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Alfred Müller-Armack and Ludwig Erhard: Social Market Liberalism

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ALFRED MÜLLER-ARMACK AND LUDWIG ERHARD: SOCIAL MARKET LIBERALISM

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1. Introduction: Social ends by economic means – The Social Market Economy

"Soziale Marktwirtschaft" (Social Market Economy) is the economic order that was established in Western Germany after 1945. It is not a precisely outlined theoretical system but more a cipher for a "mélange" of socio-political ideas for a free and socially just society and some general rules of economic policy. It is a decided *liberal* concept, based on individual freedom and the belief that well-functioning markets and competition lead to economic efficiency and by this, to economic development (or in the case of Germany, recovery) and social improvement. But in sharp distinction to the harmonious Smithian world of the "invisible hand", the "founding fathers" of the post-war economic order in Germany were convinced that the economic system must be guided by an "economic constitution" provided by the state. The Freiburg economist and mastermind of Germany's post-war economic order, Walter Eucken (1891-1950), had already clarified in 1940:

> "The problem will not solve itself simply by our letting economic systems grow up spontaneously. The history of the century has shown this plainly enough. The economic system has to be consciously shaped. The detailed problems of economic policy, trade policy, credit, monopoly, or tax policy, or of company or bankruptcy law, are part of the great problem of how the whole economy, national and international, and its rules, are to be shaped."[1]

This does not mean central planning or state interventionism but the design of an economic framework and the formulation of a few general principles of economic policy, to which the politicians have to adhere: "[T]he shaping and maintenance of a competitive, free-enterprise system does not constitute all of policy's duties; but, except in a few, highly special cases, measures which do not shape and maintain the

[1] Walter EUCKEN, *The Foundations of Economics. History and Theory of Economic Reality*, London, Edinburgh, Glasgow 1950, p.314. Title of German original work: *Die Grundlagen der Nationalökonomie*, Jena 1940. Cf. Viktor VANBERG, *The Constitution of Markets. Essays in Political Economy*, London, New York 2001, p.41.

system must complement or supplement it; they must not infringe the 'rule of law' or weaken co-ordination through competition."[2]

Consequently, the role of the state in a Social Market Economy is not a "night watchman state" (minimal state) of laissez-faire liberalism – primarily concerned with the protection of the rights of its constituents – but a "strong state", powerful enough to repel the endangerment of workable markets by monopolistic power and privilege-seeking. As Walter Eucken puts it:

> "What, therefore, should be the nature of state activity? The answer is that the state should influence the *forms* of economy, but not itself direct the economic process. … State planning of forms – Yes; state planning and control of the economic process – No! The essential thing is to recognize the difference between form and process, and to act accordingly."[3]

However, the theoreticians and practitioners of the Social Market Economy were confident that by shaping a legal-institutional framework for a well-functioning market order, it would be possible to fulfil the 19th century liberals' project. The principles governing and maintaining a well-functioning and free economic system *over time* is the solution to the social question:

> "Without freedom, there can be no solution of the social question. … Under a proper marketing system, it becomes impossible for individual freedom to degenerate into the arbitrary domination of many by a few. … As a result of the general interdependence between all markets, the social question can only be resolved by means of an adequate and free economic system. Social reasons, in particular, indicate that there is no alternative to free competition."[4]

Thus, the protagonists of the Social Market Economy aimed to attain social justice by economic means: "Their attachment to the term 'social' was not, however, just its appeal as a political 'buzzword', but also reflected the fact that they felt justified in rejecting the criticism that they were simply laissez-faire market economists wearing a 'social' disguise, because in the context of the time the results of their policies were demonstrably humane."[5]

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[2] Henry M. OLIVER, German Neoliberalism, in: *Quarterly Journal of Economics* 74 (1960), p.134.

[3] Walter EUCKEN, *This Unsuccessful Age or The Pains of Economic Progress*, Edinburgh, London, Glasgow 1951, p.95f.

[4] Walter EUCKEN, The Social Question, in: *Standard Texts on the Social Market Economy. Two Centuries of Discussion*, edited by the Ludwig-Erhard-Stiftung, Stuttgart, New York 1982, p.275. Original German version published as: Walter EUCKEN, Soziale Marktwirtschaft, in: Edgar Salin (Hg.), *Synopsis. Festgabe für Alfred Weber*, Heidelberg 1948, p.113-131. Cf. Siegfried G. KARSTEN, Eucken's 'Social Market Economy' and its test in Post-War Germany: The Economist as Social Philosopher developed ideas that paralleled progressive thought in America, in: *American Journal of Economics and Sociology* 44 (1985), p.175.

[5] Jack WISEMAN, Social Policy and the Social Market Economy, in: Alan Peacock / Hans Willgerodt (eds.), *German Neo-Liberals and the Social Market Economy*, London 1989, p.161.

Consequently, the task of the following considerations will be to clarify the intellectual heritage of the Social Market Economy and especially its "social dimension". To that purpose, I will analyze the main ideas of the two main campaigners and "godfathers" of the Social Market Economy, Germany's first Minister for Economic Affairs and later chancellor, Ludwig Erhard (1897-1977), and Alfred Müller-Armack (1901-1978), professor of Economics and later on State Secretary in the Ministry of Economic Affairs. I will contrast their ideas with the ordoliberal concept of Walter Eucken and the Freiburg School, which is usually considered as the main theoretical source for the practical implementation of the Social Market Economy. But, before I start with these systematic examinations, I will present a brief outline on the term "Social Market Economy", which shows its "vague" character and makes it understandable why the term inevitably became a political catchword.[6]

2. Some "etymological" considerations

The question of the origins of the term "Soziale Marktwirtschaft" is an unsettled point. While it is without doubt that it was Alfred Müller-Armack who used the term for the first time in a publication – he headlined the second chapter of his book "Wirtschaftslenkung und Marktwirtschaft" (Planned Economy and Market Economy, December 1946) "Soziale Marktwirtschaft" – the historical roots of this "compromise formula" remain unclear. There is some evidence that Harold Rasch, who in 1946/47 was deputy head of the British and later on also of the new inter-zonal economic administration in Minden, used the term in late 1947 and early 1948 independently of Müller-Armack.[7] Furthermore, one can find the claim that it was Ludwig Erhard himself, who spoke first about "Soziale Marktwirtschaft". In his autobiography, Karl Günter Weiss, academic assistant of the SS-Gruppenführer Otto Ohlendorf, who at the time was permanent representative of the State Secretary in the Reich Ministry of Economics, claims that Ludwig Erhard and he "discovered" the term during an informal conversation in January 1945: "What did you say? –

[6] In fact, the term "Social Market Economy" first became popular as a political slogan as a component of the Christian Democratic Union's "Düsseldorfer Leitsätze" (Guidelines) of July 1949 (with which it took full credit for Erhard's policy), the program drafted for the first Bundestag election campaign. See Keith TRIBE, *Strategies of Economic Order. German economic discourse, 1750-1950*, Cambridge, New York, Oakleigh 1995, p.204.

[7] See e.g. Harold RASCH, *Grundlagen der Wirtschaftsverfassung*, Godesberg 1948, chap. 4 ("Grundzüge einer sozialen Marktwirtschaft"). Cf. Reinhard BLUM, *Soziale Marktwirtschaft. Wirtschaftspolitik zwischen Neoliberalismus und Ordoliberalismus*, Tübingen 1969, p.94; Rainer KLUMP, Wege zur Sozialen Marktwirtschaft – Die Entwicklung ordnungspolitischer Konzeptionen in Deutschland vor der Währungsreform, in: Erich W. Streissler (Hg.), *Studien zur Entwicklung der ökonomischen Theorie XVI: Die Umsetzung wirtschaftspolitischer Grundkonzeptionen in die kontinentaleuropäische Praxis des 19. und 20. Jahrhunderts*, Berlin 1997, p.148-150; Daniel DIETZFELBINGER, *Soziale Marktwirtschaft als Wirtschaftsstil. Alfred Müller-Armacks Lebenswerk*, Gütersloh 1998, p.200; Friedrun QUAAS, *Soziale Marktwirtschaft. Wirklichkeit und Verfremdung eines Konzepts*, Bern, Stuttgart, Wien 2000, p.43-45.

