

Social Policy in a Free Market Economy

Editorial Preface

I.

This is the fourth symposium issue devoted to the reconstruction and further development of the West German economy after World War II and related topics. The common theme running throughout all four issues is the primacy of *Ordnungspolitik*, especially in the phase of reconstruction as such, as opposed to the purely quantitative measures of economic policy widely accepted in the rest of the Western World during the last 30 and more years. Monetary policy and fiscal policy played some role, but the *ordo* philosophy of economic policy was dominant, i. e. the idea that the establishment of a proper institutional framework is indispensable if life is to be lived in conditions of freedom, prosperity and justice. What the founding fathers of the *Soziale Marktwirtschaft* had in mind was a free society with control of public and private power; a market economic order with fixed rules of law and the division of labour, realised through the market wherever possible, and where inappropriate or impossible regulated in conformity to the market ("*marktkonform*"). Today, this style of reasoning and economic policy-making should meet with more attention and a greater amount of understanding in the international profession than was the case some 20 or 30 years ago, given the revival in recent years of interest in institutional economics and its further development particularly in the United States.

Social policy in the broad sense of the phrase also formed part of the conception of the world held by the advocates of a social market economy, as did anti-monopoly policy and a policy which sought to limit the extent and frequency of government intervention. The basic problem was clearly seen, viz. that a considerable part of the population does not participate at all in the market process, and that a considerable percentage of these people should not or are unable to do so: children, the sick and disabled, the old. Of course, private assistance is always available; but in a world based on the division of labour the possibility of assistance from the family or the neighbourhood runs up against quite narrow limits, and these limits must be accepted.

Again, individuals may make private provision for the risk to which they are subject, but the ability to do so is not equally distributed among the population. From the very beginning, therefore, the responsibility of the state takes its place alongside the freedom of the individual and the benefits flowing from

the market¹. It follows that collective compulsion, *ipso facto* not desired, cannot be avoided even in the free market economy.

Certainly, any solution has its shortcomings. The set of political problems connected with state redistribution policy, especially precisely in a democracy, is well known. In Germany in the 1930's and 40's, experience with state compulsion was most unfavourable; and it is therefore not surprising that those who advocated the social market economy sought to restrict state economic activities, or other exercises of influence by the state, to the utmost extent possible. In doing so they differed from their contemporaries in English speaking countries. Walter Eucken went so far as to describe the "real" social question of our time as "the crushing dependence on the state."²

In this way, they distanced themselves from both the extremes of 19th century *laissez faire* and central planning of the economy, though certainly more from the latter than from the former. The economy of centralized rationing and planning was left behind with the "currency reform" of 1948³. But they were also unwilling to accept that a market economy should be left to its own devices. For example, competition must be protected from being swallowed up by concentration⁴. In addition, the economic processes needed to be kept under review, corrected and supplemented by policy⁵. Above all social security and social justice could not be expected to emanate from the market alone. From the very beginning, therefore, the state bore a *two-fold responsibility*: for *competition* as a means towards an efficient market economy, and for the *goals of social security and justice* above all, which the market economy alone can never effect or in any case can never do so to a sufficient degree. The state must therefore intervene, but it should do so only under the control of principles which

¹ E. g. Franz Böhm, who formed together with Walter Eucken, Friedrich Lutz, Hans Großmann-Dörth, and others the nucleus of the Freiburg School, wrote: "As contrasted with the self-sufficient household or feudal economy, the market economy is not well suited to the fulfillment of distributional responsibilities through the family, the church, or private charity; it cannot readily accommodate the intervention of these particular kinds of distributive agency. It is, therefore, political and not economic processes which, to an important degree, decide what quota of the income earned in the market is to be transferred to those groups who are not directly remunerated through markets, and as to how these transfers shall be distributed between particular individuals and categories." F. Böhm, "Left-Wing and Right-Wing Approaches to the Market Economy", English translation by T. W. Hutchison of an article which appeared in the "*Industriekurier*" in 1953, *Zeitschrift für die gesamte Staatswissenschaft*, 135, 1979, p. 443.

