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THE SOCIAL MARKET ECONOMY AND ITS CONTEMPORARY RELEVANCE

Impressions on H. F. Wünsche's book
"Ludwig Erhard's Social Market Economy: Scientific Foundations and Political Misinterpretations"

Abstract. The article is a scientific commentary to the book Horst Wünsche devoted to the relevance of the social market economy (SME) in the contemporary world. Amongst others, it is necessary to prevent the erosion of competition, a requisite of the market economy, also by the adoption of international measures to rein in the all-powerful global players. Given the scale of dysfunctions of contemporary capitalism, efforts should also be undertaken to restore the socioeconomic order, which in fact lies at the core of the SME.

Keywords: social, market, economy, relevance, competition, order, misinterpretation.

UDC 330.837.1

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Introduction

Horst Friedrich Wünsche's book deals with the social market economy (SME), which was largely developed, both in theory and practice, by Ludwig Erhard, the long-standing West German Minister of Economy, Vice-Chancellor, and Chancellor in the years 1948–1966. Wünsche, who served as assistant to Friedrich August von Hayek at the University of Freiburg, then as personal secretary to Erhard in the years 1973–1977, and finally as Managing Director of the Ludwig Erhard Foundation in Bonn, is a highly appreciated expert on the subject in German-speaking countries. The book in question is his opus magnum, in which he presents the "Invariable and timeless conceptual core of Erhard’s social market economy" (Wünsche 2015, p. 115). According to Wünsche, this socioeconomic system may be useful in addressing many of the complex problems besetting the modern world. To forgo it would be a fundamental mistake that we cannot afford under any circumstances as today economics faces the revolutionary task of changing its prevalent paradigm. As mainstream methodology strives for mathematical perfection with a focus on developing algebraic models...
(termed by John Kenneth Galbraith "technical escape from reality," 2011, p. 262), it seems necessary to depart from such "mathematical economics" and move toward "social economics." While the value of mathematical and econometric modeling is unquestionable, it should be remembered that models are merely tools that must not replace qualitative analysis.

In the years 1948–1966 in post-war West Germany the SME paradigm served as the foundation for socioeconomic policymaking under the then Minister of Economy Ludwig Erhard, leading to extremely impressive results commonly praised as an "economic miracle." As it can be seen, the SME is not a new concept, and indeed, the question arises as to what makes preoccupation with a system developed many decades ago worthwhile. Is it still relevant? Could the theories of Erhard and his academic teachers provide a conceptual framework for solving problems facing socioeconomic policymakers across the globe in the second decade of the 21st century? These, and many other important issues, are tackled in Wünsche's book.

It should also be noted that, as it was pointed out in a previous publication (Ordo/liberalism..., 2013), the views of great thinkers concerning the fundamental problems of the functioning and development of societies and economies are not only quite immune to obsolescence, but they are often surprisingly long-lived, or indeed prophetic.

**Historical background and characterization of the SME concept**

A presentation of the SME concept first and foremost requires an overview of the historical background in which it emerged. The tendency to associate the market economy with the variously interpreted adjective "social" arose in German-speaking countries as early as at the turn of the 20th century. At the core of the relationship between the two notions was the belief, deeply rooted in the historical school of economics, that the subsystem of the market economy is neither highly nor completely independent of the other subsystems of society as a whole. Just on the contrary, the economy was often interpreted as an autonomous but integral element of society. "In contrast to contemporary economic theory, the historical school prioritized the social implications of economic activity, and from the standpoint of policymaking, the issue of achieving and sustaining social peace in prospering and changing societies..." The historical school considered economic activity a process that is embedded within a state-imposed order and takes place pursuant to law and customs. ... In the mid-19th century the historical school replaced the Manchester liberalism paradigm with one rooted in psychology and ethics." (Wünsche 2015, pp. 136–137). In the context of the historical school of note is the 1896 publication of the German translation of "Prosperity for All" ("Der Wohlstand für alle") by the theorist of anarchism Peter Kropotkin (Kropotkin's book was released in Paris under the French title 'La Conquête du Pain' several years previously). Werner Sombart, leading representative of the younger historical school, coined the notion of "social capitalism" in his three-volume work "Modern Capitalism" ("Der Moderne Kapitalismus") published in the years 1916–1927 (Sombart 1927). It was also at approximately that time that Gustav Cassel wrote "Theoretical Socioeconomics" ("Die theoretische Sozialökonomie"), which gained considerable recognition in German-speaking countries (Cassel 1921). The term "social market economy" ("Soziale Marktwirtschaft") was first introduced in the economic literature by Alfred Müller-Armack in his 1947 work "Economic Steering and the Market

