

# Monitor Religion and Politics

## Social Market Economy – renewing ecologically

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### The social-ethical perspective

*Arnd Küppers*

#### Abstract

- > The Social Market Economy is currently not only facing the challenge to combine freedom on the market with social balance, but also to implement sustainability into this concept.
- > Due to climate change an ecological renewal of the economic system is necessary. As it is caused by worldwide emissions, focusing on the national economy and the national common good is not sufficient anymore, instead it requires a global perspective on the common good.
- > Germany, with its powerful national economy, assumes the function of a role model and its actions to combat the climate crisis are receiving significant and international attention.
- > For an ecological renewal of the Social Market Economy policies should set clear targets without determining specific methods and technologies.
- > One regulating principle of regulatory politics is, to reflect the macroeconomic costs or benefits in the market prices. This allows the market actors to consider them in their decision making.
- > In the past, the success of the Social Market Economy was based on its clear regulatory ethical compass and its regulatory political instruments. With its aim for compromise and consensus the Social Market Economy can also make a contribution to the debate about climate change.

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## Social Market Economy - renewing ecologically. The socio-ethical perspective

By its core the Social Market Economy is not just a pragmatic *Ordnungstheorie* but also a socio-ethical concept. The classical fundamental idea of the Social Market Economy is, by Alfred Müller-Armacks much-cited statement, 'to combine the principle of freedom on the market with that of social balance'<sup>1</sup>. Today we are facing the challenge of implementing ecological sustainability as a third element into this successful economic concept.

As much as in the historical beginnings of Social Market Economy also in perspective of its ecological renewal the key challenge is, to establish the socio-ethical imperative with the necessary regulatory political acumen. For what Erich Kästner wrote about morals is equally valid in the area of political action: 'There is nothing good / unless: one does it.'<sup>2</sup> Albeit putting this principle into effect is incomparably more difficult in politics than it is for the morally acting individual. Since politics is about setting rules and frameworks, about regulating and governing a multitude of singular cases and individual choices of action. Hence what has to be taken into consideration for each political decision is not just the immediate consequences, but also the indirect, unintended side-effects. And not least, in a democracy, political decisions require the consent of a largest possible majority of citizens. The Social Market Economy with its regulatory ethical and regulatory political conception provides proper prerequisites to meet these challenges, even in the light of the ecological transformation as task of the century.

## The regulatory ethics of the Social Market Economy

The specifically German version of the Social Market Economy as an economic order has its roots in the lessons drawn from the failure of the first German democracy, the Weimar Republic, and the dismay caused by the National Socialist terror-regime. The leading idea providers and pioneers of the Social Market Economy stood in opposition to Hitler's regime, above all Walter Eucken (1891-1950). As early as in 1933, by then economics professor at the Freiburg university, he led the opposition against Martin Heidegger, who, as the new rector, intended to bring the university into line in the spirit of National Socialism. Up till today the term 'Freiburg School' is standing synonymous with the theoretical foundation of the Social Market Economy, drafted by Eucken: the concept of *ordo-liberalism*. What is less known is, that Eucken during the Nazi-period was one of the leading members of the 'Freiburg Circle' - a Christian resistance group. In response to the request of Dietrich Bonhoeffer in 1943 he and some fellow members of the circle wrote a memorandum, which was meant to be presented at an ecumenic world church conference planned for after the war - as a roadmap for the political and societal reorganisation of Germany. The passage about the economic and social order, primarily written by Eucken, offers already a concise summary of the *ordo-liberal* concept of the Social Market Economy. According to their own statement, the authors aim 'to give a Christian justification for the foundations of the social economic ethics.'<sup>3</sup>

So, the concept of regulatory politics as an originary central component of the Social Market Economy is based on a genuinely ethical ambition. And this socio-ethical foundation cannot merely be accounted to the specific background of the paper's emergence in 1943 but runs through Eucken's entire oeuvre until the end of his life. As he writes for instance in his posthumously published 'The Principles of Economic Policy', a sort of agenda for the Social Market Economy: 'The order should be of a kind to allow the people a life according to ethical principles.'<sup>4</sup> And elsewhere it says: 'It must not be demanded from the people, what only the economic order can provide: to create a harmonic balance between individual interest and common interest.'<sup>5</sup> Hereby Eucken phrases an ethical principle which in social ethics is reflected as the Principle of the Common Good.

