

# Ordoliberalism and the Social Market Economy\*

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Text reviewed: Ralf Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft. Stationen des Neoliberalismus in Deutschland*, Leske + Budrich, Opladen 2004, 333S.

The modern market economy which we seek to build should have a decidedly social constitution. Its social character is based primarily on the fact that it is able to offer a greater and more varied quantity of goods at prices determined by the demands of the consumer, the resulting low prices raising the real value of wages and thereby permitting a greater and more extensive satisfaction of human needs.<sup>1)</sup>

Müller-Armack is generally credited with minting the term “Social Market Economy” late in 1947.<sup>2)</sup> By May 1948 he had elaborated the term to cover a range of measures involving worker participation, competition policy, macroeconomic policy and social policy which, taken together, can be recognised today as a blueprint for the economic order constructed in post-war Germany.<sup>3)</sup> The precise intellectual content of the term remains vague however. The idea that the modern market economy should have a social framework was hardly a novelty by the later 1940s. Moreover, the manner in which he here explains its social character is decidedly odd, linking this “social character” to an entirely economic understanding of human existence. This points to a wider issue: what sort of “liberalism” is that of Ordoliberalism which, from the early 1950s,

was thought to provide the theoretico-ideological foundation for the Social Market Economy?

Liberalism comes in varieties, and is situationally defined – “liberal” is liberal with respect to a given or perceived politico-economic order, in much the same way as “conservative” is. Espousal of “economic liberalism” does not imply adherence to “political liberalism” – as we shall see, proponents of free markets can be politically authoritarian by inclination.<sup>4)</sup> In the early 1950s Rustow associated the Social Market Economy with “so-called neoliberalism”; by contrast, during the 1990s the Social Market Economy came to be the counterconcept of neoliberalism, the last line of defence against individualism, deregulation, privatisation and free competition. In turn German Neoliberals attacked this version of the social market economy as

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a form of “market-oriented socialism” (Ptak 2004, 10-11). We cannot therefore “define” ordoliberalism or neoliberalism without also referring to a specific discursive context which lends them any one particular meaning.

We should therefore note the malleability of these terms, and consider instead what it means for individuals or a group to define themselves as “liberal,” or be so identified by others. In an earlier study of the social market economy (Tribe 1995, Ch.8) I drew attention to the absence of a distinct and coherent theoretical framework with whose aid we could unambiguously identify the social market economics of the early 1950s. Insofar as a definite theoretical framework for the Social Market Economy can be identified, this is generally attributed to the writings of Walter Eucken, Professor of Economics in Freiburg from 1927 until his death in 1950, together with those of his Freiburg colleagues during this period. In addition, the writings of Böhm, Müller-Armack and Röpke are clearly linked to those of the Freiburg Circle; what unites them however is not the idea of a “social market” as such, but a conception that the modern economy is dominated by a problem of “order” and requires “guidance.”<sup>5)</sup> Neither the centrally-managed economy on the one hand, nor laissez-faire liberalism on the other, offered adequate and sustainable resolutions for this problem; instead a third way was required, and it was here that the conception of a “social market economy” took root. The credo for this movement was articulated in 1937 with the foundation of the publication series “Schriftenreihe Ordnung der Wirtschaft.”<sup>6)</sup> It was reiterated in 1948 with the foundation of the yearbook *Ordo*. Hence also the label “Ordoliberal” as a self-description

of those who identified with this journal.

The great majority of the Freiburg Circle’s articles and books were published during the Nazi period, and the unpublished discussion papers were mostly produced during the war. It has become customary to associate this work with the wartime resistance to Nazism, partly because it is assumed that any discussion of a post-war order was tantamount to the expression of doubt in a German victory – certainly a capital offence.<sup>7)</sup> But Ptak shows this assumption to be inexact.<sup>8)</sup> Eucken’s *Grundlagen der Nationalökonomie* was first published in 1940 and was praised at the time as providing the concepts for a “new German economics” (Ptak 2004, 65). A third edition was published in 1943. Eucken’s student, Leonhard Miksch, author of *Wettbewerb als Aufgabe*, Heft 4 in the *Schriftenreihe Ordnung der Wirtschaft*, wrote many articles during the war for the journal *Wirtschaftskurve*, the explicit aim of the articles being to improve the understanding, formulation and implementation of official policy. Müller-Armack was himself a member of the NSDAP and advised on the economic reorganisation of the eastern “economic space” created by the elimination of Poland and the invasion of the Soviet Union. Those like Ludwig Erhard who contributed in 1943 and 1944 to discussion of the postwar economic order organised through the Reichswirtschaftsministerium openly articulated arguments very similar to those that can be found in the Freiburg discussion papers of the time. Ptak demonstrates that the substance of the Freiburg Circle’s deliberations were not thought especially subversive by the regime, and that many of its ideas entered into official discussion of Germany’s post-war order.