Soziale Marktwirtschaft – this is a term I like. … If you would have another glass of your fine Burgundy, we shall propose a toast: *Soziale Marktwirtschaft* is a good way to connect past and future in a reasonable way."[8] Materials concerning to the idea of "Soziale Marktwirtschaft" were then stored in a box, on which Erhard wrote "Soziale Marktwirtschaft". After the end of the war – as Weiss believes to remember – Erhard transmitted the materials to Müller-Armack, with the request to publish the documents under the formula "Soziale Marktwirtschaft", without mentioning his name.[9] However, while this sounds more like fiction and legend, it is fact that the idea of a "controlled or guided market economy" (gesteuerte oder gelenkte Marktwirtschaft) was quite common during these years; even Müller-Armack spoke of controlled market economy before he established the term "Soziale Marktwirtschaft."[10] It was Erich Preiser, a later member of the "Wissenschaftlicher Beirat" (Advisory Council to the Ministry of Economic Affairs), who in an article he contributed to the volume "Der Wettbewerb als Mittel volkswirtschaftlicher Leistungssteigerung und Leistungsauslese" (Competition as a means of boosting economic performance and selection based on performance, edited by Günter Schmölders in 1942), coined the term "government-controlled market economy" as a contrast to "free market economy."[11] This 1942 volume contains contributions of several economists opposing the Nazi-Regime, working on plans for the social and economic order after the war. Later on, they pursued their work on a private basis and their work is recorded in the literature as the "Arbeitsgemeinschaft Erwin von Beckerath."[12] Thus, not only the concept, but also the term has some roots in the resistance against the Nazi regime. Finally, in search for the origin of the term, one can draw connecting lines to the younger Historical School. Werner Sombart, for instance, introduced the term "Sozialkapitalismus" (Social capitalism) in his book "Die deutsche Volkswirtschaft im 19. Jahrhundert und im Anfang des 20. Jahrhunderts" (The German economy in the 19th century and at the beginning of the 20th century). He wrote: "Unions, safety provisions for workers, workmen's insurance, cooperatives, socialization, and urbanization have initiated an era of social development which might really be called social capitalism. With capitalism being

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[8] Karl Günter WEISS, *Wahrheit und Wirklichkeit. Der Weg aus den Weltkriegen in die Soziale Marktwirtschaft und eine künftige Weltordnung*, Homburg 1996, p.571 (my translation). Cf. DIETZFELBINGER (1998), *op.cit.*, p.200.

[9] Cf. WEISS (1996), *op.cit.*, p. 666f. Cf. QUAAS (2000), *op.cit.*, p.45f.

[10] Cf. KLUMP (1997), *op.cit.*, p.149f.

[11] Cf. KLUMP (1997), *op.cit.*, p.149 and Detlef J. BLESGEN, *Erich Preiser. Wirken und wirtschaftspolitische Wirkungen eines deutschen Nationalökonomen (1900-1967)*, Berlin et al. 2000, p.145f.

[12] Cf. Heinz RIETER / Matthias SCHMOLZ, The Ideas of German Ordoliberalism 1938-45: Pointing the Way to a New Economic Order, in: *The European Journal of the History of Economic Thought* 1 (1993), p.87-114.

the substantive and social being the adjective."[13] It is obvious that not only the term but also the concept reminds of Social Market Economy.

However, finding out about the origins of the term Social Market Economy clarifies at least two basic points: First, term and concept are a mixture of different roots. One can trace back the term and its meaning not only to the discussions of the immediate post-war period, and to the discussions of the early 1940s (in "official" circles as well as in circles of resistance) but even to an older debate which was fought in the historical school as shown in the example of Sombart's "social capitalism". Second, the invention of the concept of the Social Market Economy is strongly related to the invention of the term. It was found in search of a term that was in congruence with political attitudes and academic and intellectual affinities. Thus, the term "Social Market Economy" can foremost be seen as a "integration formula", aiming to soften social tensions and to build up a working common ground for the whole society.[14]

Joachim Zweynert recently showed in a profound paper that Müller-Armack, by combining both, "social" and "market economy", succeeded in bridging the gap between different "camps" and interests in post-war Germany:

> "From this perspective, Mueller-Armack's main concern … was how the acceptance of capitalism might be improved in a country, where the population traditionally had distinct socialist and romantic propensities. At the same time the rhetoric of Social Market Economy as an outspoken liberal reform program met the political demand of the Western Allies, especially the Americans, who at the beginning of the cold war wished to establish a liberal and capitalist society in the Western part of Germany in order to demonstrate the superiority of the Western model."[15]

However, to understand the implication of the Social Market Economy systematically, it is indispensable to clarify the contributions of the main protagonists of the Social Market Economy and its origins.

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[13] Werner SOMBART, *Die deutsche Volkswirtschaft im 19. Jahrhundert und im Anfang des 20. Jahrhunderts*, 3rd ed., Berlin 1913, p.455 (my translation). Cf. Joachim ZWEYNERT, Wirtschaftskultur, Transformation und ökonomische Ordnung in Rußland: ‚Ganzheitliche Marktwirtschaft' als irenische Formel?, in: Gerold Blümle et al. (Hg.), *Perspektiven einer kulturellen Ökonomik*, Münster 2004, p.483.

[14] Cf. Alfred MÜLLER-ARMACK, Das gesellschaftliche Leitbild der Sozialen Marktwirtschaft (1962), in: Alfred Müller-Armack, *Genealogie der Sozialen Marktwirtschaft*, Bern, Stuttgart 1974, p.153.

[15] Joachim ZWEYNERT, Shared mental models, catch-up development and economic policy-making: the cases of Germany after World War II and contemporary Russia, forthcoming in: *Eastern Economic Journal* (mimeo), p.4.

3. "Liberal Socialism" or "Social Liberalism"? Franz Oppenheimer and Ludwig Erhard's vision

Born on February 4, 1897, in Fürth (Bavaria), Ludwig Erhard started his academic education at the new college of commerce (Handelshochschule) in his home town. In 1922, he completed the degree of "Diplom-Kaufmann" (master's degree in business administration). One of his mentors during these years was Wilhelm Rieger, "a believer in the strict application of market principles to the problems of micro-economics."[16] After finishing his studies in Fürth, Erhard changed to the University of Frankfurt, where he took on the Doctoral degree under the supervision of Franz Oppenheimer in 1925, an encounter which turned out to have considerable intellectual consequences, as will be shown below. In 1928, he became a research assistant at the "Institut für Wirtschaftsbeobachtung der deutschen Fertigwaren-industrie" (Institute for Economic Research of the German industry of finished products). The institute was founded by Wilhelm Vershofen, professor at the college of commerce in Fuerth and one of the pioneers in the field of market research. In the following years Erhard became deputy manager of the institute, responsible for many of the institute's publications and a close assistant to Vershoefen. Because of his refusal to become a party member of the NSDAP, he had to leave the institute in 1942.

Erhard's post-war carrier too starts in the region of Fürth in Nothern Bavaria. He became director for economic affairs in that area, a job he owed to the American patronage – of people who "were impressed by Erhard's enthusiasm and clean record."[17] A few months later, again through American influence, Erhard became Minister for Economic Affairs in Bavaria under Wilhelm Hoegner, Bavaria's social democratic prime minister. After the merge of the American and the British zone, Erhard fell from office. Erhard remained in Munich, propagating his ideas for an economic reconstruction of post-war Germany, among others, as a publicist. In November 1947, Erhard was given the title of a full professor at the University of Munich. Already in September 1947, he was appointed to run the Special Bureau for Monetary and Currency Matters (Sonderstelle Geld und Kredit) of the bizone. The bureau was established in order to discuss the preconditions of a currency reform and to deal with Germany's excess purchasing power. After the dismissal of Johannes Semler, the first director of economic affairs at the bizonal Economic Council (Wirtschaftsrat) in Frankfurt, and after some political-party struggles, Erhard, in April 1948, was appointed director of the Council. Thereby Erhard had attained his goal: "Thus it was that Erhard entered into his kingdom as the director of economic policy in Bizone, and ultimately of West Germany itself. He now had the opportunity

[16] Anthony J. NICHOLLS, *Freedom with Responsibility. The Social Market Economy in Germany, 1918-1963,* Oxford 1994, p.73.