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<sup>1</sup> Alfred Müller-Armack, Art. Soziale Marktwirtschaft, in: Handwörterbuch der Sozialwissenschaften, Bd. 9, Stuttgart u. a. 1956, 390-392, hier: 390.

<sup>2</sup> Erich Kästner, Kurz und bündig. Epigramme, Neuauflage, 7. Aufl., München 2004, 39.

<sup>3</sup> In der Stunde Null. Die Denkschrift des Freiburger Bonhoeffer-Kreises (1943), in: Die protestantischen Wurzeln der Sozialen Marktwirtschaft. Ein Quellenband, hrsg. v. Günter Brakelmann u. Traugott Jähnichen, Gütersloh 1994, 341-362, hier: 341.

<sup>4</sup> Walter Eucken, Grundsätze der Wirtschaftspolitik, hrsg. v. Edith Eucken u. K. Paul Hensel, 7. Aufl., Tübingen 2004, 199.

<sup>5</sup> Ebd., 368.

## Laudato si': Ecological transformation as a precept of the (global) common good

Considering the climate change, if any, the ecological renewal of our economic system is one of the most pressing demands of the common good. Which is also the general thrust of Pope Francis' encyclical 'Laudato si'', published in 2015 and celebrated even by the two world's most important scientific magazines: 'Hope from the Pope' was the headline of *Nature's* editorial from June 25, 2015. And, one week later, Marcia McNutt, editor in chief of the magazine *Science*, called Pope Francis 'currently our most visible champion for mitigating climate change.'

In *Laudato si'* Pope Francis is promoting an integral approach and finds 'the need for an 'economic ecology' capable of appealing to a broader vision of reality.' (*Laudato si'* 141). And he stresses, that 'an integral ecology is inseparable from the notion of the common good' (*Laudato si'* 156). At this point he refers to the classical definition of the common good from *Gaudium et spes*, as 'the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment' (*Gaudium et spes* 26).

From *Laudato si'* Peter Cardinal Turkson, prefect of the Dicastery for Promoting Integral Human Development, draws three concretions of this abstract ethical principle.<sup>6</sup> First: climate change is threatening the livelihoods of the entire mankind, particularly those of future generations. Therefore, it is particularly this challenge, which makes us aware that the 'notion of the common good also extends to future generations.' (*Laudato si'* 159). Second: 'In the present condition of global society, where injustices abound and growing numbers of people are deprived of basic human rights and considered expendable, the principle of the common good immediately becomes, logically and inevitably, a summons to solidarity and a preferential option for the poorest of our brothers and sisters.' (*Laudato si'* 158). Third: climate change is caused by worldwide emissions and is threatening the entire mankind. Hence, when it comes to ecological transformation, it is not sufficient, to only focus on the own national economy and the national common good, as it is the 'global common good' (*Laudato si'* 169), which has to be looked at.

It is probably this imperative, to think and act beyond the national economy and in a global scale, which differs most clearly from the challenge the pioneers of the Social Market Economy were facing after the Second World War. Two consequences result from this: Firstly, overcoming climate change requires multilateral action. Even if Germany managed to transform its own national economy into climate neutrality in the shortest time period, it wouldn't affect climate change at all, if it wasn't for the other countries undertaking considerable efforts as well. Certainly, a strong national economy can and should take a pioneering role in the transformation process, and Germany does so. Yet one has to be aware, that the German example is receiving significant international attention, which leads to a second consequence: Success or failure of the German transformation process will make a decisive contribution to other countries intensifying their endeavors - or not.

