

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

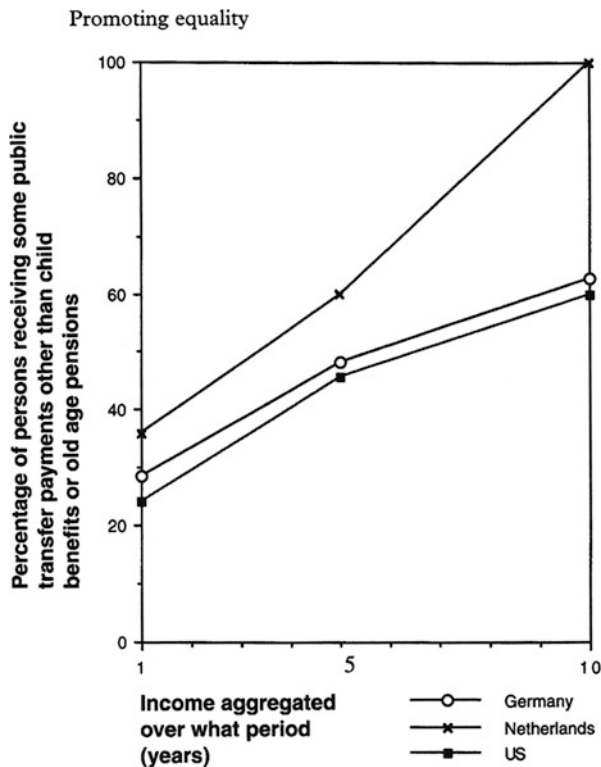
¹¹ Comp. Goodin et al. (1999), pp. 44–45.

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.

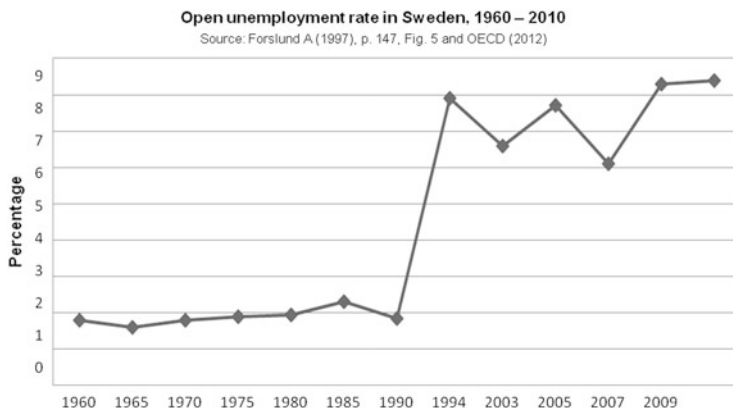


Chart 3.2 Open unemployment rate in Sweden, 1960–2010, approximate data. Chart years 1960–1994. Source: Statistics Sweden, Labor Force Surveys and National Accounts Statistics, Forslund (1997) p. 147, Fig. 5 then extended with own calculations on OECD data

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 Emanuele 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.

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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.

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