Without actually using the phrase “Columbus error,” Wünsche indicates that most researchers seeking the theoretical foundations of the SME make a mistake akin to that committed by the Spanish sailor in terms of misattribution. While they tend to associate the SME with German ordoliberalism, Wünsche claims that Erhard’s theory can be primarily traced to the historical school, whose last epigones worked at his alma mater, the Handelsfachhochschule Nürnberg in the 1920s (Wünsche 2015, p. 125). This misunderstanding is probably the major cause of interpretational discrepancies concerning the SME, which in the case of Erhard and Müller-Abrecht occurred even among the “spiritual fathers” of this concept. This situation led to difficulties in understanding and implementing this economic policy model after the end of Erhard’s tenure as Federal Chancellor in 1966. All subsequent West German governments (and after 1990 also all governments of unified Germany) continued to pursue economic policy under the invariably widely accepted label of the SME, while periodically departing from and returning to (at least verbally) Erhard’s principles (Męczyńska, Pysz 2014, pp. 71-73).

Wünsche’s contributed to SME theory advancing the thesis that its origins should not be sought in the ordoliberal system, but primarily (albeit not solely) in the historical school of economics, which preceded ordoliberalism. However, this assertion requires more in-depth analysis and factual discussion as many other researchers credit Walter Eucken with creating the theoretical groundwork for the SME, in particular with his concept of the competitive economic order expounded in his posthumous 1952 book “Principles of Economic Policy” (“Grundsätze der Wirtschaftspolitik,” Eucken 2004, pp. 254-324).

For Erhard, the overarching objective of the SME is individual freedom, defined more broadly than in the neoclassical theory (the latter was focused on the freedom to choose from among different economic alternatives). Erhard went beyond that strict material facet of freedom; in his view all aspects of individual freedom constitute an inseparable whole. Individual freedom is integral and is a prerequisite both for the market economy and a free society. In this respect, Erhard comes close to Friedrich August von Hayek’s principled position according to which freedom is by no means one of many equal values. Indeed, it is both the source and wellspring of all other individual values (Hayek 2002, p. 67). However, Erhard differs from the Austrian thinker in that he goes further than defining freedom as the absence of coercion. In reference to the writings of the philosopher and anthropologist Max Scheler, Erhard makes a distinction between “freedom from something” and “freedom for something.” In the former case, the individual is free from any external factors restricting his actions, while in the latter case the individual makes responsible use of his freedom of action to pursue ethically acceptable goals important to him, his family, and society. Erhard’s integral and dual concept of freedom was further elaborated in the discussed book into an original, but also controversial, idea of “original freedom.” In contrast to most other liberal thinkers, Erhard believed that the original freedom of the Individual should not be bound by any external restrictions, including legal regulations, which would turn it into a centrally delineated scope of autonomy. While this ideal must now appear utopian, it could perhaps be approximated if we succeeded in imparting, to individuals and society alike, a sense of responsibility for their freedom of action on the scale of the economy and society. In that case, the boundaries of freedom
would be determined by the individual himself based on moral and ethical principles. Interestingly, Erhard was fond of quoting a passage from Johann Wolfgang von Goethe: “Yes—this I hold to with devout insistence! Wisdom’s last verdict goes to say: He only earns both freedom and existence / Who must reconquer them each day” (Wünsche 2015, p. 371).

Similarly to the views formulated by the famous American journalist Walter Lippmann in his 1937 book “The Good Society,” Erhard believed that the struggle to expand individual freedom in itself is insufficient to ensure long-term survival in society. According to Lippmann, the central predicament of liberal thought was that the removal of the shackles constraining individual and market liberties was not followed by the development of a platform for building a freedom-oriented socioeconomic order (Lippmann 1937). Erhard attempted to eliminate this weakness of individualistic liberalism: “for him it was obvious that the defense of economic freedom cannot in itself secure its survival. In the long term, economic freedom can only be ensured by a policy oriented towards shaping social peace. Erhard epitomized the political objective of achieving economically and socially satisfactory economic development in the notion of the “social market economy” (Wünsche 2015, p. 37) and embraced the slogan of “prosperity for all,” which he understood as something more than meeting the material needs of the majority of society. Of even greater importance was the fact that the prosperity achieved by the greatest possible proportion of society would constitute the most robust protection of individual freedom, as then no-one would be existentially dependent on other individuals or government. Erhard formulated his ideal of the free individual as follows: “only a man who is confident that he can support himself through his work and achievements, without assistance from the state and also without state-imposed obstacles, can be truly free as an individual and truly free with respect to the state and its institutions” (Erhard 2005, p. 17).

