

Social Market Economy as Europe's Economic Model  
International Conference, Cadenabbia, November 2012

# **Ordoliberalism and Christian Social Doctrine**

# Ordoliberalism and Christian Social Doctrine - Agenda

- Origins
- Main principles of Ordoliberalism
- Main Principles of Christian Social Doctrine (with a special focus on Catholic Social Ethics)
- Selected Commonalities on Economic Policy
- Summing-up

## Origins (1)

- The current Catholic social doctrine dates back to the times when the church was wrestling with the social question.
- Above all, classical liberalism and socialism competed for the solution of the social question of mass poverty.
- Liberalism predicted that free market economies would result in the '**wealth of nations**' (Adam Smith).
- In contrast, socialism believed in the need of '**class struggle**'.
- The catholic church reacted with its first social encyclical *Rerum Novarum* (1891). The pope levelled harsh criticism at the early capitalist class society at the of the time.
- He rejected socialism, however, outright.

## Origins (2)

- Pope Leo XIII demanded 'fair wages', asked for modifying the pure market principle, and proclaimed the freedom of coalition / association of the workers as a 'natural right'.
- The pope also demanded a national social policy in favour of the workers.
- He thus saw the possibility for social progress in combining the concepts of **liberty** as a fundamental value and the institution of the market with the idea of **social justice**.
- This combination is regarded as **able to 'carry' the economic system** and to tolerate the tension between liberty and social equality.
- The 2nd papal social encyclical of 1931 goes further.

## Origins (3)

- *Quadragesimo Anno* argues that the “capitalist way of running the economy cannot be condemned as such”. The point is rather “to organise it properly”, because “unhampered competitive freedom” can easily lead to “the survival of the fittest who all too often tend to be more brutal and lacking in conscience”.
- On the one hand, competitive freedom alone must never be made the “principle which regulates the economy”.
- On the other hand, it is “justified and of undoubted usefulness within the necessary limitations”, provided it is “firmly controlled and wisely governed”.
- The pope also criticised the unfair distribution of wealth at the time and promoted “co-ownership” or profit-sharing.

## Origins (4)

- The encyclical *Centesimus Annus* (1991) supplemented the statements of the Catholic social doctrine on the idea of a social market economy (without using this term, however).
- In **Germany**, during the end of the Third Reich, four resistance groups had begun to think about how to restructure the economy after the devastating war. This thinking was partly based on previous ideas in all groups.
- The groups included thinkers who advocated liberal reforms of society and economy as well as adherents of democratic socialism (the latter often rejected market economies).
- On the religious side there were the Protestants and parts of their doctrine went into early drafts of the new German order. D.Bonhhoff maintained contact with the Freiburg circles.

## Origins (5)

- **Catholic academics** developed within the confines of Catholic social teaching an economic concept based on natural law. They advocated the protection of private property, emphasized the freedom and dignity of man. The attitude towards market economy was not dismissive.
  - However, according to Lachmann (1995): “As none of these four groups was able to gain the upper hand, social market economy must, in a sense, be seen as a political compromise combining free markets and efficient competition with the guarantees of a life in dignity even for the disadvantaged strata of society” (though some academics disagree on this ...)
- => There is **more than one concept** of Social Market Economy which makes the concept ambiguous.

## Origins (6)

- However, the **joint aspect** of all these approaches is a **different view of the role of the state**, “to which it assigns more than the mere function of a night watchman (minimum government). Rather, the state is expected to make certain efforts in economic policy, to be vigorous and non-partisan, and to control the economic process without partially pre-determining its results in favour of individual interests.
- The best simile to explain the role of the state is that of a **soccer game**. To **ensure fair play**, rules must be set up, institutions like referees and linesmen must be created, and the game supervised by these institutions. Similarly it is the duty of the state to create independent institutions to look after specific areas of economic policy...” (Lachmann 1995).

## Principles of Ordoliberalism (1)

- The ordoliberal school contributed “the **essential theoretical foundation** to the concept of a social market economy as the official *Leitbild* of the German economy” (Leipold).
- It was Walter Eucken who elaborated this regulatory framework in most detail in his book “Principles of economic policy” of 1952, in which he distinguished between seven constituent and four regulatory principles. This contribution may explain the large influence of his concept.
- The constituent principles provided the basic regulatory framework, i.e. the basic rules of play of the market forces. The regulatory principles consisted of measures that the state should take to correct certain market results and that were justified because of shortcomings of pure competition.

