

Prof. Dr. Gerhard Wegner,  
Erfurt University

**Conference of the KAS Postgraduate Research Group Social Market Economy in  
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**Dinner-Speech: Wilhelm Röpke and the European Integration**

Dear Mrs. Vogt, Dear Mrs. Sofia Eleftheroudaki,

Ladies and Gentlemen,

this year we commemorate the 50<sup>th</sup> anniversary of Wilhelm Röpke's death in 1966. Wilhelm Röpke who was born 1899 in Schwarmstedt near Hanover (not far away from my own hometown) died in 1967 in Geneva where he lived most of his lifetime after he had to leave Nazi-Germany. Wilhelm Röpke is known to be one of the great men of the German Ordoliberal School and the conception of the Social Market Economy. Besides Walter Eucken, Ludwig Erhard, Alfred Müller Armack, Alexander Rüstow, Franz Böhm, to name the most influential ones, Wilhelm Röpke revitalized the principles of liberal economic policy and added many new ideas which took consideration of the anti-liberal critique expressed by conservatives and socialists alike. On the occasion of the 50<sup>th</sup> anniversary the Wilhelm Röpke Institute in Erfurt, which has been existing now for 10 years, celebrated a conference and a public event in February of this year. Two months later, in April, the Liberal Institute, the Röpke Institute, and the Aktionsgemeinschaft Soziale Marktwirtschaft organized a follow up conference in Geneva which remembered the legacy of Wilhelm Röpke. Some months ago I was surprised to receive a letter from Athens by Mrs Sofia Eleftheroudaki who felt unhappy about the economic and political situation of their country. The spirit of Wilhelm Röpke, Mrs Sofia Eleftheroudaki told me, would be the only remedy which her country so urgently needs. This started the ball rolling for our conference now. During our intensive correspondence Mrs Sofia Eleftheroudaki introduced me to Mr Constantine Gratsos who was one of the latest scholars of Wilhelm Röpke and to this day is profoundly influenced by his theoretical work. In the last months I enjoyed a responsive and pleasant correspondence with Mr. Gratsos on the meaning and significance of Wilhelm Röpke. As the head of the Wilhelm-Röpke Institute I appreciate very much that the legacy of Röpke is still preserved and promoted in Athens. I hope that we can do more on that. Let me add that I am also happy and proud that Mr Gratsos now joined the Wilhelm Röpke Institute in Erfurt. And let me express my warmest thanks to Mrs Sofia Eleftheroudaki for her initiative which has brought us together this weekend.

Ladies and Gentlemen,

the European Union has experienced – and still is experiencing – challenging years in the recent past. Let me preface that we have not only seen the crisis of a single country such as Greece or Ireland or Portugal; rather, we face the crisis of the European economic constitution which is going to become even deeper after the British decision to leave the Union. It seems that the European crisis is a wake-up call for our self-complacency concerning the successful path for the European integration. Ten years ago the integration was clearly mapped out by the request of an ever closer Union which is part of the legal framework of the European Treaties. The crisis of the Euro and – perhaps far more – the Brexit has shocked all of us, namely the “ever optimistic” European political leaders, and triggered severe uncertainty about the future of the European Union and the preferable path of integration. Particularly the Brexit has shed new light on the question of which design of the European Integration is likely to be viable in both economic and political terms. It seems that only now the constantly neglected discussion about the final goal of the European integration has got the momentum required for a serious debate. We have reached a moment of time where the design of the economic as well as the political constitution in Europe needs deeper reflection rather than tentative solutions or unfounded visions.

Have economists or political scientists who embraced the European Integration carelessly neglected such a debate? The answer is in the negative: Right from the beginning in the 1950s liberal economists in Germany have started such a debate, which unfortunately (at least to my knowledge) was a debate only led in Germany (maybe that I am wrong here). Here, Wilhelm Röpke enters the stage.