This means: if - and only if - the change towards a sustainable energy supply succeeds, with Germany remaining a competitive economic site with a strong industrial core, and furthermore the German social model of overall prosperity remaining in force, the Ecological and Social Market Economy can become a role model for other countries, as the 'old' Social Market Economy was and still is. The Council of the Protestant Church in Germany and the German Bishops Conference emphasize on this in their Ecumenic Social Initiative of 2014: 'It takes a worldwide effective and fundamental transformation of business- and lifestyles, to maintain a high quality of life also for future generations. This demanding transformation process will only succeed, if the new objective of ecological responsibility is being combined with the traditional principles of market freedom and social balance. This is the necessary and quite conflictual plurality of goals of the Ecological and Social Market Economy'<sup>7</sup>.

## Ecological Regulatory Politics for the Renewal of the Social Market Economy

As shown above, the Social Market Economy has a socio-ethical basis and is oriented to the common good. Which is, what differentiates it fundamentally from Laissez-faire-capitalism. The second essential

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<sup>6</sup> Siehe dazu und zum Folgenden Peter Kardinal Turkson, Integraler Humanismus und Wirtschaftsökologie. Überlegungen aus Anlass der Amazonas-Synode (Kirche und Gesellschaft, Heft 463), Köln 2019, 13 f.

<sup>7</sup> Gemeinsame Verantwortung für eine gerechte Gesellschaft. Initiative des Rates der Evangelischen Kirche in Deutschland und der Deutschen Bischofskonferenz für eine erneuerte Wirtschafts- und Sozialordnung, Bonn/Hannover 2014, 35.

characteristic of Social Market Economy is, to pursue the common good objectives not through state interventions and governance, but regulatory politics. The aim of regulatory politics is, to shape an economic environment, which provides incentives for the market actors to refrain from behaviors detrimental to the common good objectives and instead to behave in ways which contribute to their achievement. Beyond this regulatory political framework direct state interventions into the market should preferably be omitted in order not to disturb the price mechanism.

Therefore, Social Market Economy relies on ‚competition as a discovery procedure‘<sup>8</sup>. In regard of the ecological renewal of our national economy this means, policies should set clear targets, such as reduction quotas for certain emissions, but without unilaterally determining specific methods and technologies to achieve them. As this would mean a ‚pretence of knowledge‘<sup>9</sup>, which ignores the frequent experience in history that innumerable providers competing with each other on the market will usually find more efficient solutions, than government and administration, whose cost awareness is a different one.

So regulatory policy for the ecological renewal of the Social Market Economy uses competition to achieve its goals. For the market competition to function properly, above all a functioning price mechanism is required. Eucken calls it ‚the basic principle of economic constitutional law‘<sup>10</sup>. Consequently, the regulatory political means of choice is to implement the ecological objectives into the price system. This does not at all imply a manipulation of prices, quite the contrary. Eucken already discussed this under the heading ‚Wirtschaftsrechnung‘ (economic account). With this term he denotes the interrelation, that economic calculations and actions of the individual producers and consumers are coordinated with one another by a functioning price system and in this way ‚lead to a meaningful economic account of the overall economy and to a sufficient management of the overall process. This is the basic idea of the competition regime‘. Even though Eucken was convinced, that this mechanism is functioning very well, he also already realised, that it ‚does not take into account the repercussions, which microeconomic planning and conduct have on macroeconomic data - if these repercussions are not to be perceived in the own planning area of the individual management‘. He cited as an example the ‚destruction of forests in America, which deteriorated soil and climate of large areas‘<sup>11</sup>.