[17] NICHOLLS (1994), *op.cit.*, p.151.

to put his theories into practice."[18] Erhard's vision for economic development can be illustrated by a comment he gave in April 1948 during the crucial debate in the Bizonal Economic Council concerning the imminent currency reform:

> "We must find our way back to a market organization free from controls. In place of interventionism, we must insist on personal responsibility and performance. The market is not a diabolic invention to subdue particular classes. On the contrary, it is the only organization of economic life which creates a just and optimal distribution, a function which no collectivist authorities can replace ... we must eliminate uneconomic enterprises and cannot carry lame ducks indefinitely. Individual risk bearing must be rewarded, yet the penalties of mistakes cannot be shouldered by the community."[19]

Soon, Erhard became one of the most popular politicians in Germany. Shortly after Germany's first election to the "Bundestag" in August 1949, Erhard was appointed by chancellor Konrad Adenauer as Minister for Economic Affairs. His reputation rose with Germany's post-war economic success. In the following years, Erhard became the symbol of the German "Wirtschaftswunder" (economic miracle), well known as the "man with the cigar". After Adenauer's resignation in 1963, Erhard became the second chancellor of the Federal Republic. Although Erhard won the election in 1965, he resigned as chancellor in November 1966, less successful in that position than he had been as the "father of the economic miracle." On May 5, 1977, Erhard died in Bonn.

However, if one wants to understand Erhard's position and conviction for a successful economic policy, one has to consider the roots of his thinking. Without doubt, much of Erhard's ideas can be found already in his secret wartime memorandum "Kriegsfinanzierung und Schuldenkonsolidierung" (War-financing and debt-consolidation),[20] in which one can find "many of the central principles that were to inform Erhard's policy after the Second World War."[21] The memorandum impressed not only Carl Goerdeler, the designated leader for the time after a successful overthrow of Hitler, but also the already mentioned senior Nazi official Otto Ohlendorf, as well as the industrialists who had financed Erhard's study. Likewise, Erhard's previously mentioned employment at the Market Research

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[18] NICHOLLS (1994), *op.cit.*, p.158.

[19] Konrad ZWEIG, *The Origins of the German Social Market Economy. The leading ideas and their intelectual roots*, London, Verginia 1980, p.16f.

[20] Ludwig ERHARD, *Kriegsfinanzierung und Schuldenkonsolidierung.* Faksimiledruck der Denkschrift von 1943/44, Frankfurt a.M. u.a. 1977. Abridged English translation: Ludwig ERHARD, The Economic Needs of Postwar Germany, in: *Standard Texts on the Social Market Economy. Two Centuries of Discussion*, edited by the Ludwig-Erhard-Stiftung, Stuttgart, New York 1982, p.5-7.

[21] Anthony J. NICHOLLS, Ludwig Erhard and German Liberalism – An Ambivalent Relationship?, in: Konrad H. Jarausch / Larry Eugene Jones (eds.), *In Search of a Liberal Germany. Studies in the History of German Liberalism from 1789 to the Present*, New York, Oxford, Munich 1990, p.401.

Institute in Nuremberg from 1928 to 1942, "strengthened his inclination to put the consumer at the center of his view of economy."[22] However, we believe that the seminal influence on Erhard's vision were the ideas of his Frankfurt academic teacher, Franz Oppenheimer. Simultaneously, by analyzing Oppenheimer's approach it becomes clear why Erhard was convinced that the establishment of a competitive, privilege-free market order is, at the same time, a wealth creating and socially just economic order.

In his obituary of Franz Oppenheimer, Wilhelm Röpke – like Erhard a student of Oppenheimer – characterized the Frankfurt sociologist as follows: "So we are allowed, then, to preserve and maintain his memory as someone who carries on the unabated fight for freedom, humanity and justice and who continues the quest for the truth, so hard to find, about the nature of human society."[23] It is – according to the presented view here – in particular, the first part of the characterization that also applies to Erhard. Just like Oppenheimer, Erhard can be described as "as someone who carries on the unabated fight for freedom, humanity and justice." At the same time, this characterization is the foundation of Erhard's political economy concept. Whereas it appears that the second part of Oppenheimer's characterization by Röpke, to be someone "who continues the quest for the truth, so hard to find, about the nature of human society" does not apply to Erhard: Erhard's concern was that of an economist as politician, who searches not so much for the theoretical penetration of economic phenomena, but for a pragmatic solution of the aim to establish a humane order of society.

In the recent debate concerning Oppenheimer's influence on his students, there is a wide range of interpretations on how Oppenheimer influenced Erhard's beliefs.[24] Regardless of these different exegeses, Erhard himself appears to have a clear position. When Erhard, as Minister for Economic Affairs, held a speech on the occasion of Oppenheimer's 100th Birthday on April 30, 1964 – which significantly was titled "Franz Oppenheimer, Teacher and Friend" – he underscored the close bond to his teacher:

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[22] NICHOLLS (1990), *op.cit.*, p.394.

[23] Wilhelm RÖPKE, *Gegen die Brandung. Zeugnisse eines Gelehrtenlebens unserer Zeit*, Erlenbach-Zürich, Stuttgart 1959, p.349 (my translation).

[24] See e.g. the different interpretations by: Horst Friedrich WÜNSCHE, Der Einfluß Oppenheimers auf Erhard und dessen Konzeption von der Sozialen Marktwirtschaft, in: Volker Caspari / Bertram Schefold (Hg.), *Franz Oppenheimer und Adolph Lowe. Zwei Wirtschaftswissenschaftler der Frankfurter Universität*, Marburg 1996, p.141-161; Volker HENTSCHEL, *Ludwig Erhard. Ein Politikerleben*, München, Landsberg am Lech 1996, p.15-18; Dieter HASELBACH, Franz Oppenheimer's Theory of Capitalism and of a Third Path, in: Peter Kolslowski (ed.), *The Theory of Capitalism in the German Economic Tradition. Historism, Ordo-Liberalism, Critical Theory, Solidarism*, Berlin et al. 2000, p.54-86.

> "For as long as I live, I will never forget Franz Oppenheimer! I shall be happy if the social market economy – perfect or imperfect as it may be – will further testify to the work, to the mental approach of thought, and to the teaching of Franz Oppenheimer. I believe that many people do not know how much they owe to this one man. I, at least, do know ... ."[25]

Difficulties that go along with Erhard's reminiscence to Oppenheimer's program arise from the close connection Oppenheimer's program has to at least some of Marx's theorems (in particular the theory of the state)[26] and the socialist coating of his doctrine. How Oppenheimer arrived at the expression of the "Bodensperre" (land tenure) and other fundamental ideas was concisely summarised by his student, the already mentioned Erich Preiser:

> "Marx failed, as Oppenheimer thought, because of his industry-centric view; only an agro-centric view reveals the germ which turns the pure economics of the market economy into the political economics of capitalism. The therapy is almost self-evident. The abolition of large estates would deprive the collective monopoly of the classes, the industrial Reserve Army would disappear, and the path would be open for a society of the free and equal, founded solely upon work and exchange."[27]

It is out of the question that one has to understand this seemingly almost physiocratic[28] concept as the basic idea of Oppenheimerian theory; from this point of view, Erhard's program must be differentiated strongly from Oppenheimer's fundamental thoughts.[29] If one seeks, however, for the roots of Oppenheimer's beliefs in the history of economic ideas and compares these with Erhard's perspective, one gains a different perception.

Oppenheimer's theory stands in the context of the so-called "Ricardian Socialists," who held that an income which is not earned by working is directed against the

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[25] Ludwig ERHARD, Franz Oppenheimer, dem Lehrer und Freund (1964), in: Ludwig Erhard, *Gedanken aus fünf Jahrzehnten*, Düsseldorf, Wien, New York 1988, p.863 (my translation).

[26] For the relationship to Marx, see Dieter HASELBACH, *Franz Oppenheimer, Soziologie, Geschichtsphilosophie und Politik des „Liberalen Sozialismus"*, Opladen 1985, p.87; Peter KALMBACH, Oppenheimer und der ‚dritte Weg' zwischen Kapitalismus und Kommunismus, in: Volker Caspari / Bertram Schefold (Hg.), *Franz Oppenheimer und Adolph Lowe. Zwei Wirtschaftswissenschaftler der Frankfurter Universität*, Marburg 1996, p.125.

[27] Erich PREISER, Franz Oppenheimer. Gedenkrede zur 100. Wiederkehr seines Geburtstages, in: *Franz Oppenheimer zum Gedächtnis*. Frankfurter Universitätsreden, Heft 35, Frankfurt a.M. 1964, p.18 and p.20f (my translation).