The main reason for this was the widespread view among Nazis that economics

was not very important, and in any case quite subordinate to considerations of Party or Party politics. As far as individuals and their views went, so long as the regime was not openly criticised there was some considerable margin for discussion of economic policy and theory, there being no set Party line on economic matters. Second, in the field of policy there was a thoroughgoing pragmatism; if “market forces” could achieve political objectives, then so much the better. In both respects Nazi Germany and Soviet Russia were absolutely distinct regimes. Ptak shows therefore that, firstly, discussion among German economists was largely tolerated by the regime, that it was not in itself seen as oppositional activity;<sup>9)</sup> and secondly, that the regime was in some areas receptive to advice from academics on economic matters. And as will become apparent, the Nazi regime did present to Ordoliberalism the kind of “strong state” which they sought and for which they argued.

Today Ordoliberalism can be seen to have adopted a position that in France would have placed them at best as representatives of Vichy, at worst as collaborators – certainly not linked to the Resistance. While not denying the personal hardship and suffering of some individuals,<sup>10)</sup> we need to be clear whether this was a direct consequence of the economic ideas they held, or for some other reason. A clearer perspective upon the personal and public politics of the Freiburg circle is gained if we consider some aspects of Constantin von Dietze’s career.<sup>11)</sup> Born in the east, completing his *Habilitation* on the eastern rural labour problem in 1922, he later thought his appointment as Sering’s successor to the Berlin chair of agrarian economics in April 1933 was owed to the suppression of social democracy by the Nazis. As he later

wrote,

The National Socialists certainly appealed to entirely honourable conceptions and views, as in their struggle against the humiliating and disgraceful terms of the Versailles *Diktat*, and they had here success previously denied to their predecessors. They could also show laudable achievements in the eradication of unemployment and their social policy in general.<sup>12)</sup>

But he quickly came into conflict with a régime he had initially been prepared to tolerate, and which had given him the Berlin chair. As Chairman of the *Verein für Socialpolitik* he opposed its forcible dissolution in 1935 and in the following year was officially barred from teaching. Then in 1937 he was imprisoned for his opposition to official church policy. And this last point lends us a new insight into the culture of Freiburg in the later 1930s. What bound many Freiburg academics together was their Protestant faith and opposition to the attempt by “German Christians” to subordinate church congregations to their cultural objectives. It was the attack on their church that led Freiburg economists into oppositional groupings, not the Aryanisation of the universities decreed in April 1933, nor the installation of Heidegger as Rektor in the autumn of 1933, with his new mission statement for the University: *Arbeitsdienst, Wehrdienst und Wissensdienst*. Politically, these academics were National Conservatives, not National Socialists: opponents of Weimar, critics of Versailles, but monarchists, not democrats, and hence immune to the *völkisch* socialism of the Nazis.

Hence it was not the substance of their economics that expressed and fostered the opposition of members of the Freiburg Circle

to the Nazi régime, but their Christian faith and conservative ideology. There was nothing very “liberal” about this in contemporary terms. To keep a sense of proportion in these matters we should always remember that both Keynes and Beveridge were aligned with the British Liberal Party, not with the Labour and certainly not with the Conservative Party; culturally, ideologically, politically, there was little common ground between these architects of post-war Britain and the contemporary Ordoliberal perspective.

The work of the Freiburg economists is “liberal” only in the very limited sense that they believed that the welfare of the population flowed from the efficiency with which the economy was managed. Politics and cultural liberals they were not; and more “economistic” than “economic” liberals in their apprehension of welfare and policy. This precept is not borne of wartime conditions, such that it could be contended that their arguments for a free market economy represented at the time covert criticism of Nazi policy. The conception of welfare and economic efficiency that Müller-Armack articulates in the epigraph to this essay became a routine post-war statement of social market principles, but it was not one that had been unequivocally expressed as such before 1945. However, the instrumental conception of the economy expressed here was underscored by two features of the joint statement of intent drafted by the editors of the *Schriftenreihe* in 1937, hence establishing a continuity from pre- to post-war Germany.<sup>13)</sup> The first was the idea that academics were “independent of economic interests” and that their recommendations represented “objective judgements” offered to a “strong state.” Economists were, in this view, experts capable of providing the government of the day with impartial advice

on the formulation and execution of policy. Secondly, such advisers favoured a strong government capable of clearly forming and effectively implementing policy, if necessary against the immediate wishes of a population who did not necessarily understand the wisdom of any given measure. “Understanding” thus here has two surfaces: policy-makers should understand the impartiality and technical propriety of the advice they were given; subject populations should understand that any given policy was impartial and accept it without argument. In no respect is the promotion of informed public debate on the ends and means of public policy part of this understanding of economy and polity: “ordoliberals” are not republicans in the classical sense.

Nor, strictly, are they neoliberals in a Hayekian mould, for Hayek’s *Road to Serfdom* invoked the classical nineteenth century vision of a minimal state and free economy. Ordoliberals were not attracted to this idea of a minimal state, since it was not capable of sustaining the regulatory framework that competition in a free market required if monopolistic tendencies were to be subdued.<sup>14)</sup> In this respect at least they embraced a more “modern” conception of the twentieth century polity than that of Hayek, in recognising that there was no way back to this vision.<sup>15)</sup> The foundation of the Mont Pelerin Society in 1947 created an international forum for “liberal” ideologues, but little common ground on the nature of state and economy in the second half of the twentieth century.