² W. Eucken cited from C. Watrin, "The Principles of the Social Market Economy – its Origins and Early History", *Zeitschrift für die gesamte Staatswissenschaft*, 135, 1979, p. 418.

³ See in this connection Rudolf Richter et al. (ed.), *Currency and Economy Reform – West Germany after World War II. A Symposium. Zeitschrift für die gesamte Staatswissenschaft*, 135, 1979, p. 297ff.

⁴ See the *Gesetz gegen Wettbewerbsbeschränkungen* of 27 July 1957.

⁵ *State Intervention in a Market Economy*, Report by the Advisory Council to the Federal Ministry of Economics, BMWI Studienreihe Heft 24, 1979.

do as little damage as possible to freedom and which create as little disturbance as possible to the free processes. That means, politically, that intervention should take place under *the dominance of the rule of law* and within the limits set by the basic rights embodied in the constitution, and economically, under *the dominance of the principle of market conformity*. That was the basic concept of the *social market economy*⁶.

For that reason, it falls neither into the category of economic policy activism nor into that of orthodox free enterprise philosophy. For it, social policy is not an enemy of the market economy but its necessary complement. But it also does not believe that social policy can distribute anything other or more than that which the market economy produces. The question with which it concerns itself is not *whether* market economy and social policy should exist alongside one another. That is in fact its starting point. All the more, therefore, is it concerned to answer the question of *how* market economy and social policy can exist together.

The concept of the social market economy is consequently to be opposed to a welfare state ideology, which believes that the welfare state can also produce (or even order that there will be produced) that which it wishes to distribute. The social market economy is also to be opposed to a liberal ideology which believes wholly and solely in the effectiveness of the market. Finally, however, it is also to be opposed to an economic policy which believes that the market must and is able to bear any interventions which appear to be socially appropriate. To show a path which lies alongside and in between these two positions which today are so conflicting, a path which moreover mediates between them and is at the same time successful, may be taken to be the message which flows from the principles and experience of the social market economy.

II.

Certainly, *actual developments* have raised the question as to the extent it is still possible today to call the Federal Republic as a witness for this message⁷. Until the early 1970's, the power of the market economy and the benefits flowing from social policy were as great as they were perceptible. But in the course of the seventies changes took place: The belief grew that both to guarantee and to create the effectiveness of the market economy could be achieved by political action⁸. Whether "naturally" or politically guaranteed, economic prosperity

⁶ See Christian Watrin, "The Principles of the Social Market Economy: Its Origins and Early History", in: Rudolf Richter et al., *loc. cit.*

⁷ On the developments outlined in the following passages of the text, see Hans F. Zacher, "Sozialpolitik, Verfassung und Sozialrecht im Nachkriegsdeutschland", in: Winfried Schmähl and Klaus Schenke (eds.), *Alterssicherung als Aufgabe für Wissenschaft und Politik. Helmut Meinhold zum 65. Geburtstag*, Stuttgart 1980, pp. 123ff.

⁸ In 1963 the Council of Experts on Economic Developments was set up. It is to re-

appeared to go without saying. From this self-evident character of prosperity, social policy acquired at the end of the seventies a dynamic of its own, which ran up ever more sharply against the limits of economic productivity. It was not merely that these limits were stronger than any illusion; even more, economic developments during the seventies shifted them nearer. In the meantime, however, the economic and social conditions had also changed in such a way as to impair both the functioning of the market economy and its relationship to social policy. The most important aspects of these developments were the increasing concentration among firms and the growth in the number of employees (as distinct from those who are self-employed). While the proportion of the resident population composed by the economically active fell from 46% to 43% between 1950 and 1981, the proportion of employees in the total number of economically active rose during the same period from 68% to 86%. These changes are as significant for democracy as they are for the welfare state. There were as well many other sorts of changes during the period (thus e. g. changes in the age structure of the population, in the structure and extent of employment, in the education system, etc.). Hence the social market economy today is located within a political, social and economic landscape that has undergone essential change⁹.