In this context modern economics are talking of ‚external effects‘. One regulating principle of nowadays regulatory politics is, to reflect the macroeconomic costs or benefits, which occur as external effects, in the market prices and thus achieve, that the individual market actors consider them in their decision making<sup>12</sup>. In regard to the Church’s social doctrine Pope Benedict XVI. formulated the regulatory political principle of the ‚internalisation of external effects‘ in his encyclical ‚Caritas in veritate‘, published in 2009, as a socio-ethical precept: ‚It is likewise incumbent upon the competent authorities to make every effort to ensure that the economic and social costs of using up shared environmental resources are recognized with transparency and fully borne by those who incur them, not by other peoples or future generations‘ (Caritas in veritate 50). His successor, Pope Francis, expressly reaffirms the demand in Laudato si’ (see Laudato si’ 195). Concerning climate policy this means to charge a price on carbon dioxide emissions either by taxes or a system of emissions trading. ‚These instruments translate the scarcity of the common good atmosphere into the ‚hard‘ language of the markets oriented on profit maximisation and provide them with the necessary ethical framework‘<sup>13</sup>.

## Conclusion: Social Market Economy’s Power of Renewal

Meanwhile, climate change is to be felt worldwide and the pace of its progression undoubtedly gives cause for serious concern. Some react with fatalism others talk about a ‚state of ecological emergency‘ and - necessity knows no law - call for rebellion and radical system change. This is not a promising alternative indeed, but fortunately the history of Social Market Economy shows yet another way. After the Second World

<sup>8</sup> von Hayek, F. (2002). Competition as a Discovery Procedure. *Quarterly Journal of Austrian Economics*, 5(3), 9.

<sup>9</sup> von Hayek, F. (1975). The Pretence of Knowledge. *The Swedish Journal of Economics*, 77(4), 433-442.

<sup>10</sup> Walter Eucken, Grundsätze der Wirtschaftspolitik, a.a.O., 254.

<sup>11</sup> Ebd., 301f.

<sup>12</sup> Vgl. dazu Karen I. Horn, Die Soziale Marktwirtschaft, Frankfurt a.M. 2010, 91 f.

<sup>13</sup> Otmar Edenhofer/Christian Flachsland, Laudato si’. Die Sorge um die globalen Gemeinschaftsgüter, in: Stimmen der Zeit 233 (2015), 579-591.

War Germany was in ruins, morally as much as economically. The fact that nevertheless the reconstruction and the recovery of economic power and prosperity went so well in such short time was soon celebrated as the German 'Wirtschaftswunder' (economic miracle). But in fact, it was no miracle, but the success of the Social Market Economy with its clear regulatory ethical compass and its regulatory political instruments. This dyad is, what is required also today, facing the enormous challenge climate change is posing to us. Besides economic efficiency, the regulatory ethics of Social Market Economy also include social justice and, going along with it, social consensus as decisive criteria for regulatory policies. This is precisely what Alfred Müller-Armack meant, when he named the Social Market Economy an 'irenic formula'<sup>14</sup>. For climate policy it means, that politicians need to consider not only the steering function of measures such as carbon dioxide pricing, but also fairness and social balance of the burdens associated with them. Not least, with their aim for compromise and consensus the regulatory ethics of the Social Market Economy can make their contribution to curb the populist hysterics and agitators in our midst.

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<sup>14</sup> Alfred Müller-Armack, *Der Moralist und der Ökonom – Zur Frage der Humanisierung der Wirtschaft* (1969), in: Ders., *Genealogie der Sozialen Marktwirtschaft*, Bern/Stuttgart 1981, 123-140, hier: 131.

## Impressum

### The author

Arnd Küppers PhD is a research associate and deputy director of Katholische Sozialwissenschaftliche Zentralstelle (KSZ) in Mönchengladbach. Since December 2018 he is the director of the scientific advisory council Ordo Socialis.

**Konrad-Adenauer-Stiftung e. V.**

**Patricia Ehret**

Churches and Religious communities  
Analysis and Consulting  
T +49 30 / 26 996-3784  
[patricia.ehret@kas.de](mailto:patricia.ehret@kas.de)

Postal address: Konrad-Adenauer-Stiftung, 10907 Berlin

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