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Principles of the “Social Market Economy” (December 19, 1962)

Professor Alfred Müller-Armack, state secretary in the economics ministry and one of Ludwig Erhard’s chief advisors, coined the term “Social Market Economy” back in 1946. While based on the principles of market economics, the Social Market Economy was not laissez-faire capitalism. Rather, as Müller-Armack argues in the speech below, it was a social and economic order built on the foundation of free competition *and* a concern for social welfare. He describes it as the foundation of the “Economic Miracle” of the 1950s but argues that the time had come for the Social Market Economy to move into its second phase – one in which sociopolitical objectives would be given more prominence. Economic policy, he notes, would not be given less significance, however. Here, he emphasizes the importance of monetary policy in increasing wealth.

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### **The Sociopolitical Model of the Social Market Economy**

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II.

The Social Market Economy is a social and economic system. Major political decisions are not affected by it; but since a substantial part of our life is involved in economic and social relationships, it also has political significance. The whole world is in a state of tension between East and West. Within this framework, which is fixed by nuclear deterrents on both sides, the possibilities for action by the free West are limited. Thus the deliberate assertion of its inherent form of freedom is all the more important. To be sure, the Social Market Economy cannot and should not serve as a counter-ideology; nevertheless, it is a formula under which the West’s self-conception can assume an appropriate form. If we aim at deliberately safeguarding our way of life against the East, then it is not enough to act pragmatically in this or that way; instead, it is necessary to consciously shape our way of life in accordance with a guiding model. As far as I can tell, there are presently only two such models capable of demonstrating the power of the West to assume new forms as compared to the East: European Integration and the Social Market Economy. The free West needs integrating ideas as an answer to the challenge from the East to offer a better solution to social problems. Anyone in the West who fails to make the guiding model as clear as possible and pursues mere day-to-day politics instead will prove no match for the East. Nothing will deal a harder blow to the ideology-driven thinking of the East

than the clear ability of the West to find better, more humane, freer, and more socially-minded solutions to the challenges of life in today's world. The East's reaction to the progress of the European Economic Community, which is gradually being recognized as a new established fact, shows what options will exist if we continue to clarify the ideas behind our way of life in our own minds as well.

III.

My attempt to clarify the idea of the Social Market Economy begins with the question: What is the Social Market Economy? This question might seem too broad, but it is necessary for an understanding of this system. Little is gained from using the linguistic formulation as a point of departure and defining it as "a free market economy with socially-minded goals and opportunities." This combination of words came as a surprise when the term Social Market Economy was coined in 1946, at a time when economic steering and dirigisme were asserting their monopoly on social security and when it seemed paradoxical to see, in a market economy that had been deliberately dismantled over the course of a decade for social reasons, a better system for the broad masses as well. Meanwhile, it has long been recognized that a deliberately structured market economy safeguarded by a system of competition can offer a better guarantee of social progress, especially through the deliberate organization of interventions in keeping with the market. It has also been recognized that the redistribution of income in government budgets can allow social progress to occur all the more effectively on the basis of a free [economic] system, as progress in competition forms the economic basis of social intervention. Thus, the Social Market Economy does not mean renouncing social and sociopolitical intervention. A fully valid system of economic policy could be organized while completely maintaining its coordination with the market economy, whose essential needs are to be taken into consideration.

Confusion has arisen as a result of its similarity to neoliberalism. Therefore, it is not surprising, but still totally incorrect, that, for instance, the Dominican priest Father Nawroth viewed the Social Market Economy as a mere variant of neoliberalism in his comprehensive analysis of the philosophical foundations of the new liberalism.<sup>1</sup> The similarity to neoliberalism need not be denied; we owe it countless important impulses, but whereas neoliberalism views the machinery of competition as the sole principle of organization, the idea of the Social Market Economy finds its roots elsewhere. Those roots lie in the dynamic theory developed in the 1920s, in the philosophical anthropology of the 1920s, in a different view of the state, and in the further development of the concept of a style, which is usually rejected by neoliberalism. The coordinated functions of the Social Market Economy do not lie exclusively in the mechanical rules of competition. The organizational principles relate to the state and society, both of which

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<sup>1</sup> Egon Edgar Nawroth, *Die Sozial- und Wirtschaftsphilosophie des Neoliberalismus* (Sammlung Politea series, publications of the International Institute for Social Sciences and Politics, University of Freiburg, Switzerland, ed. F. A. Utz, vol. 14). Heidelberg: Löwen, 1961.

express their value norms and responsibilities in the overall system of the Social Market Economy.