[28] Cf. Christoph HEUGSEN, *Ludwig Erhards Lehre von der Sozialen Marktwirtschaft. Ursprünge, Kerngehalt, Wandlungen*, Bern, Stuttgart 1981, p.71.

[29] Erhard himself, in retrospect, emphasised that during his time as a student, "sometimes doubt plagued me, whether the land tenure, still today, could be the source of bondage and possibly exploitation." ERHARD (1964), *op.cit.*, p.859f (my translation).

legitimate claims of the workers.[30] Correspondingly, Oppenheimer writes in "Wert und Mehrwert" (Value and Surplus):

> "The problem whose solution we seek would be completely solved if it were possible to prove that the working class is subject to a permanent monopolistic relationship with the capitalist class such that it is forced to sell its product, i.e. its services, at a reduced value, with the upper class retaining the surplus. Now, such a class monopoly relationship does indeed exist. And it is, in fact, set up by forces beyond the economic realm. It is based on the possessions of real estate."[31]

Thus, following Oppenheimer, the cause for land tenure is set up by power beyond the economic realm, or to put it differently, exploitation and misery are the effect of political and not economic forces. Consequently, the quintessence of Oppenheimerian work is obvious: the shortcomings of capitalism are not the result of free competition, but rather the exclusion of workmen from free access to land, in other words, political power. One has to dispose of the excesses of this power such that "the transition from capitalism to a market economy, without class control and exploitation, is possible."[32] Oppenheimer predicts: "If this happens, and it will happen once, no further class about practical political economy will have to be taught."[33]

As soon as this stage is reached, i.e. the stage of free competition,[34] there will be nothing to prevent the harmony of interests and the welfare of all from prevailing. This perception is simultaneously the foundation and the goal of Oppenheimer's teaching of "pure economics", in which class society no longer would be upheld by political means. In the "General Sociology," Oppenheimer writes:

> "As [society, N.G.] stops to be an organization of class utility, eliminates all privileges and monopolies, and becomes an organisation of overall utility, human beings – finally freed – can succeed: because no more 'hostile competition' rushes the individual against a rival – rather, the individual is driven by a 'peaceful competition' towards highest achievements, and because under normal

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[30] To the context of Oppenheimer's approach in the history of economic thought, cf. Karl PRIBRAM, *A History of Economic Reasoning*, Baltimore, London, p.240; Joseph A. SCHUMPETER, *History of Economic Analysis*, New York 1954, p.854-856.

[31] Franz OPPENHEIMER, Wert und Mehrwert, in: *Scientia. Internationale Zeitschrift für wissenschaftliche Synthese* 7 (1913), p.221 (my translation).

[32] BRUNO SCHULZ, Franz Oppenheimer als Wirtschaftshistoriker, in: Olaf Triebenstein (Hg.), *Sozialökonomie in politischer Verantwortung. Festschrift für Joachim Tiberius*, Berlin 1964, p.25 (my translation).

[33] Franz OPPENHEIMER, Praktische Ökonomik und Volkswirtschaftspolitik, in: *Annalen der Naturphilosophie* 12 (1913), p.322 (my translation).

[34] Cf. Heinz D. KURZ, Franz Oppenheimer und das Problem der „Bodensperrung", in: Volker Caspari / Bertram Schefold (Hg.), *Franz Oppenheimer und Adolph Lowe. Zwei Wirtschaftswissenschaftler der Frankfurter Universität*, Marburg 1996, p.75.

> circumstances in society, no more temptations exist to which normal rules cannot resist; because of the 'harmony of all economic interests', the necessity to choose between self-interest and the welfare of the society no longer obtains."[35]

Therewith it becomes clear that Oppenheimer's concerns were of explicit social interest, further clarified in his transcript "liberal socialism". Liberal socialism is "the belief in and the pursuit of a societal order, in which economic self-interest preserves its power and persists in completely free competition,"[36], i.e. liberal socialism is a "socialism achieved via liberalism."[37] This "third way" postulated and labelled by Oppenheimer was his answer to the social question.

Here now the connection to Ludwig Erhard's program emerges. Erhard wrote in 1964: "There should [according to Oppenheimer, N.G.] be a way – a third way – which presents a prosperous synthesis, or a way out. Through social market economy I have tried, nearly in accordance with his mandate, to spell out a pragmatic way."[38] Hence, this "same spirit"[39] is Erhard's program, even if – relating to a suggestion by Wilhelm Röpke – he displaced "adjective and subjective" to promote a "social liberalism."[40] The free play of market powers as an end in itself does not stand at the centre of the Erhardian program. Rather, it is the view that "along the road of competition, the socialization – in the best sense of the word – of progress and profit is best realized,"[41] as he admitted in the first chapter of his best-selling book "Wohlstand für alle" ("Wealth for Everyone"). Competition can also be made subservient – it is a means, not an end. Accordingly, Erhard retrospectively still can admit in 1973:

> "I may be blamed of subjectivism, when I undertook, in practising social market economy, the attempt to associate liberty with order, in order to further allow justice to prevail."[42]

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[35] Franz OPPENHEIMER, *System der Soziologie. Band I: Allgemeine Soziologie. Teil 2: Der soziale Prozeß*, Jena 1964, p.1113. Cf. Werner KRUCK, *Franz Oppenheimer – Vordenker der Sozialen Marktwirtschaft und Selbsthilfegesellschaft*, Berlin 1997, p.225f (my translation).

[36] Franz OPPENHEIMER, *System der Soziologie (III/1). Bd. 3: Theorie der reinen und politischen Ökonomie*, Teil 1: Grundlegung, Jena 1910, p.IX (my translation).

[37] OPPENHEIMER (1910), *op.cit.*, p.XI (my translation).

[38] ERHARD (1964), *op.cit.*, p.861 (my translation).

[39] ERHARD (1964), *op.cit.*, p.861 (my translation).

[40] ERHARD (1964), *op.cit.*, p.861 (my translation).

[41] ERHARD (1958), *op.cit.*, p.1.

[42] Ludwig ERHARD, Demokratie heißt Freiheit, Recht und Ordnung, in: Ludwig Erhard / Kurt Brüß / Bernhard Hagemeyer (Hg.), *Grenzen der Demokratie? Probleme und Konsequenzen der Demokratisierung von Politik, Wirtschaft und Gesellschaft*, Düsseldorf, Wien 1973, p.37 (my translation).

Social Market Economy then for Erhard is the goal; market economy alone is merely the way. The influence of Franz Oppenheimer on Ludwig Erhard is derived from the consistent concern for the social question. In Oppenheimer's "liberal socialism" like in Erhard's "social liberalism," it goes straight to the problem of a desirable order of freedom and equality. Erhard's program of "Social Market Economy" then implies a *Social* Market Economy as a goal, to which competition serves as a means. On this basis, Erhard's vision for a market economy that serves the social balance can be seen in at least three points: First, the repression of arbitrary, disorderly political power. Second, the sharp rejection of any monopolistic structure, and third, the unbroken preference for freedom and competition.

4. Freiburg School: Everything is socially important

In 1961, Erhard wrote: "For if there ever was one theory that was able to correctly interpret the signs of the time and whose insights gave a new impetus to both a competitive and social economy, then it was the theory created by the men known today as neoliberals or ordoliberals. They gave an increased weight to the social and political aspects of economic policy and freed it from the mechanistic-computational approach ... ."[43]

Even though it is very difficult to establish direct links between the Freiburg School and Erhard (as numerous debates in the literature have shown), there is no question that the Freiburg School *did* influence Erhard.

The influence of the Freiburg economists can be illustrated by the example of Leonhard Miksch (1901-1950). Miksch wrote his doctoral thesis as well as his influential post-doctoral thesis "Wettbewerb als Aufgabe – Grundsätze einer Wettbewerbsordnung" (Competition as Task – Foundations of a Competitive Order), under the supervision of Walter Eucken. In July 1946 Miksch became an assistant at the Central Office for Economic Affairs of the British occupation zone in Minden. Later, he assumed a position with the previously mentioned bizonal Economic Council. As director of the department for "basic questions of price competition and business administration," Miksch became a close assistant to Ludwig Erhard.