Ptak has a rare mastery of the German original literature as well as of the extensive commentary that continues to propagate various myths associated with Ordoliberalism and the Freiburg Circle. The strength of his book lies in its clear focus on German writings, eschewing comparison with other

liberal commentators then and since. It is unlikely that it would ever become available in another language precisely because of the way that he demolishes one cherished myth after another regarding Ordoliberalism, the social market economy, and postwar German policy. In this review essay I have sought to direct the reader's attention to a wider dimension; for if "neoliberalism" is today a target of frequent criticism, the most basic assumption of this criticism is that neoliberalism is a coherent and relatively homogenous international phenomenon. Ptak's approach destroys much of the mythology that has grown up around the idea of the Social Market, and the claims made for its realisation in the German context. This in turn opens the way for a critical reassessment of the idea that neoliberalism was a phenomenon born of the Cold War era.

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### Notes

- 1) A. Müller-Armack, "Vorschläge zur Verwirklichung der Sozialen Marktwirtschaft" (Müller-Armack 1974, 99). Dated May 1948 and published by Volkswirtschaftliche Gesellschaft, Hamburg.
- 2) He is thought to have first used it in the course of a report to the Chambers of Industry and Commerce of Nordrhein-Westfalen – reprinted in Müller-Armack 1974, 59–65. It has been suggested that Müller-Armack borrowed the concept from discussion papers prepared in 1944 for the Reichswirtschaftsministerium, or that his papers contain drafts written during the late wartime period in which his later views were sketched. Evidence for both of these views is scanty. What is certain is that during September 1947 Harold Rasch wrote the fourth chapter of his 1948 book *Grundfragen der Wirtschaftsverfassung* and gave it the title "Grundzüge einer sozialen Marktwirtschaft" – see Ptak 2004, 208–09. This rather suggests that while Müller-Armack may have been the first to publicly use the term, his usage related to an idea that was certainly not novel.
- 3) These measures are enumerated below.
- 4) Hence the title of one of the best discussions of Ordoliberalism, Dieter Haselbach's *Autoritärer Liberalismus und Soziale Marktwirtschaft. Gesellschaft und Politik im Ordoliberalismus*, Nomos Verlag, Baden Baden 1991.
- 5) The first is the *Ordnungsproblem*, the second the *Lenkungsproblem*.
- 6) The first in the series was Franz Böhm's *Die Ordnung der Wirtschaft als geschichtliche Aufgabe und rechtsschöpfende Leistung*; the series was edited by Böhm, Eucken and Großmann-Doerth.
- 7) The *Volksgerichtshof* handed down 1192 death sentences in 1942, 1662 in 1943, and 2097 in 1944. Many of these offences involved simple expression of doubt in a German war victory. For example, in July 1942 a miner showed a tram conductor a leaflet dropped the previous night in a British air-raid and suggested that everything in it was true. For this he was sentenced to death (Hillermeier 1980, 35; 62).
- 8) The linkage of the Circle to the wartime opposition is the theme of a recent publication arising out of the commemoration of the July 1944 plot to assassinate Hitler. See Goldschmidt 2005. This book was published as No. 48 in the series *Untersuchungen zur Ordnungstheorie und Ordnungspolitik* of the Walter Eucken Institut.
- 9) From 1941 Erwin von Beckerath directed Klasse IV, "Gruppe Wirtschaftswissenschaft zur Erforschung der völkischen Wirtschaft" of the *Akademie für Deutsches Recht*. When this was dissolved as "peripheral to the war effort" in 1943 discussion shifted from a public to a private domain, but there was nothing especially oppositional about continuing discussions of economic policy that had hitherto received official sponsorship.
- 10) Apart from Jens Jessen who was executed after the July Plot, Adolf Lampe suffered doubly through imprisonment first by the Gestapo, and then after the war by the

French.

- 11) See Detlef J. Blesgen, “‘Widerstehet dem Teufel’ – Ökonomie, Protestantismus und politischer Widerstand bei Constantin von Dietze (1891-1973),” in Goldschmidt 2005, 67-90.
- 12) Dietze, from his 1980 *Pflicht im Widerstreit der Verpflichtungen*, p. 11, cited by Blesgen (Goldschmidt 2005, 71).
- 13) Cited at length in Tribe 1995, 210.
- 14) It is worth reminding the reader that the only European economy with a competition policy (in the modern sense) during the 1950s was the United Kingdom. Germany did establish a Cartel Office shortly before the Treaty of Rome came into effect (the only signatory to have any such institution) but its impact was negligible compared to that of the Restrictive Practices Court in the UK.
- 15) If Britain is conceived as the archetype of this liberal vision of the minimal state (à la Spencer), it needs to be born in mind that the nineteenth-century British state was “small” in the domestic context only; so far as Indians or Africans or Australians were concerned, the British state was certainly not small or weak. As far as domestic policy went, the lack of state activity for most of the nineteenth century can be attributed to

the after-effects of financing a succession of wars in the eighteenth century; while towards the end of the century the Navy consumed a considerable proportion of public expenditure.

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