The Social Market Economy is not exclusively a theory of competition. It may best be described as a stylistic concept, in the sense that the Social Market Economy seeks a stylistic coordination between the spheres of life represented by the market, the state, and social groups. Its approach is thus as much sociological as economic, as much static as dynamic. It is a dialectical concept in which social objectives are given as much weight as economic ones; it therefore combines economic and social policies in one.

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Let us take a closer look at this. Our society is an entity in which some groups strive more for freedom and others more for social security, an entity in which all are interested in growth, but only to the extent that their private milieu is not disturbed too much. As is often the case in monetary and foreign trade theory, we might also speak of a magic triangle whose corners represent the goals of personal freedom, economic and social security, and growth. In the past, these opposing goals have given rise to situation of social conflict because each tried to assert itself at the expense of others. This led to extreme forms of radical liberal or radical interventionist social goals but also to the escape route of rigid adherence to inherited forms or to an unsystematic mixture of all principles, as in interventionism.

The Social Market Economy is not a philosophy about the fundamental values of our society. It leaves that to the system of norms by which judgments are made from a religious or philosophical perspective. Instead, it is an irenic notion of order, a strategic idea within the conflict of different goals and perspectives. It is a stylistic formula through which an attempt is made to bring the essential goals of our free society into a new practical balance that has never before been realized in the course of history.

Experience has shown that this goal, self-evident though it may seem, requires quite a subtle understanding of an order; and this is what the Social Market Economy should bring about. Thus the Social Market Economy is an integration formula that tries to lead the essential forces in our modern society to true cooperation. This situation of tension in society cannot be viewed as a static tension that can be solved through a one-time coupling of market economy and society security. The state of tension and conflict in our society is of course subject to change over time and requires that the respective strategic formulas for this irenic balance be continually sought anew so that they are up to their task. The Social Market Economy is therefore a strategy within the social arena. Whether it proves successful and attains its goal will never be determined precisely; rather, it will only become apparent in the ongoing process of resolving those internal conflicts of our society that we must face as reality. In the initial phase of its existence, the Social Market Economy, I believe, has resolved the issue of easing tensions in Central Europe and radiated its political effects outward. No longer challenged from within or without, it can now face the tasks of the future.

The essence of the Social Market Economy lies in producing – beyond restorative policies that conserve the past, or social dirigisme, which withers a society's free initiative, or an undirected, uncontrolled market mechanism – a social solution in which all goals are brought into the most realistic possible balance. It is an irenic formula, not a utopian approach that tackles social problems from any side through power, intervention, dirigisme, conservatism, or the belief in a harmony that can be mechanically implemented.

The integration formula of the Social Market Economy as such is generally applicable. But it exists and gains its fruitfulness within the situation of our modern society. Its situation is determined by the fact that the speed of our progress in all areas of production, which technology has accelerated beyond comparison, and a mass society that is both mobilized and threatened by this development, are pressing for a balance within the framework of a free world. The value of this formula is confirmed by our experience that it is fundamentally possible to stabilize modern mass society through the channels of a free order in such a way. Not only will the upheaval of modern development be made tolerable for mass society; at the same time, society will also be able to share in the successes of this development as a whole. As an irenic formula, as a stylistic unity, the Social Market Economy not only encompasses an economic order coordinated by the market; the adjective “social” also indicates that this order pursues sociopolitical objectives. The significance of this sociopolitical side has not yet become very clear in this initial phase of the creation of the Social Market Economy. People were surprised to discover the social effects of the functioning of a competitive order and were otherwise content with a narrower interpretation of the word “social,” in the sense of older social policies as aid for certain disadvantaged social strata. I think it is now time to give more attention to the social policy goals of the Social Market Economy.