III.

The aim of *this issue* is to present the concept of the social market economy (Zacher) and to relate it to the concept of the welfare state (Rothschild), but also to subject it to a critique (Bernholz). The question as to social justice must also be raised (Bonus), for it forms the enduring background to the competition between market and social policy. It will be shown how social policy has

port to the Federal Government, "... how, within the framework of the market economic order, stability of the price level, a high level of employment, and external balance can be guaranteed, with steady and appropriate growth. The formation and the distribution of income and wealth are also to be drawn into its investigation... The council should indicate undesired developments and possibilities for their avoidance or their elimination, ...". (cf. Article 2 *Gesetz über die Bildung eines Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung* of 14 August 1963).

In 1967 the *Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft* was raised directly into an objective policy (Article 1): "In the measures of economic and financial policy which the Federal Government and those of the States undertake, they must pay attention to the requirements of aggregate economic equilibrium. The measures must be such that they contribute, within the framework of the market economic order, simultaneously to the stability of the price level, a high level of employment, and external equilibrium, with steady and appropriate economic growth."

⁹ See Otmar Issing (ed.), *Zukunftsprobleme der sozialen Marktwirtschaft*, Verhandlungen auf der Jahrestagung des Vereins für Socialpolitik (Gesellschaft für Wirtschafts- und Sozialwissenschaften) in Nürnberg 1980, *Schriften des Vereins für Socialpolitik* N. F., 116, Berlin 1981.

developed historically in the Federal Republic of Germany (Lampert), and the institutional framework within which this has taken place (Albeck). On this basis it will then be possible to pose the question: to what extent have income and wealth been redistributed by this policy (Albers)? More specialised contributions deal with the provision of security in case of sickness (Münnich) and the future prospects of the public pension scheme (Hauser). Certainly, it is one of the essential characteristics of German social policy that the provision for the classical social risks has been assumed to an ever greater extent by public authorities. But given that the *Sozialstaat* of the Federal Republic has ever increasingly assumed the character of a state in which the overwhelming proportion of the economically active are employees (i. e. has become an "*Arbeitnehmerstaat*"), this makes it all the more appropriate to raise the further question as to the social policy role of the firm (Hax). A concluding contribution seeks to direct attention towards the future of German social policy (Biedenkopf). The German experiences and opinions in this field should not, however, be discussed wholly isolated from developments in *other* countries, and it is necessary to draw some comparisons.

The U.S.A. is a country in which the market still continues to enjoy greater confidence than in the Federal Republic, while state social policy is still more distrusted there than in the Federal Republic. The most pressing problems in the Federal Republic – provision for old age and sickness – will therefore be discussed in relation to the United States as well (Munnell, Davis, Schulz). *Japan* provides a quite different model (Ernst). What is the social ambience of its economic strength? Some *statistics* are provided to complement the international aspect (Poullier).

Many issues have not been examined in this context. For example, there is no analysis of the gravest social development during these years, the growth of unemployment. But space was limited, and many wishes, like many promises, are not fulfilled.

IV.

Our thanks are due to the contributors to this issue. Not merely did they make available their expert knowledge within the field which this issue covers, but they were as well readily responsive to suggestions and comments upon their work made by the editors. In preparing their manuscripts for publication Dr. Hans Jäckel in particular, with help from Mr. Stefan Auwärter and Mr. Norbert Juchem provided invaluable assistance. Mrs. Barbara Thimm-Maldener typed and retyped various drafts of the translations of the articles with her usual efficiency. The translations were the individual and in some cases combined work of Professor Wolfgang F. Stolper, Mr. Patrick McMahon, Ms.

Carol Bruce, and Dr. Michael Hudson. The latter has also been responsible for the English editing of the whole of this issue, in which he has displayed great imaginative and scientific involvement.

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