There, Miksch not only was the primary designer of regulative policy, but also a prominent member of those who called for price liberalization being coupled with simultaneous currency reform. For example, the so-called "Guiding Principles Law" (Leitsätzegesetz) was authored primarily by Miksch; Ludwig Erhard – in violation of instructions by the Allied Forces – used this law to initiate price liberalization simultaneously with currency reform. In retrospect, this measure can be considered

[43] Ludwig ERHARD, Gestern – Heute – Morgen (1961), in: Ludwig Erhard, *Gedanken aus fünf Jahrzehnten*, Düsseldorf, Wien, New York 1988, p.696 (my translation).

the primary factor of the success of economic policy in post-war Germany and "represented the real birth of the market economy."[44] Erhard used to refer to Miksch as "the main campaigner for the return to a free market economy,"[45] and it was a well-known fact at the time that Erhard was more scared by Miksch and his ideas than by the Americans.[46]

The historical facts and debates notwithstanding,[47] taking a closer look at the epistemological background of the Freiburg program will help shed light on which points the Freiburg School and Erhard agreed – and where they disagreed.

The Freiburg program,[48] especially as developed by Walter Eucken, can be seen as a combination of the traditions of the German Historical School, Neokantism and Phenomenology. One cannot omit to add to this list Walter Eucken's father, Rudolf Eucken, 1908 Literature Nobel Prize winner, whose significant influence has been widely ignored to this day. Eventually it was the opposition to the Nazi dictatorship and the return to Christian and social-ethical principles that led to the development of the program known to us today as the Freiburg School or ordoliberalism – called so because of the central role played by the concept of order.[49] Even without going into detail and bearing in mind the influence of Oppenheimer, it is clear that Erhard does not belong to this paradigm, particularly when it comes to its social and philosophical aspects.

How, then, could the Freiburg paradigm become a "sister idea" of Erhard's economic policy?[50] Two aspects in particular are worth mentioning in this respect: First, the

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[44] Norbert KLOTEN, Role of the Public Sector in Social Market Economy, in: Alan Peacock / Hans Willgerodt (eds.), *German Neo-Liberals and the Social Market Economy*, London 1989, p.74. Cf. Sylvian BROYER, Retour à l'économie de marché: les débats du conseil scientifique attaché à l'administration économique de la Bizone, in: Patricia Commun (dir.), *L'ordolibéralisme allemand. Aux sources de l'Economie sociale de marché*, Cergy-Pontoise 2003, p.201-219.

[45] Reference to Leonhard Miksch by Ludwig Erhard, State Archives Freiburg, C 25/2, No. 137 (my translation).

[46] Cf. Nils GOLDSCHMIDT / Arnold BERNDT, Leonhard Miksch (1901-1950) – A forgotten member of the Freiburg School, forthcoming in: *American Journal of Economics & Sociology* 63 (2004).

[47] Cf. Herbert GIERSCH / Karl-Heinz PAQUÉ / Holger SCHMIEDING, *The fading miracle. Four decades of Market Economy in Germany*, Cambridge 1993, p.36-44; QUAAS (2000), *op.cit.*, p.27-43.

[48] In what follows, I focus solely on the connection between the Freiburg School and Erhard's vision of the Social Market Economy. For a broader discussion of the Freiburg approach, see e.g. Thomas J. RIHA, Ordo – the German Neoliberal Model of Economic Order, in: *Economia Internazionale* 34 (1986), p.31-47; Heinz G. GROSSEKETTLER, On Designing an Economic Order, in: Donald A. Walker (ed.), *Perspectives on the History of Economic Thought. Volume II: Twentieth-Century Economic Thought*, Aldershot, Brookfield 1989, p.38-84 and esp. VANBERG (2001), *op.cit.*, chap.3.

[49] Cf. Nils GOLDSCHMIDT, Theorie auf normativer Basis: Anmerkungen zum ordoliberalen Konzept von Walter Eucken, in: Patricia Commun (dir.), *L'ordolibéralisme allemand. Aux sources de l'Economie sociale de marché*, Cergy-Pontoise 2003, p.175-199.

[50] For a broader discussion of Erhard's "conversion" to ordoliberalism, see: Patricia COMMUN, La conversion de Ludwig Erhard à l'ordolibéralisme (1930-1950), in: Patricia Commun (dir.),

historical environment in which the two men found themselves. Both Erhard and Eucken were born at the end of the 19th century and experienced the free market caricature – demoralized by private power and a weak state – that existed in the cartel-dominated economy during the Weimar Republic.[51] Erhard described this period as "the years of the degeneration of the free market economy, forcing us to make a choice: either re-establish well-functioning markets by reinstating liberty, or decide to transform serfdom and servitude into a general economic principle."[52] Equally shocked by these circumstances, Eucken criticised how "the industry left the realm of competition to be controlled by the state and the cartels took over."[53] Eucken and Erhard came to the same conclusions concerning their historical experience during the "period of experiments". And their insights about the war economy and the Third Reich led them to recommend the same therapies: instead of having state control or state intervention through a planned economy on the one hand, or a powerless state in the face of private economic interests on the other hand, both believed the solution was a "strong state" that was able to counter all special interests.

Keeping with the ordoliberal metaphor of the "rules of the game", Erhard explained the following: "What I am aiming at with a market economy policy is … to lay down the order and the rules of the game."[54] Here one finds the "differentia specifica" of ordoliberals: the state sets up and guarantees an economic order, but it does not control economic processes. By guaranteeing economic order, the state enables free and fair competition. And, in the words of Röpke, the state's "independence from interest groups and the uncompromising assertion of its authority and dignity make it the champion of the general interest."[55] It is clear that in this broad ordoliberal perspective, the state is to be understood as having a functional role. It has to adhere to and, at the same time, enforce a state constitution that is able to counter rent-seeking interest groups.

L'ordolibéralisme allemand. Aux sources de l'Economie sociale de marché, Cergy-Pontoise 2003, p.175-199.

[51] For the background, see e.g. Knut Wolfgang NÖRR, Franz Böhm and the Theory of the Private Law Society, in: Peter Koslowski (ed.), *The Theory of Capitalism in the German Economic Tradition. Historism, Ordo-Liberalism, Critical Theory, Solidarism*, Berlin et al. 2000, p.148-156.

[52] Ludwig ERHARD, Kartelle im Blickpunkt der Wirtschaftspolitik (1949), in: Ludwig Erhard, *Gedanken aus fünf Jahrzehnten*, Düsseldorf, Wien, New York 1988, p.221 (my translation). Cf. Ludwig ERHARD, Die Soziale Marktwirtschaft in der gedämpften Weltkonjunktur (1959), in: Ludwig Erhard, *Deutsche Wirtschaftspolitik. Der Weg der Sozialen Marktwirtschaft*, Düsseldorf, Wien 1962, p.425.

[53] Walter EUCKEN, *Grundsätze der Wirtschaftspolitik*, 6th ed., Tübingen 1990, p.172 (my translation).

[54] Ludwig ERHARD, *Prosperity through Competition*, London 1958, p.102. Original German edition: Ludwig ERHARD, *Wohlstand für Alle*, Düsseldorf 1957.

[55] Wilhelm RÖPKE, *Die Gesellschaftskrisis der Gegenwart*, 6th ed., Bern, Stuttgart 1979, p.157 (my translation).

The role of the state leads us to the second aspect where similarities are to be found between the Freiburg School and Erhard. Economic freedom and competition – domains protected by the state – are necessary conditions for society to develop, but they are not ends in themselves. We have already seen that this idea was part of Erhard's doctrine. It was also one of the main focuses of the Freiburg School. This idea is summed up programmatically in the first volume of the "ORDO" year book, jointly edited by Eucken and the jurist Franz Böhm. One can read:

> "All we are asking for is the creation of an economic and social order which equally guarantees economic activity and humane living conditions. We call for competition because it can be utilized to reach this goal – in fact, the goal cannot be reached without it. It is a means, not an end in itself."[56]

In other words, the goal of Eucken's ordoliberalism is to solve – as already mentioned in the introduction – the "social question": "Everything is socially important."[57] The crucial issue for Eucken is the quest for a social order respectful of human dignity. Differences in paradigms notwithstanding, the crucial common element between Erhard and Eucken is that both have a functional understanding of competition within a market economy. The objective is social equity and the attainment of a social ideal. In this respect, Erhard declared:

> "The merits of the Freiburg School are not purely economic, they also have an impact on politics since many countries, following Eucken's doctrine, decided to cultivate the discipline of an intellectually sound order rather than rely on an unintelligent pragmatism."[58]

What we have discussed above enables us to address another thesis:

Ludwig Erhard integrated ordoliberal ideas into the concept of a Social Market Economy not because the two programmes were primarily based on similar ideas and theories, but because they had the same functional approach when it came to the role of the state and the role of a functioning and liberal market. The ultimate objective for both was to establish a fair and free society based on social imperatives.