## Principles of Ordoliberalism (2)

- Unlike the classicists, the ordoliberals argued that it was necessary to place private competition within a **regulatory framework**, denoting the limits within which competition could operate.
- Though the **state** was not supposed to intervene directly into economic activity, it was supposed to provide a legal framework to which all actors would adhere. Thus the state must hold a **supervisory function**.
- According to ordoliberals, such a market economy is already **'social'** in comparison to a centrally planned economy because it creates liberty and choice for all: "Prosperity for all and through competition".

## Principles of Ordoliberalism (3)

Eucken's **constituent principles (basic rules of play)** include:

- Competition as fundamental principle of the economic system
- Monetary stability ensured by an autonomous central bank
- Unrestricted market access (especially for foreign suppliers)
- Private ownership
- Contractual freedom
- Responsible economic decisions (through the sanctioning mechanism of profit and loss)
- Consistency in economic policy (the state should not alter its legislation all the time to avoid uncertainty, arbitrariness)

## Principles of Ordoliberalism (4)

Eucken's **regulatory principles** stated four corrective measures by the state:

- Securing competition through the supervision of monopolies and cartel legislation
- A limited redistribution of the income achieved on the market according to social criteria
- Correction of market prices if they do not reflect economic costs (e.g. environment, climate)
- Corrective measures in case of abnormal reactions on the supply side in certain markets.

Eucken realistically accepted that there can be (albeit limited) exceptions to smoothly functioning markets.

## Principles of Catholic Social Ethics (1)

- According to Catholic social doctrine, the ‘origin, carrier and goal’ of all social processes always has to be the person.
- Thus, the Christian image of humans stresses the liberty and the autonomy of the person as well as the fact that all people have equal dignity.
- According to the doctrine, the fundamental rights of freedom of production and consumer liberty, the free choice of workplace etc. can be satisfactorily realised only by a free market order.
- The market alone cannot, however, resolve all problems. Social balancing institutions have to ensure that all society members are at least provided with those goods that allow a life with dignity.

## Principles of Catholic Social Ethics (2)

- This criterion sets the social market economy apart from **paleo-liberalism**.
- However, the societal goals cannot be reached through competition alone, but only through a basic legal order which is instituted by the state and within which the market process itself plays out.
- The concept of “social justice” as equality born out of solidarity does have to kept in mind according to Christian thinking.

## Selected Commonalities on Economic Policy (1)

- Over time, however, the Social Market Economy in practice developed from one more or less in line with its principles to a rigid and overburdened system.
- The Social Market Economy and the social security systems and interventions associated with it brought about an enormous redistribution as well as inefficiencies.
- The **link between personal performance** and the efficiency and **economic performance** of the economy as a whole was **largely neglected**.
- Both the ordoliberalists and the Christian social ethics criticize the **'insurance-against-all-risks' mentality** that considers the comprehensive supply of e.g. infrastructure to be normal independent of individual's contributions.

## Selected Commonalities on Economic Policy (2)

- They also have a common point in arguing that the challenges of globalization and ageing means that public budget deficits and debt levels will have to be cut.
- According to Christian and ordoliberal schools of thought, the current debate is often too much in the name of misunderstood justice. Without **realigning consumption with productivity of an economy** everybody will finally lose.
- In other words, a **sustainable** Social Market Economy with ongoing high economic growth includes, above all, an emphasis on the **subsidiarity principle**.
- Thus, each individual does not only have the right but also the duty to do all that he or she is capable of doing.

## Selected Commonalities on Economic Policy (3)

- There is a need to change the course in the direction of more personal self-aid.
- The purpose of subsidiarity assistance is to enable the individual to make decisions on his own moral responsibility.
- At the same time, such assistance will have to be restricted in time and in scope to the extent to which the individual is unable to help himself/herself.
- Please note: As help towards self-help, subsidiarity is intended to supplement and support, not to replace an individual's own efforts. This also implies that society should reduce and finally cease altogether its support as the individual becomes increasingly able to help her-/himself.

