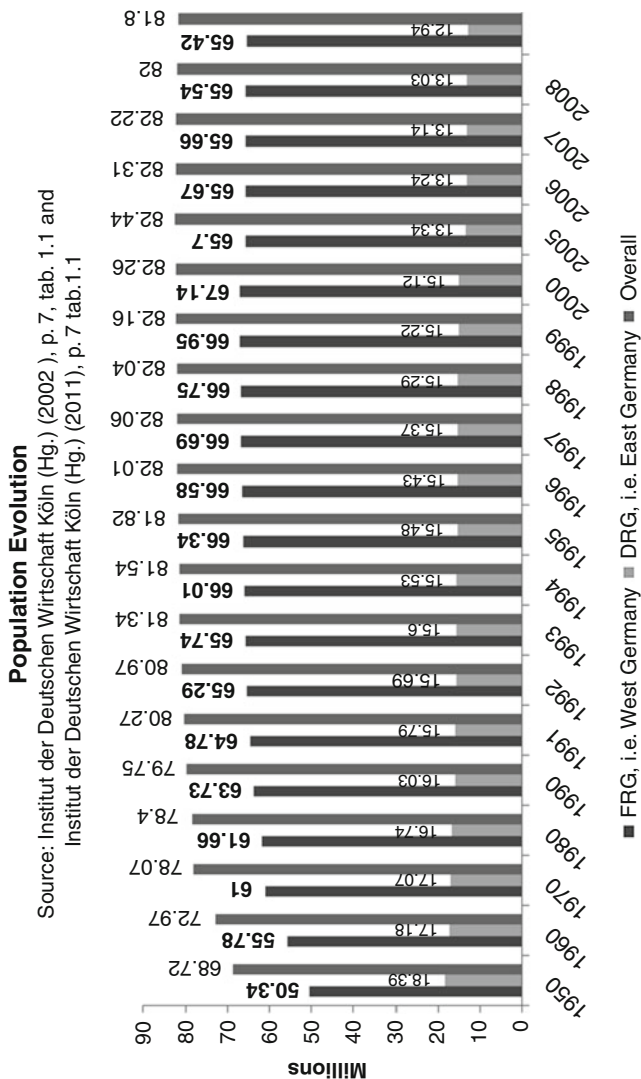
Monthly expenses supported by the employer ^a	DM (Deutsche Mark)
Total cost for the employer with the salary	7,859.53
Nursing insurance—employer’s share	55.42
Health insurance—employer’s share	443.34
Unemployment insurance—employer’s share	211.89
Pension insurance—employer’s share	629.15
G 19: Gross monthly salary, BAT, class I b, 41 years of age	6,519.73
G 21: Monthly tax, tax table steuertabelle	1,760.33
Church tax—9 % of G21	158.43
Additional solidarity tax—7.5 % of G21	132.02
Pension insurance—19.3 %/2 of G19	629.15
Unemployment insurance—6.5 %/2 of G19	211.89
Health insurance—13.6 %/2 of G19	443.34
Nursing insurance—1.7 %/2 of G19	55.42
Net monthly salary	3,129.15
Monthly child allowance +	280.00
Monthly expensive city allowance, BAT Ib, married, 1 child +	1,394.65
Net monthly income	4,803.80
Monthly rent, 3 room flat, good neighbourhood—(ca.)	1,600
Monthly current expense, waterworks, energy, gas, household—(ca.)	250
Telephone, radio-TV, Internet, monthly, child education—(ca.)	350
Food for the entire family, clothing—(ca.)	1,500
Car, public transport—(ca.)	200
Monthly savings for holidays—(ca.)	300
Pocket money, other savings, rest	603.80