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[56] Preface, in: *ORDO* 1 (1948), p.XI (my translation).

[57] EUCKEN (1990), *op.cit.*, p.313.

[58] ERHARD (1973), *op.cit.*, p.39.

4. Alfred Müller-Armack: Balancing economic freedom and social justice

Alfred Müller-Armack[59] was born in Essen on June 28, 1901. He studied economics in Gießen, Freiburg, Munich and Cologne. In 1923, he obtained his Doctoral degree at the University of Cologne under the supervision of Leopold von Wiese. His dissertation was entitled "Das Krisenproblem in der theoretischen Sozialökonomik" (The business cycle in socio-economic theory). As soon as 1926, Müller-Armack finished his habilitation (again, he worked on the issue of business cycle theory) and became, at the age of 25, one of the youngest *Privatdozenten* in Germany. He was called to a chair in economics at the University of Münster in 1938 and in 1940/41 he established – as a department of the university – the "Forschungsstelle für Allgemeine und Textile Marktwirtschaft" (Research Unit for General and Textile Market Economy). Working on similar issues, Müller-Armack became acquainted with Ludwig Erhard during this time.[60]

In the immediate post-war period, Müller-Armack soon became a vehement advocate in favour of a market-orientated economic system in several discussion rounds, working groups, and lectures. For instance, on September 25, 1945, he delivered a lecture in Münster on "Marktwirtschaftliche Möglichkeiten heute" (Possibilities for a Market Economy Today).[61] Among others – mainly members of the already mentioned "Arbeitsgemeinschaft Erwin von Beckerath" – Müller-Armack was appointed as member of the "Wissenschaftliche Beitrat" (Advisory Council), first to the bizonal Economic Council, later to the ministry of economic affairs – a post he held up to 1966.

Consequently, one cannot really be surprised that in 1952, Müller-Armack was appointed by Erhard to be head of the Central Policy Unit at the Federal Economic Ministry.[62] Up to 1958, Müller-Armack combined this post with his duties as full

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[59] He was born as Alfred Müller. "Armack" is the maiden name of his mother. He started publishing as Müller-Armack in 1930. Cf. on this and on his biography in general: DIETZFELBINGER (1998), *op.cit.*, p.34ff.

[60] Cf. Alfred MÜLLER-ARMACK, Wirtschaftspolitiker zwischen Wissenschaft und Politik, in: Gerhard Schröder et al. (eds.), *Ludwig Erhard. Beiträge zu seiner politischen Biographie. Festschrift zum 75. Geburtstag*, Frankfurt a.M., p.474. In this context, I cannot discuss his (changing) conviction during the Nazi-Regime (which had its inglorious zenith with his booklet "Statsidee und Wirtschaftsordnung im neuen Reich" (The idea of the State and Economic Order in the New Reich) published in 1933). For a comprehensive survey, see Bertram SCHEFOLD, Vom Interventionsstaat zur Sozialen Marktwirtschaft: Der Weg Alfred Müller-Armacks, in: Rolf H. Hasse / Friedrun Quaas (Hg.), *Wirtschaftsordnung und Gesellschaftskonzept. Zur Integrationskraft der Sozialen Marktwirtschaft*, Berlin, Stuttgart, Wien 2002, p.47-87.

[61] Cf. NICHOLLS (1994), p.137.

[62] Cf. to these course of events: Rolf KOWITZ, *Alfred Müller-Armack: Wirtschaftspolitik als Berufung. Zur Entstehungsgeschichte der Sozialen Marktwirtschaft und dem politischen Wirken des Hochschullehrers*, Köln 1998, p.225ff; Bernhard LÖFFLER, *Soziale Marktwirtschaft und administrative Praxis. Das Bundeswirtschaftsministerium unter Ludwig Erhard*, Stuttgart 2002, p.110f and p.223-227; Patricia COMMUN, La contribution d'Alfred Müller-Armack à l'intentiation

professor in Cologne, where he had held a chair since 1950: "In his capacity as Head of the Central Policy Unit, Müller-Armack was involved with all aspects of German, European and international economic policy during the reconstruction phase of the German economy and the reestablishment of the German economic order."[63] In 1958, Müller-Armack was appointed by Erhard as a State Secretary for European Issues and thus became Germany's representative in many European negotiations. After Erhard's election to chancellorship in Autumn 1963, Müller-Armack retired from his political posts and returned to his professorship at the University of Cologne. On March 16, 1978, he died in Cologne.

It is out of doubt that Alfred Müller-Armack's conception of the Social Market Economy is in many points analogous to the ideas of the Freiburg School as well as Erhard's vision. Perhaps the most concise survey on Müller-Armack's agenda is given by himself in his essay "The Social Market Economy as an Economic and Social Order" published in 1978[64], presumably the last essay Alfred Müller-Armack wrote before he died on March 16, 1978. Müller-Armack presents three theses, from which the concept of a Social Market Economy emerges:

> "(1) A meaningful economic policy can be conducted only on the basis of a comprehensive order. No patchwork policy, interfering in the market here and there will work, it inevitably leads to confusion. ...
>
> (2) Mixed systems of economic policy, intend to reach ends by an unsystematic mingling of methods in some type of interventionism, cannot be continued. In regard to such mixed systems, criticism once voiced by Ludwig von Mises, may be entirely justified. They may very well add up weaknesses of the pure systems without maintaining their advantages. ...
>
> (3) The economic policy of the future must be developed on the foundation of a *pure* order idea ... . Whatever anyone may think of the possibility of an exact system of calculation in a centrally-directed economy ...: it is utopian to believe in central control and at the same time to comply to the wishes of consumers. Economic policy, therefore, must be developed on the basis of the other pure order, the market economy."[65]

Müller-Armack's clear pleading for a market economy guided by principles, the refusal of mixed systems of economic policy, the insight that complying with consumer wishes is the goal of the market game and the endorsement of precautions

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d'un ordre économique libéral en Europe de 1958 à 1963, in: Marie-Thérèse Bitsch (dir.), *Le couple France-Allemagne et les institutions européennes. Une postérité pour le plan Schuman?*, Bruxelles 2001, p.172f.

[63] Christian WATRIN, Alfred Müller-Armack – Economic Policy Maker and Sociologist of Religion, in: Peter Koslowski (ed.), *The Theory of Capitalism in the German Economic Tradition. Historism, Ordo-Liberalism, Critical Theory, Solidarism*, Berlin et al. 2000, p.193.

[64] Alfred MÜLLER-ARMACK, The Social Market Economy as an Economic and Social Order, *Review of Social Economy* 36 (1978), p.325-331.

[65] MÜLLER-ARMACK (1978), *op.cit.*, p.326.

against every form of market power, are fundamental ideas, which could be found in a similar manner in Erhard's concept as well as in Eucken's ordoliberalism. These points are the main principles of all thinkers who gave the intellectual background for the Social Market Economy.[66]

But it is the firm conviction of Müller-Armack that the option for a competitive market economy must be amended by some guidelines to a social balance of the whole system: "While accepting the need for competition in principle, one needs also be conscious that it is necessary to be aware of the variety of insights and claims to be attributed to the word 'Social'."[67] In detail, Müller-Armack mentions four aspects that aim at a social compensation of market results:

> "(1) Unlike the advocates of Classical Liberalism, we know that the machinery of competition has certain deficiencies caused by imperfect markets, oligopolies and monopolies. ... Above all, the competitive order requires legal safeguards making sure that the market parties do not destroy it by pushing it into an anti-market direction. ...
>
> (2) The market economy constitutes a machinery oriented towards the satisfaction of consumer wishes, functioning with mathematical accuracy and producing income in response to the requirements of the market. Neither the initial social data entering the market process nor the distribution of income issuing from it need to be in harmony with our social standards and our concepts of justice. ...
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> (3) We know today that the market economy does not sufficiently satisfy certain requirements of social conciliation and security. We should, therefore, strive to build in appropriate stabilizers ... .
>
> (4) The competitive order must be viewed in the framework of society as a whole. ... Only if we succeed in incorporating the individual as a human being in an order of freedom, can we overcome the deep distrust of many towards orders of freedom."[68]

Whereas it is obvious that the first aspect – safeguarding the market by a legal framework and, by this, safeguarding the social benefits of the market game – is identical to the ideas of the other "founding fathers" of the Social Market Economy, it has to be doubted that the remaining three aspects are in line with Erhard's as well as with the Freiburg School's outline for a social policy in a Social Market Economy. Different from the latter, Müller-Armack did not solely put emphasis on the social benefits of a well-functioning and free economic system, guided by some general principles, but he stressed that the free market system must be balanced by additional and subsequent social security measurements, i.e. his idea of "social

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[66] Cf. GROSSEKETTLER (1989), *op.cit.*, p.57-67.