When Wilhelm Röpke fled his country in order to save his live, he started to think about a future international order which free countries could form. He was convinced that neither Fascism nor Communism could survive in the long term. For the time being it was necessary to design an international economic order for the free world, of which – after the end of the war – Germany could participate (as it turned out, only West-Germany could become part of this integration). It is important to realize that Röpke’s considerations concerning a sustainable International Order were limited to free societies and open economies. Closed economies or political orders which lacked human rights were beyond his scope. Röpke was one of the few liberal economists who systematically reflected on the requirements of an International Economic Order and understood that the international division of labor required more than free trade and the abolishment of tariffs. When politicians in Western Europe, among them Konrad Adenauer and Charles De Gaulle, made efforts to form the European Economic Community, Röpke applied his general findings to this new type of Economic Integration. Today we can learn much from his reflections. It is striking that Röpke has foreseen many problems of the European Integration which was still in the making then and reflected on a viable, sustainable institutional framework for the European market economies. Interestingly, his reflections derived from economic considerations but transgressed the borders of the discipline of economics. In our time there are many reasons to look back to the Röpke’s reflections, above all since he had described many of the predicaments which still wait to be solved.

It is fair to say that Röpke was not the only author who critically reflected on the problems of the European Integration. Ludwig Erhard, Alfred Müller-Armack to name only the leading figures of the conception of the Social Market Economy also contributed to this debate and made similar points. However, Röpke’s thoughts were unique insofar as he conceptualized the idea of an international economic order for free societies from the viewpoint of his social

philosophy; he did not confine his arguments to purely economic considerations but reflected on the social and moral pillars which a market economy, nation wide or internationally, requires. Above all, Röpke gave arguments for a bottom up approach for a sustainable economic integration rather than a top down approach. According to Röpke, the concentration of all political and administrative power on a central state will fail to create a vital society for a nation state and far less a workable European economic Order.

In his “Gesellschaftskrisis der Gegenwart” and his “Civitas Humana” Röpke developed a specific approach for a market economy. He was not convinced that anonymous markets alone and economic rationality could integrate the members of a modern society. The institutions of a modern market society are indispensable but will not guarantee a self-stabilizing social order. Rather, some excesses of capitalism have endangered humanity and the conditions of human development. Mass production, large scale manufactories which subordinate human beings to a heartless industrial machinery, overcrowded industrial agglomerations and large cities were the aberrations of capitalism to which liberal economic policy – Ordnungspolitik – must find a response. Efficiency, the rise in productivity and, more generally, economic rationality is part of a market economy but it must be counterbalanced by the principles of humanity, which a colleague of Röpke, Alexander Rüstow, also termed “Vitalpolitik”. He concluded that markets, competition and entrepreneurship cannot survive in a society which is unfounded in moral and cultural terms. Mutual trust, friendship, vital private association and identification with the locality in which individuals live and work are the foundations for a market economy.

Let me invite you to a thought experiment. If Wilhelm Röpke – without having any knowledge of macroeconomic data which are now worrying policy makers and economists alike – visited present day Greece; what diagnosis would he make about its suitability for a market economy and, more importantly, how would he assess the cultural and human resources of this country? From the viewpoint of his conception of a Civitas Humana, Greece would not appear as a deficient society as it is presented in European mass media today. On the contrary, Röpke would consider Greece an ideal country for a vivid economy which could make people happy. Consisting of thousands of rural communities including the numerous beautiful islands people are supported by the solidarity of their families and friends. Mutual trust is the hallmark of the Greek people; any tourist appreciates that theft is a taboo in Greece (when we as young backpack students spent our holidays in the Mediterranean area we learned the difference between Greece and Italy in that respect). Industrial mass districts which Röpke so rejected are rare (if they exist at all); rather small and medium sized firms dominate which allow for the development of human creativity. The Church and the state are separated from each other but people are still committed to their religious faith or at least religious practices (I confirm that I have seen several times young Greeks walking for a pilgrimage in Crete, and this was not Pokemon Go). Röpke would embrace that the people identify themselves with their local community and their nation alike. Their patriotism is counterbalanced by their proverbial hospitality to foreigners and their readiness to learn from other nations (in the Ottoman Empire Greeks were renowned interpreters and popular because of their talent to learn other languages). Due to its geography, the Greek society is both rural but also cosmopolitan since the Mediterranean Sea connects smallest villages in the islands to the whole world and therefore, potentially, to the world economy. The gigantic intellectual heritage of ancient Greece which has given birth to the European culture is an inexhaustible source and most important for collective identity and social cohesion. On the other hand,