^aAfter 1999 fixed exchange rate: EUR 1.- = DM 1.95583

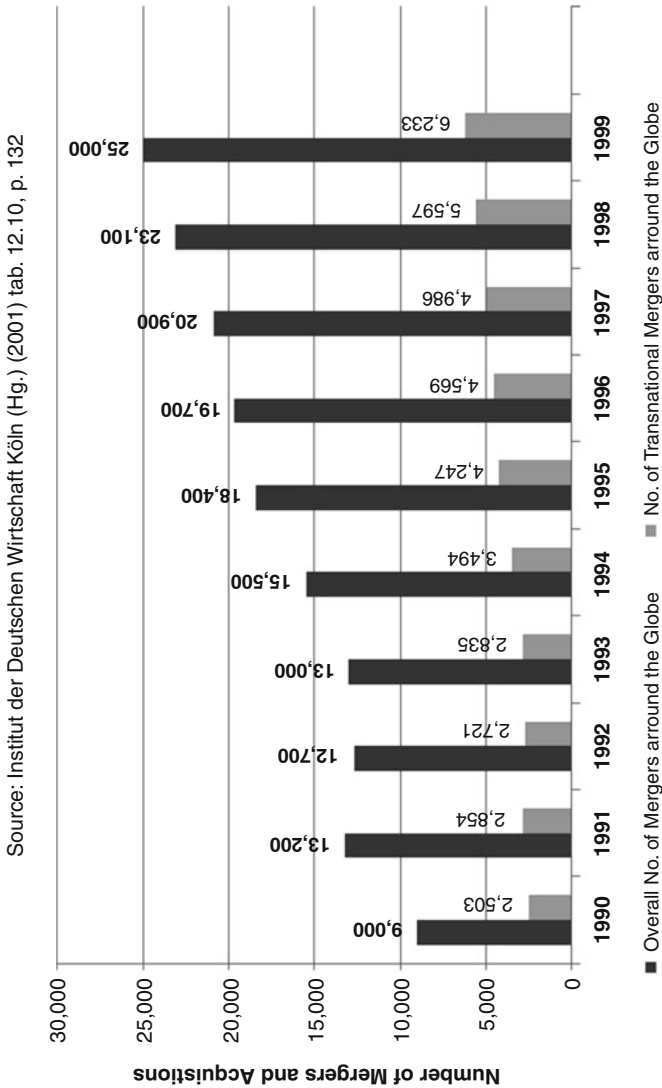
Appendix E: National Income, GNP, GDP of Germany, 1991–2010, EUR Billion



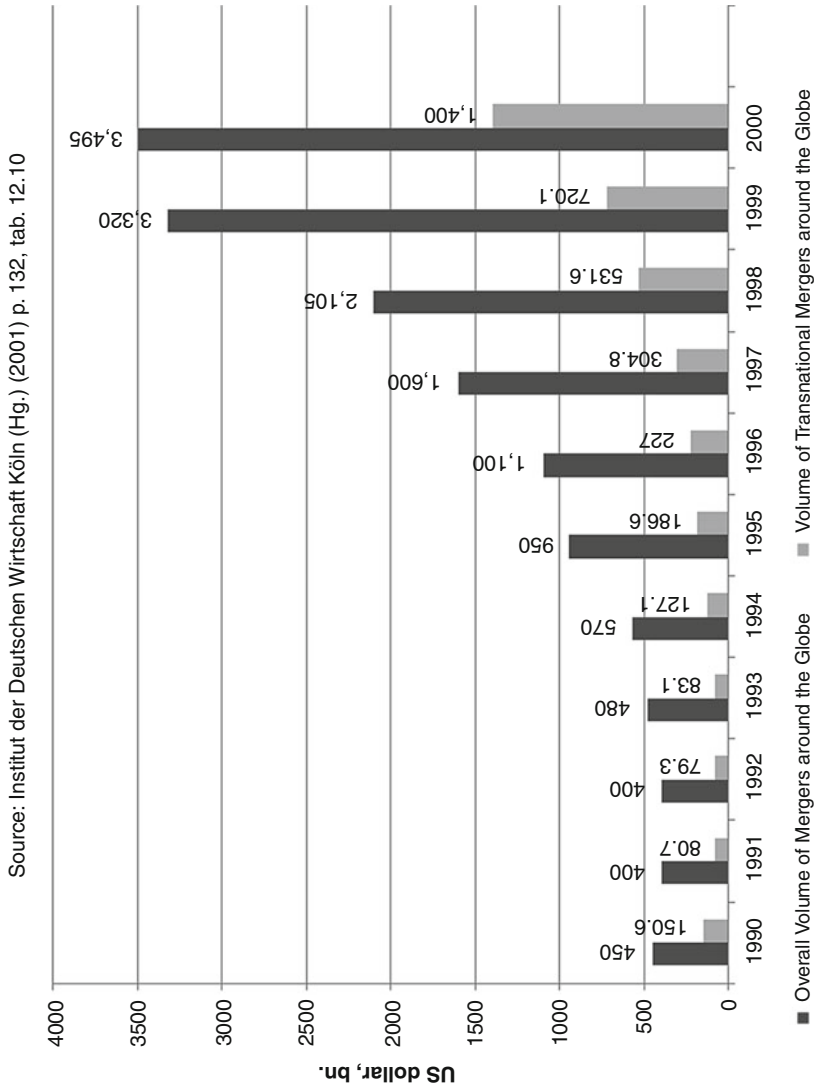
Appendix F: Population, Million, 1950–2009