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In discussions within our own circles and among the wider German public, we must proceed from the fact that the Social Market Economy, after a phase in which it expressed itself in the economic reconstruction of our country, in an undreamt-of push in the direction of a higher standard of living, and in the improvement of social conditions, is now entering into a second phase, in which it must continue everything that has been started, but also give a new accent to everything. It is my conviction that we should try, with careful intellectual preparation, to embark upon a second phase of the Social Market Economy, in which the sociopolitical task should be given emphasis, insofar as the economic problems seem to be solved or solvable in the growth of the coming years.

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## VIII.

If we correctly analyze the factors of our present situation, it seems to me that as the Social Market Economy enters into its second phase we will not be able to avoid viewing it more comprehensively in a sociopolitical sense. This has nothing to do with a personal craving for innovation; rather it stems from the observation that past motivations, in particular overcoming shortages and pure growth, are losing their significance. Our very success makes much of what has been achieved seem self-evident. The centrifugal forces in our society are clearly gaining strength in our situation of prosperity, and they are calling for additional efforts to integrate our social system. The democratization of consumer options and the concurrence of the basic interests of almost all groups with overall growth, as experience shows us, offer a basis upon which such policies can be pursued. I have pointed out the practical problems of such social policy in my article "Social Market Economy, Part II." I need to refer to this here. In August of last year, the economic policy committee of the CDU published thirty-six theses on economic and social policy, which seek to make more specific statements along the lines of this idea. It is important, however, not to let the idea of a fundamentally new order for our Social Market Economy get lost in the details at the very beginning. Details are important, but at the beginning the basic intellectual decision must be made as to whether we want to act with a view to establishing a harmonious structure for our society, or whether economic policy will seek its cure in amending laws and day-to-day politics.

I am not demanding that we shift the emphasis to general sociopolitical measures and thereby assign less significance to economic policy. Any economic policy conducted under the rubric of an economic system will at the same time invariably be a social policy. I need only refer to monetary policy here. Currency stability is an excellent means of creating stability in our society. Creeping inflation will cast new doubts on all efforts to create wealth, if, through currency depreciation, a mostly invisible but undeniable decrease in wealth counteracts it.

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## IX.

If a sociopolitical strategy is a serious aim, it is necessary to rethink all other areas of our modern policy on this basis. In social policy, this means, on the one hand, taking the steps required by a social policy directed at all social strata, and, on the other hand, trying to give the individual more self-responsibility in certain areas, at least to some extent, to make sure that social assistance is concentrated on those who really need it. Simply expanding social protection, while overlooking or neglecting the economic changes that have occurred in the meantime, is not an up-to-date solution. I can only briefly touch on this subject here; time constraints prevent me from going into greater detail.

The clear continuation of our competition policies, which in a few years will have to be established on the basis of the Common Market anyway, must be advanced. Here, too, the construction of statically conceived competitive order, such as that upon which the concept of neoliberalism is based, needs to go hand-in-hand with the insight that, in an economy that is dynamically reordering itself – already through the Common Market – the simple principle of insisting on a formal competitive order is not enough. Location changes and shifts in focus, which await essential sectors of our production in the expanding markets of the EEC and in the Atlantic cooperation that is getting under way, cannot be mastered without a certain amount of adaptive intervention. Here, it is a matter of asserting the principle of the free competitive economy, but at the same time giving out temporary start-up assistance and aid adaptation, which need not burden the conscience of the market economists so long as they are moving toward their final goal of a free market.

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Source: Alfred Müller-Armack, "Das gesellschaftspolitische Leitbild der Sozialen Marktwirtschaft" ["The Sociopolitical Model of the Social Market Economy"], in *Bulletin* (Press and Information Office of the Federal Government), no. 234, December 19, 1962, pp. 1989-91; no. 235, December 20, 1962, pp. 1997-99; and no. 236, December 21, 1962, pp. 2003-04.

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