## Summing-up (1)

- Historically, the west German concept of Social Market Economy is fairly close to Christian principles, being originally designed as a compromise between free market economy and planned 'command' economy. Christian principles are an important foundation of the Social Market Economy
- The goal was 'social irenics' (Müller-Armack) to diffuse the tension between efficiency and distribution and between different Christian doctrine (but the concept may be wider applicable as well).
- According to research by Goldschmidt (2009), also Eucken's **ordoliberalism** as a most important contributing factor to the concept was "born out of the spirit of religion".

## Summing-up (2)

- Christians traditionally also asked for solidarity with the economically weak and the economically passive.
- However, the principle of subsidiarity as opposed to solidarity has gained much more influence. This is because the previously stronger focus on solidarity had negative side effects.
- Gradually it was increasingly and more generally accepted that overburdening the market with regulations and welfare spending that hampers labour supply will lead to losses for all concerned – at least in the longer term.

## German Economic hegemony? – a background to recent developments

### **German position strongly based on neoclassical assignment**

- Inflation depends on the growth of money supply
- Employment depends upon real wages and flexibility of labour markets
- The object of governmental budgetary policy should be to strengthen the supply side of the economy

## Sustainable „Leadership“ in the Euro crisis...

### ...as understood by contemporary Germany

- Germany's stance with respect to the public debt crisis in the euro zone has been regarded as **uncooperative**: severe criticism against the ECB's purchases of public debt in the secondary market, refusal to increase the size of the EFSF or to let it be transformed into a bank, stringent demands with regard to fiscal policies: putting tough budget rules before growth.

- **Why this position of “the Germans”?**

Real leadership needs to address the root causes of the fundamental problem; leadership understood as just handing the money to cure symptoms of the eurozone integration is regarded as unacceptable.

Measures that the Merkel-led government demands of others mirror those Germany successfully adopted within the last decade (wage restraint, increased flexibility).

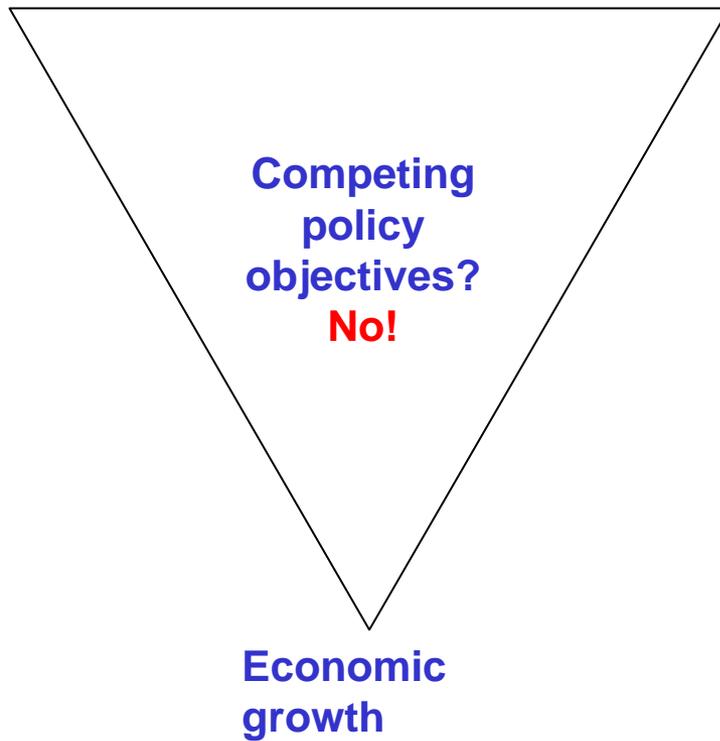
Tough stance also reflects domestic politics because of the elite's/public's crisis evaluation.