[67] MÜLLER-ARMACK (1978), *op.cit.*, p.326.

[68] MÜLLER-ARMACK (1978), *op.cit.*, p.326f.

compensation."[69] Further more, following Müller-Armack, the whole economic system must be "embedded" into an embracing theory of the social order.

To clarify these differences, I will, in what follows, elucidate the meaning and consequences of these additions of Müller-Armack to the "pristine" concept of the Social Market Economy.

In his preface to the 1965 first edition of "Wirtschaftsordnung und Wirtschaftspolitik" (Economic Order and Economic Policy), Alfred Müller-Armack outlined the concise origin of his idea of a socially sensibly designed market economy:

> "Already during the last years of the war, I gratefully picked up thoughts by Walter Eucken and his circle that aimed at a renewal of competition. The strong emphasis on the competitive order as the means to design economic policy I sure enough always felt to be too narrow. Thus, I additionally called for a system of social and socio-political, yet market-conform measures."[70]

In contrast to Eucken, who seeks an answer to the social question by establishing a functioning competitive order within a principle-guided framework on a constitutional level,[71] Müller-Armack tried to connect the principle of free markets with the idea of social balance in his political-economic concept: "The concept of a social market economy may therefore be defined as a regulative policy which aims to combine, on the basis of a competitive economy, free initiative and social progress."[72] For Müller-Armack, the decision for a "framework of rules" is not sufficient, the outcome of the unrestrained, albeit principle-guided, interaction of competitive forces must be corrected. For Müller-Armack the crucial problem can be formulated in the question "how to bring to a novel balance the diverging objectives

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[69] Cf. Peter KOSLOWSKI, The Social Market Economy: Social Equilibration of Capitalism and Consideration of the Totality of the Economic Order. Notes on Alfred Müller-Armack, in: Peter Koslowski (ed.), *The Social Market Economy. Theory and Ethics of the Economic Order*, Berlin, Heidelberg, New York 1998, p. 81-84.

[70] Alfred MÜLLER-ARMACK, Vorwort (1965), in: Alfred Müller-Armack, *Wirtschaftsordnung und Wirtschaftspolitik*, Bern, Stuttgart 1976, p.10 (my translation).

[71] Cf. EUCKEN (1990), *op.cit.*, p.312ff; Nils GOLDSCHMIDT, *Entstehung und Vermächtnis ordoliberalen Denkens. Walter Eucken und die Notwendigkeit einer kulturellen Ökonomik*, Münster 2002, p.135f. Without doubt, one can also find some specific measurements of social policy in Eucken. For a broader discussion see Heinz LAMPERT, Walter Eucken als Sozialpolitiker. Zur sozialpolitischen Konzeption in Walter Euckens „Grundsätze der Wirtschaftspolitik", in: Frank Schulz-Nieswand (Hg.), *Einzelwissenschaften und Sozialpolitik zwischen Markt und Staat in Industrie- und Entwicklungsländern*, Marburg 2001, p. 181-192.

[72] Alfred MÜLLER-ARMACK, The Meaning of the Social Market Economy, in: Alan Peacock / Hans Willgerodt (eds.), *Germany's Social Market Economy: Origins and Evolution*, London 1989, p.83. Original German version published as: Alfred MÜLLER-ARMACK, Soziale Marktwirtschaft, in: *Handwörterbuch der Sozialwissenschaften*. Band 9, Stuttgart, Tübingen, Göttingen 1956, p.390-392.

of social security and economic freedom."[73] Thus, Müller-Armack emphasised *his* "Social Market Economy" as a dissolution of libertarian and socialist antagonisms with the idea of balancing, equilibration, and compensation. Especially in contrast to the ideas of the Freiburg School, it is not a perspective, which integrates social and economic aspects on a constitutional level, but a dualistic conception with the conflicting objectives of freedom and security. As a result, the areas of economic and social politics tend to be separate fields and become contrasts. Summing up in Hans Otto Lenel's terms:

> "The Ordo-liberals stress the importance for social policy of the greater efficiency of market economies. They wish to realise social policy aims in the first place by shaping and developing an acceptable economic system, thus bringing about an increase and a more equitable distribution of income and wealth, in particular through the effectiveness of competition. Most Ordo-liberals would go further and Alfred Müller-Armack wanted to go further than most of them."[74]

The implication of such reasoning is that on the one hand, to Müller-Armack, social policy is the guideline for the social and humane face of a society and, on the other hand, the market process is the sphere of (individual) freedom. With this approach, one can indicate the dilemma of Müller-Armack's concept of a Social Market Economy: his scheme is based on an economic as well as a sociological pillar;[75] his guiding theme is the synthesis of a "socio-economic imperative."[76]

To understand this "socio-economic imperative" of Müller-Armack one must be aware of the second, above mentioned difference to the "pristine" concept of the Social Market Economy, the idea of an embracing theory of the social order. Without going into details, this idea can be best described by Müller-Armack's term "Social Irenics" as a program "establishing a social concept embracing different creeds and ideologies."[77] "Irenics" – derived from the Greek word "ειρηνη" – means not only peace but holds the idea to conciliate different "drifts" and "beliefs" in a society. It is "an attempt to overcome the existing differences and which sees in the dissolution the essence of preservation and in those differences the elements of a possible

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[73] Alfred MÜLLER-ARMACK, Stil und Ordnung der Sozialen Marktwirtschaft (1952), in: Alfred Müller-Armack, *Wirtschaftsordnung und Wirtschaftspolitik*, Bern, Stuttgart 1976, p.236 (my translation).

[74] Hans Otto LENEL, Evolution of the Social Market Economy, in: Alan Peacock / Hans Willgerodt (eds.), *German Neo-Liberals and the Social Market Economy*, London 1989, p.27.

[75] Cf. Alfred MÜLLER-ARMACK, Das gesellschaftspolitische Leitbild der Sozialen Marktwirtschaft (1962), in: Alfred Müller-Armack, *Wirtschaftsordnung und Wirtschaftspolitik*, Bern, Stuttgart 1976, p.297.

[76] DIETZFELBINGER (1998), *op.cit.*, p.221 (my translation).

[77] Alfred MÜLLER-ARMACK, Social Irenics, in: *Standard Texts on the Social Market Economy. Two Centuries of Discussion*, edited by the Ludwig-Erhard-Stiftung, Stuttgart, New York 1982, p.347. Original German version published as: Alfred MÜLLER-ARMACK, Soziale Irenik, in: *Weltwirtschaftliches Archiv* 64 (1950), p.181-203.

unity."[78] The process of building a social and humane order, as aimed at in Müller-Armack's concept of the Social Market Economy, will bring together the society as a whole – "an integrated society where the theory of the economic order and economic policy is in harmony with its culture and its cultural policy, social policy and other fields of policy."[79] Thus, for Müller-Armack the Social Market Economy was more an economic and social "style" – a concept first developed by the younger Historical School to describe the understanding of the individuality of different economic periods and to combine it with an analysis of the "laws" of the historical development.[80] Following this, the Social Market Economy is viewed as a historical, evolutionary and ongoing process (instead of a clear "bundle" of socio-economic principles as given by Eucken) that must necessarily be structured by "a conscious design of styles."[81] Albeit these considerations of Müller-Armack were based on his sociological studies of religion and his works on economic styles, which he contributed already in the 1940s,[82] Müller-Armack propagated his socio-political approach especially after the normalization of the economic conditions in Germany in the early 1960s.[83] He called for a "second phase" of the Social Market Economy and a "common form of style (*Stilform*) of an economy and society":[84]

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[78] Alfred MÜLLER-ARMACK (1982 [1950]), *op.cit.*, p.347.