This ideal of individual freedom translated into yet another contribution of Erhard to SME theory: he postulated, and in the years 1948–1966 partially implemented, the integration of social policy with economic policy within an effective market economy. Erhard’s views in this respect are crystal-clear: “one should note here the inextricable link between economic policy and social policy. In fact, the more successfully economic policy is pursued the less intervention and support is needed for social policy (Erhard 2000, p. 246).

This could be rephrased as effective economic policy largely replaces social policy, mostly through minimizing the number of people in need of social assistance.

For Erhard, the existence of the market economy is a necessary, but not sufficient, condition of securing freedom “from something” and “for something” in the long term. Moreover, market-driven processes of economic activity must take place within a competition-based economic order. “Prosperity for all and prosperity through competition form an integral whole. The first postulate delineates the goal of economic activity, and the second one, the path to achieving that goal” (Erhard 2005, p. 20). In this respect, Erhard’s views are similar to Eucken’s, who emphasized that market competition limits the power of one economic entity over another (as well as having many other merits). Indeed, competition curtails the possibility of stronger or cleverer individuals impinging upon or taking away the freedom of weaker or less clever ones. Ultimately, this also helps stabilize a free society, which is founded on the freedom of its individual members. Thus, Wünsche
rightly observes that “From the ethical point of view, Erhard’s social market economy is a thoroughly thought-out liberal policy” (Wünsche 2015, p. 41).

The SME: Interpretational Intricacies and contemporary problems

Although Wünsche draws on German experience, his conclusions are of general nature and applicable to many other countries, Poland included. The title of the first chapter “Decades of Banalization of Erhard’s Policy,” referring to contemporary German socioeconomic policy, is very telling, and the titles of the sub-chapters are extremely pointed, with examples including: “Conflicting Judgments,” “Questionable Standards,” “Concealed Reality,” “Programmed Helplessness,” “Bigotry and Dogmatism,” “Socially Blind Pursuit of Growth,” “Grave Errors,” and “Counterproductive Arguments.” The poignancy of these titles reflects the scale of dysfunctions in today’s socioeconomic policy, leading to wastage of the socioeconomic potential and the rise of development barriers. Wünsche’s criticism of contemporary socioeconomic policy is balanced out by ample guidance and recommendations concerning the necessary changes. Many of them are contained in the final part of the first chapter entitled “Possibilities and Consequences of Corrections” (Wünsche 2015, pp. 98–116). Many other pieces of advice are strewn throughout the book, with the last section devoted to prevention of unemployment. In the concluding remarks, Wünsche reiterates his proposition that Erhard’s ideas were never correctly understood in Germany. And obviously this is all the more true of economists in other part of the world (although Wünsche does not directly mention that).

Erhard’s concept of the SME assumes symbiosis between economic and social policies, which should be harmonized as closely as possible. Indeed, this may be considered one of the basic features of his SME concept, along with his views on freedom and liberalism. This also makes the SME very distinct from other systemic models of capitalism. Indeed, the SME is one of many possible versions of market capitalism, which may exist in many forms (Anglo-Saxon, Scandinavian, Rhine, Mediterranean, Asian). As it is known from history and practice, there are also many kinds of liberalism: this noble, humanitarian, and freedom-oriented idea may adopt one of at least three forms: 1) Classical liberalism as the foundation of Adam Smith’s laissez-faire economic theory; 2) Ordoliberalism; 3) Neoliberalism (Maczyńska and Pysz 2014).