**Remedy:** Weaker countries have to clean house before loosening German purse strings.

Influential German view: **It's confidence, stupid!** / Merkel's vision

Fiscal  
austerity

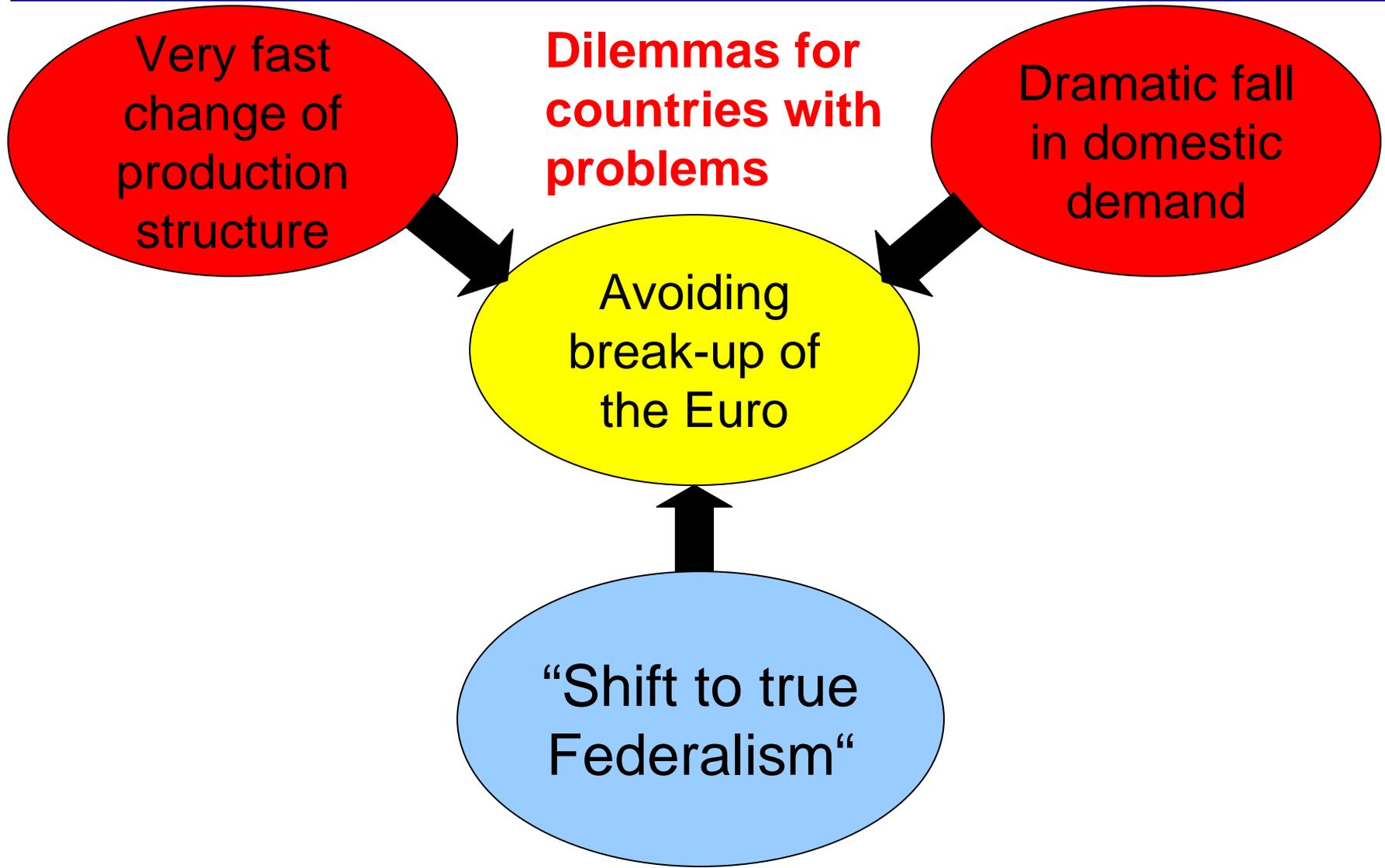
Structural  
reforms



***“We need not just a currency union; we also need a so-called fiscal union, more common budget policies. And we need above all a political union. That means that we must, step by step as things go forward, give up more powers to Europe as well and allow Europe oversight possibilities.”***

**Chancellor Angela Merkel,  
June 2012**

**Germany's dilemma: More transfers to the EU via federalism as the least costly solution or break-up?**



However, a precondition for this to happen successfully, is that Germany will invest more and consume more to set the arithmetic right. „If the others become more like Germany, at the same time Germany needs to become more like the others“ (Daniel Gros 2012).

**Thank you very much for your attention.  
The floor is open for discussion!**