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Intereconomics

Suggested Citation: Lampert, Heinz (1970) : Economic policy and social policy, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 05, Iss. 11, pp. 351-354, <https://doi.org/10.1007/BF02928936>

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Economic Policy and Social Policy

by Professor Heinz Lampert, Cologne

The spheres of political action which are termed economic policy and social policy must be defined before an analysis of their relationships is undertaken.

Economic policy may be defined as the forming of social economic actions¹ by the institutions bearing public responsibility according to set objectives which are primarily economic. Social policy shall here, following Kleinhenz², be understood to mean the measures of the institutions bearing public responsibility which are designed to influence the living conditions of socially weak groups of people (i.e., their scope for satisfying the interests which determine the fulfilment of life) so as to accomplish the objectives pursued in regard to the living conditions by and in an order of society.

Two Closely Connected Spheres

That there exists a close connection between the two spheres of directive activity must be supposed because the economic opportunities have an abiding influence on the living conditions of all people and because economic policy affects the opportunities for economic action on the part of society as well as individuals. Closer analysis shows this connection to be one of partial congruence. For the social policy which is aimed at improving the entirety of living conditions for socially weak groups of people is also directed at improving economic living conditions. Improvement of the economic living conditions, though not confined to but including socially weak groups of people, is however also among the tasks of economic policy, so that social as well as economic policy has a task to perform in this field of raising the economic living conditions.

¹ By forming of social economic actions is meant that co-operatively proceeding activity which aims at optimal satisfaction of, in kind and urgency differing, present and future requirements for individual and collective purposes by drawing on available and produceable, in relation to requirements scarce, means.

² G. Kleinhenz, *Probleme wissenschaftlicher Beschäftigung mit der Sozialpolitik*, Berlin 1970, p. 58 ff., espec. p. 76.

Another connection between economic and social policy is reflected by the fact that the package of objectives discussed in the context of the theory of economic policy³, as well as the package of objectives of the economic policies practised in many national economies⁴, comprises in addition to objectives which belong primarily to economic policy but are of relevance also to social policy—like growth, external economic equilibrium and price stability—other objectives which are primarily important under social policy aspects but also relevant from the point of economic policy—like social justice, (economic and) social stability and social peace. The reason for this „mixture“ of aims may be that the objectives of economic as well as social policy are drawn or derived from the superior sphere of the policy which is concerned with all aspects of society and that a strict dissociation of the aims in this latter field of policy from those of economic and social policy, and also a strict separation of all economic policy objectives from all social policy objectives does not seem to be possible.

It is impossible to separate certain economic policy aims precisely from certain social policy aims because economic policy has effects important for social policy and, conversely, social policy has effects which are economic and thus important for economic policy. This is to be demonstrated in the following.

Mutual Relations between ...

It is common knowledge that a successful growth policy provides a basis for a policy of social security, income redistribution and social investments, so that social progress can be made in proportion to economic progress as measured by the growth rate of the social product and in

³ Cf. H. Giersch, *Allgemeine Wirtschaftspolitik*, Wiesbaden 1960, p. 59 ff.; K. E. Boulding, *Principles of Economic Policy*, 4th ed., Englewood Cliffs 1964; R. A. Dahl, Ch. E. Lindblom, *Politics, Economics, and Welfare*, New York 1953, p. 28 ff. i.a.

⁴ Cf. E. S. Kirschen et al., *Economic Policy in Our Time*, vol. 1, Amsterdam 1964, p. 4 ff. and p. 19 ff.

proportion to the level of employment. Also known is the significance for social policy of a policy of price stabilisation owing to the avoidance of the negative repercussions on social justice of a deterioration of the value of money, especially by socially discriminatory processes—e.g., the advantages accruing to the owners of assets in kind compared with money owners, the disadvantages to people on low incomes relative to those on higher incomes, and the lowering of the standard of living of the self-employed middle class⁵.

In the same way as growth, employment and money and credit policies may, by affecting the rate of growth, the level of gainful employment and the value of money, be of indirect importance for the living conditions of the socially weak and for possibilities of improving them, the policy pursued in regard to competition may, through anti-monopoly, anti-trust and anti-amalgamation policies, have social policy effects: the distribution of the national income is improved by demonopolisation to the benefit of the wage earners both in the short and in the long run⁶, while the excessive prices which branded fixed-price goods command in comparison with a market without price maintenance are, in accordance with theoretical judgement and also with practical experience, tantamount to a cut in the real income of the recipients of earned and, especially, social service incomes, that is in the first place the pensioners⁷.