What differentiates these three strands of liberalism is, amongst others, their approach to shaping the economic order, the role of the state, and the system of values. In contrast to classical liberalism and neoliberalism (which advocate spontaneous formation of the economic order), ordoliberal theory posits that the state should provide a framework for that process, while emphasizing individual responsibility and ethical behavior. Neoliberalism and classical liberalism share market fundamentalism, which is the belief that the free market mechanism shapes the economic order so effectively that the state can be relegated to the function of a night watchman. Nevertheless, these two strands differ in terms of their ethical and moral tenets. Neoliberalism seems to be largely devoid of ethical or moral considerations claiming that the free market regulates this sphere efficiently. On the other hand, both in classical liberalism and ordoliberalism, ethical and moral values are thought to constitute the foundation for the functioning of the economy and society (Maczyńska and Pysz 2014).
The reviewed book clearly shows its Author’s fascination with Erhard’s intellectual legacy and his confidence in the relevance and usefulness of the SME, an indispensable remedy to the maladies and dysfunctions of contemporary capitalism, which became acutely evident following the onset of the 2008 global crisis and which are the subject of numerous analyses and publications (Piketty 2014; Roberts 2013; Stiglitz 2010; Deaton 2013). It is little wonder then that Wünsche is equally fascinated with Erhard’s admonitions concerning the growing power of international corporations. Suffice it to quote Erhard: “The unbridled transition to an ostensibly free, but in fact cartel-ridden, economy led not only to the expropriation of a considerable segment of the population and to glaring social inequality causing tensions, but also to another adverse effect: the available modest capital was not channelled to the areas in greatest need of investment. In this respect, the true meaning of the ‘social market economy’ was severely detracted from” (Erhard 2012, p. 154).

Although Wünsche demonstrated that Erhard’s concept of the SME was primarily rooted in the legacy of the historical school, which strived towards a holistic approach to shaping the socioeconomic order, taking into account social, cultural, historical, and institutional factors, it should be noted that Erhard was also to some extent influenced by ordoliberal theories. Despite the fact that these two theoretical strands (the historical school and ordoliberalism) are largely complementary rather than contradictory, according to Wünsche Erhard clearly leaned towards the former and distanced himself from the latter. And this is, in our opinion, one of the most provocative and contentious theses presented in the book (obviously there, and other controversial issues make the book all the more attractive and inspirational), especially that Erhard always seemed to eschew theoretical dogmatism. Furthermore, the very etymology of the term ordoliberalism indicates order, as opposed to anarchy, suggesting the central position of systemic order in this paradigm, and indeed, in this sense the SME undoubtedly remains within the ordoliberal current. According to Wünsche’s book, similarly to the ordosocialists, Erhard appreciated the fundamental importance of the free market, but at the same time emphasized the fact that economic growth is not an end in itself, but rather a means to achieving social welfare: “No-one should be so dogmatic as to seek a cure-all exclusively in progressive economic expansion, that is in material issues” (Erhard 2012, p. 276).

For many readers it may come as a surprise that according to Wünsche Germany’s present socioeconomic order does not meet the criteria of the social market economy as understood by Ludwig Erhard, especially in light of its purported relevance and usefulness. This gives rise to questions: Why was the SME adopted and properly implemented only under Erhard, and that not even throughout his entire tenure? Does this mean that, after all, this policy paradigm is no longer valid? Wünsche fiercely disagrees with this last statement, noting that paradoxically the marginalization of the SME is accompanied by signs of appreciation of its political and social appeal, as reflected in the declarations made by many politicians and references to the SME in some legal acts, including the Constitution of Poland.

SME marginalization can be partially explained by the emergence and rapid expansion of neoliberal economic theory in the USA in the 1970s. In time, it was embraced by the US government and gradually came to be perceived as the only rational and effective socioeconomic policy model, which was quickly adopted by most developed countries. The causes of the triumph of
the neoliberal doctrine, which lasted for several decades until the onset of the 2008 global crisis, remain the subject of much research and dispute (Sadowski 2006; Sadowski 2014; Mirovskj 2009; Kołodko 2008; Kołodko 2013; Roberts 2013; Walicki 2013a; Walicki 2013b). That triumph certainly detracted from the practical possibility to pursue the SME, despite its spectacular success under Erhard, and that at a time of widespread stagnation.

As a result of the lasting prominence of the neoliberal doctrine and its "greed is good" motto, economics began to be associated with chrematismics, or the science of making money while ignoring the social underpinnings of economic theory as knowledge about people in the process of production. Over time, neoliberalism almost completely dominated policymaking, entailing a host of adverse socioeconomic ramifications. Profit maximization and commercialism invaded many fields that should remain free of their influence. As it has been noted by many economists, neoliberalism created fertile ground not only for toxic financialization and toxic derivatives, but also for toxic, but for some lucrative, economic theories (Sadowski 2014; Sandel 2011; Dembrowski 2011; Dembrowski 2014; Walicki 2013a; Walicki 2013b; Roberts 2012).