Röpke would not have much regret for the fact that Greece has missed large scale industrialization or any kind of what he called Manchesterism. Eventually, Greece has a further advantage for the establishment of a market order which Röpke discusses in his “International Order”: As a small country which could easily integrate into the World Economy for purely geographical reasons, it is well prepared for economic reason (171). Closing the economy through erecting trade barriers is no option for small states in contrast to big states which are more tempted to protect their economy”. Röpke writes that “small states can become real islands of economic reason.” (170). They are “no disturbers of the peace of the world-economy and obstacles to its development, but apparently especially created so there should still be on the earth nations who are at least compelled by circumstances to show a minimum of economic reason” (ibid.) Summing up, its cultural, societal, religious and geographical conditions qualify Greece for a home territory of a prosperous market economy in which people can live a free and joyful life.

Röpke sees the necessity to support the local foundation of a market economy by a federal state which transfers political power to the higher order level to the extent that the lower unit cannot fulfill public tasks – the principle of subsidiarity. For him it was hazardous to centralize the power of the state at the expense of provinces and localities. Such centralization would undermine the public spirit in the local area and make locals dependent on the good will of the capital. It would divert the efforts of the people to take care of their own local affairs and to take risk for themselves; instead people would invest in favors and lobbying rather than investing at home. Preserving and strengthening the autonomy and self-responsibility of local units is one of the most important ingredients of “Vitalpolitik”. Therefore a vital market economy rests on a federal state which makes policy makers in the capitals as unimportant as possible on the behalf of local communities. That we do not know any primeminister, chancellor or president of Switzerland is part of the explanation why this country is so successful in economic terms. If we asked Röpke for a solution for the current economic crisis in Greece, his answer would include: Strengthen the variety and decentralization of your country; diminish the influence of bureaucratic authorities in Athens as far as possible, listen to understanding citizens which have the intellectual capacity and insights into the requirements for reforms, give the local units more autonomy and self-responsibility in short: make the variety, and sometimes anarchy, in Greek life productive for the whole society (surely he would say: learn from Ancient Greece). By no means, let foreign experts and far least closed minded macro-economists decide on your own country because this will undermine your self-responsibility, dignity and willingness for change; if an intergovernmental bureaucracy took control on economic and social policy of Greece and superimposes policies designed from outside, this would be the worst scenario from Wilhelm Röpke’s liberal viewpoint. Rather, local knowledge of the Greek people and a public spirit which keeps group interests at bay is the only option to identify a path out of the crisis. Based on local knowledge and public spirit barriers to free competition could be removed. Then Greek society will detect its own type of a prosperous market economy and can dismiss any fruitless and backward discussion about capitalism versus socialism, Neo-liberalism versus Keynesianism.

As an Ordo-liberal economist who experienced the Weimar Republic, Röpke (like Böhm, Eucken and other Ordo-Liberals) opposed a politicization of the economy. Separating the economy from the state and state intervention is key to establish an order which preserves the markets. Federalism within the state but also among free societies who form an Economic

Integration is the guiding principle. Therefore self-responsible sub-national units such as Swiss cantons which dispose of substantial competences as to economic policy represent a built-in stabilizer against political failures.

But this would not be an exclusive lesson for Greece. It would also be a lesson for current European policy makers. After the decision of the British people to leave the European Union, many former advocates of an “ever closer union” have understood that we have to pause for a moment and rethink the final goal of the European integration. The internal tensions triggered by the common currency but also by refugee crisis, and the recurrent discomfort by regulations imposed by European regulations have created too much uneasiness to resume the integration path of the past. Wilhelm Röpke was well aware that the international aspect of a liberal order is the most vulnerable part of human society as a whole:

“International relationships are a screen upon which the evidences of internal social dissolution are magnified and thus become visible, long before they come to the surface inside the countries themselves. Recklessness, lack of chivalry, departure from standards, despotism and social disruption here find their first and earliest victims”. (Röpke, 10). If society faces problems to cope with the changes of comparative advantages of its economy, it is most easy to blame other countries as the cause of its crisis and it suggest itself to find international arrangements in order to solve the crisis. But for Röpke, the real cause for any international crisis must be found in the societies themselves. Therefore, Röpke distrusted international authorities as a remedy for internal societal problems, even though he was realistic enough to consider them as indispensable. When European politicians such as Adenauer and Jean Monnet were going to introduce the earliest conception of the European Economic Community, the European Coal and Steel Community, Wilhelm Röpke, as many other liberal economists and politicians such as Ludwig Erhard, were skeptical. A European agency designed to administrate an important part of the economy was likely to re-introduce interventionism at the European level; and Röpke identified interventionism of the mid-war period as a major cause for the ongoing economic crisis of the Weimar Republic and, less pronounced at that time, in Europe. Furthermore, Röpke (such as Ludwig Erhard) rejected any idea of a “fortress Europe” which created a common European market protected by high tariffs. Trade agreements of the EU with Canada and the US such as CETA and TTIP would have found their approval. As regards the economic integration of Europe, Röpke delineated his fundamental idea as follows:

“Most of us would agree that the idea of an international organization which would degrade the individual nations to mere administrative areas is still more insufferable than the previous side-by-side existence of sovereign nations. We want neither latent or open anarchy of nations which are not subject to any binding and incontestable law, nor a Civitas Maxima of a continental or global nature. What we obviously wish is that due consideration should be given both to the individual life of the nation as well as to an international community. Neither should proliferate at the expense of the other; there should be a balance between them.” (ibid., 44).

Röpke’s general ideas were ahead of the times. They anticipated what economists (such as Barry Weingast) later termed “market preserving federalism”: The competences of the European level, the level of the central nation state and the level of subnational states are clearly defined; each level possesses those competences which is best suitable for the respective level. Such principle of subsidiarity keeps the nation states intact but commits them

to rules required for a common market. Most parts of economic policy should be performed on the level of the nation state or subnational states. Economic growth, employment, education are within the scope of the national economic policy. Röpke would sharply reject the megalomania of the ECB or the European Community, agencies who think they could boost economic growth by changing some monetary instruments or setting up so-called growth policies (such as the Lisbon process) or by spending money in fabulous dimensions – notably without being responsible to voters. If European agencies presume to regulate international economic relations quantitatively, Röpke would be highly critical. An ever closer Union would be no part of such an integration process unless it is in line with the preferences of the European peoples. A centralized Europe would lose touch with the nation states and lack support of the European societies. Röpke also anticipated that a bureaucratic, centralistic form of integration would engender conflicts on the supra-national level which are likely to give national resentments a boost. The politicization of the economy should be avoided as far as possible: This is the message of all Ordo-liberal economists: Separating the sphere of economy from political power was key to prevent any attempts of a controlled economy which patronizes the market agents and citizens to the benefit of a powerful bureaucracy that overestimates its capacity to manage economies. Röpke also predicted that such a bureaucracy would quickly lose its legitimacy when conflicts were to be solved to the detriment of particular nation states.

Hence, the key elements of a sustainable European Economic Constitution ensue from Röpke's theoretical reflections: A viable nation state which balances the power of the central state with the competences of subnational units, common market rules which commit the nation states to the requirements of free movement of goods, services, capital and people and a European agency which supervises the common market rules. Inside, nation state have to strengthen what we today would term civil society and to undertake policies which keep citizens responsible to the development of their cities, local district and their nation. This is a frugal conclusion derived from complex theoretical considerations laid down in three voluminous books.

We could add that the capacity of Europe is rooted in its variety and in the readiness of its people to learn from each other. Röpke would strongly agree with the idea that the European Economic Constitution should provide a learning environment in which each society can experiment with their own way of economic and social policy. (When Germany suffered from low economic growth and high unemployment in the post Millennium period, experts (economists, sociologists, politicians) studied labour market policies in other European countries such as the UK, Denmark, Sweden or Finland). There is no one-size-fits-all economic policy to be imposed on all member states of the EU. Rather, each society has to adapt principles of economic rationality to their own institutions, their own culture and their own experience including the views of legitimation. Mutual learning in a federalist, decentralized order rather than centralized policy will bring the European nations together. As far as I can see, this Röpkeian approach to an European Economic Constitution is the only feasible way which can break the current deadlock of European policy. It is the path we should follow.

Thank you very much for your attention, ευχαριστώ πολύ.