The power and farm policies may be mentioned as further examples of the social effects of economic policy. These policies which relate to the structure of industry conflict with social policy⁸ insofar as the latter is intended to favour wage earners and social welfare recipients, because the policy of import restrictions, taxation of competing commodities (fuel oil) and elimination or alleviation of competition for the benefit of the coal mining industry, like the agricultural policy by means of import quotas and guaranteed prices and sales, tends to raise the prices of products (electricity, gas, fuel and foodstuffs) which are a relatively heavy burden on the household budgets of the economically weak sections of the

population. (The farm policy has, incidentally, turned more and more into a social policy for a section of the middle class).

... Economic Policy and Social Policy

This by no means exhaustive enumeration of economic policy fields with very close social policy associations can be matched by a number of social policy activities having consequences which may be identical with the attainment of economic policy objectives or are complementary to them. Effective protection for working people for instance (prohibition of child labour, safeguards for young people at work, protection for working mothers, limitation of working hours, accident prevention, health protection) has not only a quantitative effect on manpower, thus contributing to the economic policy aim of preserving the resources of the economy, but maintains and improves by itself the physical, and especially in conjunction with education policy measures, the intellectual quality of the manpower and thus serves the economic policy objective of raising productivity and achieving technical progress.

By creating formal and substantial equality of opportunity in education, by removing privileges and all but qualitative restrictions on entry into professions and trades, by maintaining formal and substantial freedom of competition, the achievement of social justice—an end which social policy aims at—further the economic policy aim of ensuring economic growth through an increase in the proportion of qualified and highly qualified workers in the labour force. The complex of social policy measures designed to accomplish the aim of economic and social stability of living conditions (in the sense of avoiding major fluctuations in incomes and employment in the economy as a whole and for the individuals in it), that is the social security system in the narrower sense (unemployment, sickness, old age insurance), has an anticyclical effect on economic activity and thus furthers the economic policy objective of steady growth.

The examination of the interrelation of economic and social policy shows that the two spheres partly overlap and abut on each other⁹, that

⁵ Cf. "Die wirtschaftlichen und sozialen Folgen der Geldentwertung", No. 24 of Nürnberger Abhandlungen zu den Wirtschafts- und Sozialwissenschaften (Nürnberger Fakultätswoche 14.-24. November 1966), Berlin 1967, espec. article by G. Eisermann, Gesellschaftspolitische Aspekte der Geldentwertung, p. 47 ff.

⁶ W. Krelle, Verteilungstheorie, Wiesbaden 1962, p. 114 and p. 137.

⁷ Cf. A. Busch, Die allgemeine Wettbewerbssituation in der Konsumgüterindustrie, Preisbindung, Vertriebsbindung, sonstige Geschäftspraxis, in: Zehn Jahre Bundeskartellamt, Rückblick und Ausblick, Cologne 1968, p. 167; also B. Griesbach, Wettbewerbspolitik im Rahmen der Wirtschaftspolitik, *ibid.*, p. 45.

⁸ Cf. E. Liefmann-Kell, Gegenwart und Zukunft der sozialen Altersvorsorge, Göttingen 1967, p. 104 ff.

⁹ Cf. K. Jantz, Zur wirtschaftlichen Funktion sozialer Leistungen, in: F. Greiss i.a. (ed.), Der Mensch im sozio-ökonomischen Prozeß, Festschrift für W. Schreiber, Berlin 1969, who arrives at the same result: "A precise demarcation of social policy and economic policy is impossible as regards their effects; they are in constant contact. ... That implies mutual dependence—not one-sided dependence—of social policy upon economic policy" (p. 254). The same result is found in S. Wendt, Bemerkungen über das Verhältnis von Wirtschaftspolitik und Sozialpolitik, in: K. Jantz i.a. (ed.), Sozialreform und Sozialrecht, Festschrift für W. Bogs, Berlin 1959: "The spheres of economic policy and social policy abut and indeed permeate one another. From this fact however it must not be deduced that economic policy and social policy are the same thing" (p. 378).

social policy can contribute to the achievement of economic policy aims and economic policy to the achievement of social policy aims. The interdependence of economic and social policy appears however to depend in kind and intensity upon the stage of economic development reached.

In an expanding economy with full employment accident prevention, health protection and rehabilitation measures for instance are instruments of economic growth, quite apart from their own value under social policy aspects. In a less developed, underemployed economy with a high rate of population growth, on the other hand, the social policy objective of maintaining, improving and restoring the earning capacity is not in like manner an economic policy aim, especially if for lack of labour protection regulations and sickness and accident insurance the burden falls on the persons directly involved and not on those who cause these social costs or third parties: under the assumptions made, the demand for labour can be met without social policy protection, and there exists no economic or economic-policy motive to extend the workers' protection or make suitable social investments (hospitals, rehabilitation centres). This is a typical example showing that, without intervention by the political authorities, the economy on its own considers and establishes social standards only to the extent to which achievement of set economic objectives is tied up with the fulfilment of social standards, for economic action is ruled by the principle of economic rationality rather than the principle of humanity.