On many occasions Wünsche indicates to what extent the contemporary world deviates from the SME, as reflected by increasing disproportions in the distribution of and access to global wealth and the resulting demand constraints and social pathologies, including unemployment, even in the most developed countries. This is consistent with the concerns voiced by Fed Chairman Janet Yellen on October 17, 2014, when she cited statistics showing that income and wealth inequalities in the USA approached levels unheard of for the past 100 years. Similar conclusions can be drawn from the OECD report analyzing living standards around the world over the past 200 years (Moatsos, 2014) and from the UNICEF report (2014), according to which over 30 million children in the richest countries live in poverty. In the European Union alone more than 13 million children are deprived of access to the basic goods necessary for normal development. The same is true for 1.3 million Polish children.

Moved by the above considerations, global business leaders organized the "Conference on Inclusive Capitalism: Building Value, Renewing Trust" in London on May 27, 2014. The participants conceded that today's form of capitalism oriented towards profit at all costs and ignoring social issues must be replaced by one that would assuage wealth disparities. Also according to the British-American economist Angus Deaton, awarded the 2015 Nobel Prize for analysis of consumption, poverty, and wealth (Scientific ... 2015; Maćzyńska 2015), income inequality constitutes a constraint on economic growth and a barrier to social well-being. Indeed, Deaton's conclusions are very much in line with Erhard's views and the SME. Due to the deepening dysfunctions of capitalism, the debate on the socioeconomic order has probably never had such global significance as today. Wünsche's book is an important contribution to that debate, offering not only scholarly insights, but also relevant practical guidance.

**The SME as a remedy**

Wünsche's line of reasoning seems to be supported by the fact that increasing numbers of researchers investigating the development of the modern economy note mounting dysfunctions. According to Walicki, "neoliberal thought" (in the USA termed 'neoconservative') no longer
strives to balance the interests of labor and capital and has become a tool
for the unscrupulous offensive of financial capital attempting to impose its
conditions on territorial countries... and we have to do with... only slightly
concealed rule of enormously affluent individuals who ruthlessly pursue
maximization of their own profits” (Walicki, 2013a). It is not by accident that
Zygmunt Bauman discussed these problems in a book aptly titled “Society
Under Siege” (Bauman 2006).

Nowadays, in the wake of the global crisis, policymakers are more likely
to take recourse to the SME, which is by definition oriented towards social
inclusiveness. The current widespread approval of this paradigm is also
attributable to the fact that those countries which have implemented SME-
based solutions reconciling economic and social interests have not suffered
such severe consequences of the global crisis as neoliberal economies.
The SME position on social and ethical issues as well as on the role of the
government seems to be validated not only by the current challenges to the
global economy, but also by research findings questioning the state/market
opposition (Sachs 1996, pp. 47-48; Phelps 2013, p. 20). As Nobel Prize winner
Edmund Phelps observed “no market can long exist without the support of
the public institutions that underpin it. Under field conditions, public and
private institutions do not exist in isolated worlds, but are often mixed and
interdependent” (Phelps 2013, p. 20).

While previous difficulties with practical implementation of the
SME cast a shadow over Wünsche’s firm belief in the SME potential to
remedy the maladies of the market economy, they do not invalidate the
paradigm, but rather point to the conditions that must be met for it to become
reality. Amongst others, it is necessary to prevent the erosion of competition,
a prerequisite of the market economy, also by the adoption of international
measures to rein in the all-powerful global players (it has not been made easier
towards integration and globalization process). Given the scale of dysfunctions
of contemporary capitalism, efforts should also be undertaken to restore the
socioeconomic order, which in fact lies at the core of the SME.

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ЭЛИЗАБЕТА МАШИНСКА, ПЕТР ПЫШ

СОЦИАЛЬНОЕ РЫНОЧНОЕ ХОЗЯЙСТВО И ЕГО ВАЖНОСТЬ ДЛЯ СОВРЕМЕННОГО МИРА

Впечатления от книги Хорста Вюннке «Социальное рыночное хозяйство Людвига Эрхарда: научные основания и неправильные интерпретации»

Аннотация. Статья представляет собой научный комментарий к книге Хорста Вюннке, посвященной актуальности социального рыночного хозяйства (СРХ) в современном мире. Среди прочего, СРХ в его неисказженном понимании, дает шанс предотвратить эрозию конкуренции, которая является необходимым условием рыночной экономики. Учитывая масштабы дисфункций современного капитализма, усилия также должны быть предприняты для восстановления социально-экономического порядка, который на самом деле лежит в основе СРХ.

Ключевые слова: рыночное, социальное, хозяйство, актуальность, конкуренция, порядок, искажения.

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УДК 330.837.1

Статья поступила в редакцию 11.09.2016г.