

RENAISSANCE OF THE SOCIAL MARKET ECONOMY

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Background. The social market economy was an episode in the history of capitalism. It dominated at the end of the Second World War to the end of the 1970s everywhere in the developed world, in the US (“New Deal,” “Great Society”) and in Germany (“Rhine capitalism”).

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What was the Social Market Economy?

The social market economy was marked by a broad sharing in the high economic growth. It was the time of the “great compression,” the reduction of former income disparities and wealth concentrations. Lower incomes grew [stronger than higher incomes](#). Employees with average qualifications had good earnings too. Jobs were stable, offered opportunities for advancement and gave a feeling of security. All this was brought about by a complex mix of regulations on the one hand and the establishment and development of social security systems on the other hand. Regulations always tame the market’s dynamics. The Institute of Labor Law has a moderating effect. Certain restrictions as to working hours, continued pay in case of sickness and protection from unlawful dismissals make the economy social. At the same time, global markets were [not nearly as open](#) as today. This gave entrepreneurs and managers the leeway for [acting responsibly](#). The predominant spirit was to find a fair balance between conflicting claims. The economy was palpably “embedded” in the social values of fairness and meaningfulness (Karl Polanyi, Wilhelm Röpke).

The Regime of Neoliberalism

Bit by bit, all this came to an end with the neoliberal revolution that began everywhere around the year 1980. Market logic should now govern in all situations of life. Previous

market regulations should be dismantled or adjusted in a market-conforming way. Capital should now be “courted” since capital creates jobs (Hans-Werner Sinn). Correspondingly, the profit share in national income rose, and the [labor share fell](#) correspondingly. Wealth also grew disproportionately in relation to economic output, mostly accruing to the top one percent. Polarization of incomes also increased among employees. The share of mid-level incomes fell everywhere (“[middle class squeeze](#)”). New jobs are compensated [either very well or miserably](#).

Within businesses, the spirit of moderation and balance evaporates in favor of profitability extremism. With every fiber, businesses are now oriented in maximizing shareholder value. Businesses act consistently [opportunistically](#) toward social claims. In the study of economics, the up-and-coming generation is told anything else would be irrational. Morality is downgraded to one preference alongside others. Together with dismantling the social security systems, the profitability extremism that spreads through competition ensures that jobs and employment prospects will be precarious. Status anxiety increases. Employees see themselves thrown back on themselves since moderation cannot be expected of businesses and the social systems cushion the consequences of market dynamics far less than in the past. Responsibility for any deterioration of one’s economic situation is regarded as a matter of self-responsibility. Life becomes a permanent investment in one’s “human capital,” approached as far-sighted as possible in order to keep the risk of falling into poverty as low as possible. Education is transformed into human capital formation. The seemingly self-initiated economization of one’s lifestyle is joined to the politically-driven economization of living conditions through privatization and deregulation.

Competitiveness becomes the guiding star of all politics. “Market-conforming democracy” (Angela Merkel) abandons political freedom in favor of an already pre-decided goal: the competitiveness of the community degraded to a “location” to invest or to divest.

Like a business, the [competition state](#), in order to appropriate global purchasing power, seeks to make itself attractive for capital circulating globally and always ready to leave any less profitable location. Germany succeeds in this to a great extent. Since purchasing power is low in Germany because of “wage moderation” and the developed low-wage sector, purchasing power is sought abroad where unemployment is thereby exported, taking away the income streams which accrued to the workers now dismissed. The constant balance of payments surpluses mean that foreign countries must become indebted to Germany if they do not want to shrivel. Though income polarization in Germany largely came to a halt around 2005, this is at the expense of foreign countries.

Taming and Cushioning

Beyond the inconceivable vision of the absence of market interactions, there is only one alternative to the neoliberal program of transforming society into a market society, the alternative of a social market economy. This is a paradigm, not a concrete political

program. So there is room for different forms and more or less far reaching programs. A social market economy is based on two political pillars:

- (1) taming the market dynamics via regulation and
- (2) mitigating its consequences in distribution policy.
- (3) The development and care of an economic culture of moderation and fairness in dealing with one another forms the third, the cultural pillar of taming and civilizing market interactions.

The first prerequisite of revitalizing a social market economy is delegitimizing economism, the justification of the authority of the market principle that still dominates economic faculties. This is important because the experts who ultimately [have the say](#) in setting the direction in politics are educated there. Establishing genuine plurality within economics is vital for an economic policy towards a truly social market economy.

The mix between redistribution and regulation is one of the core questions of the renaissance of a social market economy. Concentrating on redistributive measures alone, but giving market dynamics free rein in all other respects, will mitigate the consequences of the growing competitive pressure for those affected. But tax competition and the freedom of capital transactions make financing the social security systems doubtful. Even more, redistribute measures could act like an economic program for foreign countries and further erode the financing basis of the welfare state. For this reason, practically all sections of the political spectrum have adopted the neoliberal program of courting capital and of establishing the competition state as the regime without alternative.

A revival of the social market economy seems impossible with completely open markets, that is under the auspices of “hyper-globalization” (Dani Rodrik). The Damocles sword of the withdrawal of capital and the displacement of local employees by import competition threatens any regulative measure that is not “market compliant” and any social policy that does not serve the competitiveness of the country, its inhabitants and the domiciled firms. Globally coordinated [competitive disarmament agreements](#) and an end to the economic world war for the world’s purchasing power offer a way out. Only then, democratic nation states could regain its sovereignty to determine autonomously the extent to which market logic should prevail.