[79] Peter KOSLOWSKI, The Theory of Ethical Economy as a Cultural, Ethical, and Historical Economics: Economic Ethics and the Historist Challenge, in: Peter Koslowski (ed.), *Contemporary Economic Ethics and Business Ethics*, Berlin et al. 2000, p.8.

[80] Cf. Betram SCHEFOLD, The German Historical School and the Belief in Ethical Progress, in: F. Neil Brady (ed.), *Ethical Universals in International Business*, Berlin et al. 1996, p.188. For Müller-Armack's roots in the ideas of economic styles and types as developed by the German Historical School see e.g. Makoto TEZUKA, The economic reconstruction plan of Alfred Müller-Armack. What is the Social Market Economy?, in: Yuichi Shionoya (ed.), *The German Historical School. The historical and ethical approach to economics*, London, New York 2001, p.210-213; DIETZFELBINGER (1998), *op.cit.*, p.78-106.

[81] Dieter HASELBACH, *Autoritärer Liberalismus und Soziale Marktwirtschaft. Gesellschaft und Politik im Ordoliberalismus*, Baden-Baden 1991, p.155 (my translation).

[82] See esp. Alfred MÜLLER-ARMACK, *Genealogie der Wirtschafsstile. Die geistesgeschichtlichen Urspünge der Staats- und Wirtschaftsformen bis zum Ausgang des 18. Jahrhundert*, Stuttgart 1940; 3rd ed. 1944.

[83] Like Müller-Armack Erhard too propagated in the early 1960s a cooperation of different groups and the consolidation of interests. His approach was the idea of a "formierte Gesellschaft" (integrated society); cf. Ludwig ERHARD, Our Social Model: an Integrated Society, in: *Standard Texts on the Social Market Economy. Two Centuries of Discussion*, edited by the Ludwig-Erhard-Stiftung, Stuttgart, New York 1982, p.63-80. German version published as: Ludwig ERHARD, Das gesellschaftspolitische Leitbild der Formierten Gesellschaft (1965/66). "Formierte Gesellschaft" was a somewhat unfortunate terminology, because it sounds like "uniform society". To the context of Erhard's idea see e.g. Rainer KLUMP, Soziale Marktwirtschaft: Vom Wirtschaftsordnungsmodell zum sozialen Leitbild?, in: *Historisch-Politische Mitteilungen* 4 (1997), p.229-231.

[84] KOSLOWSKI (1998), *op.cit.*, p.87. Cf. Alfred MÜLLER-ARMACK, Der humane Gehalt der Sozialen Marktwirtschaft (1973), in: Alfred Müller-Armack, *Genealogie der sozialen Marktwirtschaft. Frühschriften und weiterführende Konzepte*, Bern 1982, p.167-175.

> Hence, we can only protect the political and spiritual roots of our free society if we reform its economic and social elements on the broadest possible basis as the manifestation of a specific mental orientation."[85]

Without going into this more closely,[86] one has to be aware that even though Müller-Armack's concept of "Social Irenics" is an embracing approach, it considers economic and social aspects somehow as opponents. The necessity of an embracing theory arises from Müller-Armack's scepticism that a (static) legal-institutional framework would be a sufficient procedure to safeguard economic efficiency and social security at the same time. Rather, he propagates a "meta-constitutional" societal frame to overcome the seeming opponents. Thus, Müller-Armack achieves (solely) "an irenic formula ..., with which we attempt to bring the ideals of justice, freedom, and economic growth into a rational balance."[87] By this, Müller-Armack assigns to the conflicting objectives of freedom and security a "vague" socio-philosophical basis: an antagonism with far-reaching consequences for the dynamics of the welfare state.

5. Conclusion

I cannot discuss the consequences of Müller-Armack's dualistic conception in detail here – I have done this at length in some other contributions.[88] But I am convinced that most of our current economic and social problems are caused by this dualistic

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[85] Alfred MÜLLER-ARMACK, The Second Phase of the Social Market Economy: An Additional Concept of a Humane Economy, in: *Standard Texts on the Social Market Economy. Two Centuries of Discussion*, edited by the Ludwig-Erhard-Stiftung, Stuttgart, New York 1982, p.60. German version published as: Die zweite Phase der Sozialen Marktwirtschaft. Ihre Ergänzung durch das Leitbild einer neuen Gesellschaftspolitik (1960), in: Alfred Müller-Armack, Wirtschaftsordnung und Wirtschaftspolitik, Bern, Stuttgart 1976, p.267-291. Cf. Knut Wolfgang NÖRR, A Symbiosis with Reserve: Social Market Economy and Legal Order in Germany, in: Peter Koslowski (ed.), *The Social Market Economy: Theory and Ethics of the Economic Order*, Berlin, Heidelberg, New York 1998, p. 228-230.

[86] To be sure, it is not only Müller-Armack's "Social Irenics" or Erhard's "integrated society" which seek a combination of economic and social approaches. Such a perspective is prominent in the concepts of Alexander Rüstow, Wilhelm Röpke, Walter Eucken and other protagonists of the Social Market Economy. But, and this is the crux of the matter, it is especially the concept of Müller-Armack, that has not only roots in a normative background, but aims at a specific ethical formation of society by a confrontation of freedom and social security. For a broader discussion see e.g. Jürgen LANGE-VON KULESSA / Andreas RENNER, Die Soziale Marktwirtschaft Alfred Müller-Armacks und der Ordoliberalismus der Freiburger Schule – Zur Unvereinbarkeit zweier Staatsauffassungen, in: *ORDO* 49 (1998), p.79-104; QUAAS (2000), *op.cit.*, p.278-286.

[87] Alfred MÜLLER-ARMACK, Der Moralist und der Ökonom. Zur Frage der Humanisierung der Wirtschaft, in: *ORDO* 21 (1970), p.29 (my translation).

[88] See e.g. Nils GOLDSCHMIDT, Zur Theorie der Sozialpolitik. Implikationen aus ordnungsökonomischer Perspektive, in: Nils Goldschmidt / Michael Wohlgemuth (Hg.), *Die Zukunft der Sozialen Marktwirtschaft. Sozialethische und ordnungsökonomische Grundlagen*, Tübingen 2004, p.63-95; Gerold BLÜMLE / Nils GOLDSCHMIDT, Sozialpolitik mit dem Markt. Sozialstaatliche Begründung und wirtschaftliche Ordnung, forthcoming in: *Die Neue Ordnung* 58 (2004).

conception. The social and the economic sphere seem to be opponents. It is the (wrong) belief that more social justice necessarily means less economic efficiency.
Let me conclude with some considerations aiming to overcome this perspective by formulating some ideas for a theoretical reconstruction of the Social Market Economy.

The theoretical basis for a modern version of the Social Market Economy should be the concept of "Ordnungsökonomik" in connection with Constitutional Economics. In distinction to "orthodox" economics, Ordnungsökonomik – in the tradition of Walter Eucken and the Freiburg School – analyzes not only the individual (economic) behavior but aims at the analysis and explication of different sets of rules.[89] The focus is on the search for social rules that lead to gains from joint commitment. Consequently, the design of a specific legal-institutional "framework" is the main task for the continuing process of updating the concept of the Social Market Economy. That means: if the state and its social and economic arrangements should not be the servant to individuals and groups' privileges, it is indispensable that a Social Market Economy reflects again and again the "Status quo" of a society. A vital Social Market Economy should reflect historical developments as well as the current situation. By this, it is – in the tradition of the Historical School and Müller-Armack – a theory of specific historical economic styles, yet not as a mere measure of description but as well as a realistic, systematic and institutional concept of economics aiming at the design of social arrangements. The inclusion of the individual in the economic and social system as the main focus of politics (that means neither the protection against competition and the "game of catallaxy" (Hayek), nor the subordination under market processes) leads to a Social Market Economy that can be understood as real Social Market Liberalism.

[89] See e.g. Viktor VANBERG, 'Ordnungstheorie' as Constitutional Economics – The German Conception of a 'Social Market Economy', in: *ORDO* 39 (1988); Viktor VANBERG, Soziale Sicherheit, Müller-Armacks "Soziale Irenik" und die ordoliberale Perspektive, in: Rolf H. Hasse / Friedrun Quaas (Hg.), *Wirtschaftsordnung und Gesellschaftskonzept. Zur Integrationskraft der Sozialen Marktwirtschaft*, Berlin, Stuttgart, Wien 2002, p.227-260.

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