Appendix G: Company Mergers and Acquisitions Around the Globe, Number, 1990–1999



Appendix H: Volume of Worldwide Company Mergers and Acquisitions, USD Billion, 1990–2000



Appendix I: The Sixteen Länder and Respective Capitals, 2013

Baden-Württemberg (Stuttgart)
Bayern (München)
Berlin (Berlin)
Brandenburg (Potsdam)
Bremen (Hansestadt Bremen)
Hamburg (Hansestadt Hamburg)
Hessen (Wiesbaden)
Mecklenburg-Vorpommern (Schwerin)
Niedersachsen (Hannover)
Nordrhein-Westfalen (Düsseldorf)
Rheinland-Pfalz (Mainz)
Saarland (Saarbrücken)
Sachsen (Dresden)
Sachsen-Anhalt (Magdeburg)
Schleswig-Holstein (Kiel)
Thüringen (Erfurt)

Each land has its own constitution which is the instrument for levying taxes. Elections for Land Parliaments are held every five years (with the exception of Bremen, where it is four years). Usually, Land Parliaments and Governments are located in land capitals (between brackets).

Appendix J: The Main Regional Economic Blocks, 2013

Europe	Africa	Asia-Pacific	America
The European Union (EU)	The Arab Maghreb Union	The Association of Southeast Asian Nation (ASEAN)	The Andean Pact
The Economic and Monetary Union (EMU)	The Economic Community of West African States (ECOWAS)	The Closer Economic Relations Agreement between New Zealand and Australia (CER)	Mercosur —Southern Common Market: associated member states
The European Free Trade Association (EFTA)	The Economic Community of Central African States (ECCAS)	<u>Asia-Pacific-America</u>	The North American Free Trade Agreement (NAFTA)
The European Economic Area (EEA)	The Southern African Development Community (SADC)	Asia-Pacific Economic Cooperation (APEC)	The Caribbean Community (CARICOM)

Appendix K: Photos



Photo 1 The wall painting in 1909 of Ferdinand Hodler “Aufbruch der Jenenser Studenten” in den Freiheitskrieg 1813 (setout of Jena students in the Freedom War of 1813) in the Aula of Jena University. *Source:* Author’s photo, 2014, reproduced with kind permission of Friedrich Schiller University Jena



Photo 2 Jena City after the 1945 bombings. Church tower St. Michael; offices of a publishing house. *Source:* Stadt Jena, R 15, reproduced with kind permission of Stadtarchiv Jena



Photo 3 A student while dressing and preparing to rise. Detail from Photo 1. This detail was painted while using the then 17-year-old Walter Eucken as a model. It was to represent his personality too. The drawing became later known as “Walter Eucken in a combative mind-set”.
Source: Author’s photo, 2014, reproduced with kind permission of Friedrich Schiller University Jena



Photo 4 Increased national and international economic weight. Chemical manufacturing facility near Cologne, 2014. *Source:* Lyondell Basell Industries N.V., reproduced with kind permission



Photo 5 Increased international political weight: UN Secretariats and Deutsche Welle in Bonn, 2014. The premises of the former 29-storey Bundestag tower “Langer Eugen” now host over 18 UN Secretariats like UNFCCC, UNCCD, UNU Vice-Rectorate Europe, UNEVOC, UNV, Int’l Plant Treaty, etc. Deutsche Welle is the international media voice of Germany. *Source:* Author’s photo, with kind permission of Deutsche Welle and of the Bundesanstalt für Immobilienaufgaben