Similar considerations apply to the interdependence of formal and substantial equity of opportunity, on the one hand, and economic growth, on the other: Whereas in an advanced and expanding economy where production proceeds at a

rising technical and organisational level a high quota of qualified personnel, which implies an opening of the educational system to more entrants, is as necessary for further development as the creation of the prerequisites for the adaptation of the employment structure to the changing structure of the economy through the provision of education, further education and retraining facilities, developing economies must still give priority to safeguarding a minimum subsistence level for wide sections of the population, and their social product is so small that resources cannot be released for social investment (Kindergarten, pre-school education, elementary, secondary and technical schools, and colleges) to the extent desirable on grounds of social and communal policy, nor is there as great a need for doing so as social policy demands in the interest of social justice.

Unfortunately it seems to be generally true—and there is corroboration in historic experience in the West and East—that the social progress which a society can afford as well as the interdependence of economic, technical and social progress vary in direct proportion to the wealth which it already possesses.

Need for a Social Policy . . .

And yet, although the scope for social policy insofar as it requires use of scarce resources is limited by economic opportunities, economic capacity and the pressure of competing political aims, an attempt must be made also, and especially, in developing countries to accomplish a measure of social policy objectives, albeit one which does not jeopardise growth. The question has not yet been systematically examined, and most certainly not answered, what social policy concepts are compatible with a certain rate of growth in

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the various countries of the Third World and what combinations of social and economic progress rates are conceivable and attainable. If an answer were attempted—which of course cannot be done here—it would probably be pertinent to begin by asking what social policy measures are indispensable, “cost” society little or nothing and promote economic development (e.g., limitation of working time safeguarding a minimum of regeneration, minimum wages according to the principle of “high wages”¹⁰) or leave it unimpeded, and subsequently broach the question which social policy measures yield social and communal benefits of a value in excess of their economic cost (e.g., an education policy which in extent, character and structure, i.e., in regard to the proportion of general and technical, elementary and advanced schools, takes the medium-term intellectual capabilities and employment structure of the population into account). Finally an analysis would be required to show which social policy measures, while yielding desirable results, conflict with economic growth and other objectives so as to virtually preclude attainment of these objectives (e.g., a national pension according to the Swedish model or continuing payment of wages and salaries during illness). These speculations are founded on the assumption that there exists for every society a kind of “Law of balance of marginal utilities” with regard to meeting the “demand” for social-political and economic progress which also applies to meeting the demand for alternative social services.

...also in Developing Countries

It is an important question of social policy, not only in developing countries, whether and to what extent the need for social policy corrections and compensations can be lessened by an economic policy which gives a priori consideration to social policy although there are specific situations not avoidable by prophylactic means which make an autonomous social policy indispensable: however successful an economic policy may be, there are handicapped, ill and old people, there is bound to be structural and frictional unemployment, and there exist natural differences in ability and attainment resulting in differences in income and wealth which are thought to require compensating for.

But the need for social policy corrections can apparently be lessened if economic policy, aiming

at forming the order and in view of the interdependence of the economic and the social order, fixes minimum working conditions, or allows them to be fixed, by perfecting the organisation of the labour market (e.g., by allowing and encouraging the trade unions to act as the employers’ partners in fixing wages, by extending employment exchange agencies and career guidance), if it concedes to the employees rights of participation in industrial decisions, if applied to competition it prevents the emergence of monopolies or keeps them under control, if restrictions on the freedom of movement, factory regulations, traffic and town planning prevent industrial congestion with consequent heavy social costs, if the basic economic policy exercises an influence on the use and cost of land to the benefit of social policy aims and at least preserves the manpower capacity.

Criticism of the Federal Republic’s Economic Policy

Whereas in developing countries the basic and structural economic policies are crucial for a prophylactic social policy because they are capable of obviating or lessening social harm and costs, it is in developed economies of increasing importance how the economic process is regulated. B. Pfister formulated one of the results of his investigation into the circulatory effects of the system of total social policy in Great Britain as early as 1936 as follows: “From British economic and political life... one can however learn... how much, when the statutory framework and technical insurance apparatus of the State’s social policy have been by and large completed and when it is operating well within the legal compass, the economic value and content, the social and economic substance of the system of total social policy frequently depends on the general economic policy (credit, price, currency policy) rather than on extensions and refinements of the statutory frame of this policy which is now taken for granted”¹¹.

There is every reason to re-examine the social substance of the Federal Republic’s economic policy which is characterised by a “soft” policy towards restrictions of competition and economic concentration, by failure in the fight against the creeping price inflation, by an extremely high level of interest rates, and by lack of a protective shield against external economic influences.

¹⁰ Cf. K. W. Rothschild, *Lohntheorie*, Berlin and Frankfurt/M 1963, p. 34 ff.

¹¹ B. Pfister, *Sozialpolitik als Krisenpolitik*, Stuttgart 1936, p. 283.