

# Catholic Social Teaching as a Pillar of Social Market Economy

Ursula Nothelle-Wildfeuer\*

*Albert-Ludwigs-Universität Freiburg, Freiburg im Breisgau, Germany*

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**Abstract:** This paper presents different historical and systematical approaches to point out the relationship between Catholic social teaching and social market economy. A fundamental connection between Catholic social teaching, ordoliberalism, and the market order is given in more detail. It becomes clear that not every form of capitalism is suitable for Catholic social teaching. However, the so-called “Rhenish capitalism”, i.e., social market economy, is the form of market economy that best coincides with the criteria of Catholic social teaching. This paper examines the anthropological and ethical foundations of the economic order in a detailed manner, especially of the economic order, especially the fundamental value of freedom as well as the notion of social justice by taking into account the importance of an ethos and an institutional framework. The idea of social market economy has to face current challenges and future perspectives which prove that – from an ethical point of view – the center of this discussion is the question of ineluctable standards of humanity and justice.

**Keywords:** *Social market economy • Catholic social teaching • Christian social ethics • Social justice • Freedom • Institutional framework • Ethos • Values • Anthropological and ethical foundation*

## 1. Introduction

“Such an economy kills” – cutting words from Pope Francis, whose words usually find people’s approval (or maybe especially) beyond the Roman Catholic Church. Such harsh criticism of capitalism in his first apostolic letter *Evangelii Gaudium* in November 2013, however, certainly goes too far for many people; even benevolent economic experts, in particular of Western European origin, are alienated. The fact that his statement does not seem to be a faux pas, painstakingly corrected by the Vatican’s press spokesperson in the aftermath, but the current Pope’s marked and clearly defined position becomes obvious when repeated by him in a similar manner (even when his follow-up statements are certainly more nuanced).

If we take the Pope’s harsh statement seriously, does the theme of this paper, articulated not as a question but as a declarative sentence, stand in contradiction

to the Pope’s statements? Is it possible that there might be a convergence between the author’s theme and the Pope’s statement?

There are two lines of argument to respond to this question: a historical line tracing the interesting development of social market economy, which has developed from different sources and a systematic line reflecting about the fundamental interaction of the economy and (Christian) ethics or, more precisely, of the fundamental values of Christian social ethics and the concept of social market economy. The article attempts to take both lines of argument into account by weaving them together where suitable.

The author’s argument proceeds as follows: after this short introduction in Section 1, the author deals with the connection between Catholic social teaching, ordoliberalism, and the market order (Section 2); then,

\* E-mail: [ursula.nothelle-wildfeuer@theol.uni-freiburg.de](mailto:ursula.nothelle-wildfeuer@theol.uni-freiburg.de)

the author treats with various meanings of the term “capitalism” and their connotations (Section 3). In Sections 4–6, the author examines the anthropological and ethical foundation of the social market economy. Section 4 deals with the basic ideas of freedom, humane development, and social progress. In Section 5, the author examines the fundamental value of freedom and its meaning, and in Section 6 the author examines the notion of “social justice.” In Section 7, the author offers some thoughts about current challenges and future perspectives, before providing some concluding remarks in Section 8.

## 2. Catholic social teaching, ordo-liberalism, and economic order

First, the question arises as to why Catholic social teaching – or put another way, Catholic social ethics – contributes to the subject matter of an economic order at all.

Two aspects have to be mentioned in a first step:

1. When Müller-Armack referred to social market economy and its *Stilgedanken* (Müller-Armack 1966a/1976, p.12), he articulated its basic intention: its purpose is not only the maximization of profits and revenues but also the establishment of an economic order that complies with a special kind of style that is tied to cultural and social values and a certain understanding of the human beings. This is also the connection with the tradition of Catholic social teaching and Christian social ethics.
2. A second aspect is linked to Freiburg, which is located in Southwestern Germany: it is fair to consider ordoliberalism and the Freiburg School that formed around the German economist Walter Eucken at least as *one* strong root of this form of market economy, which the paper deals with. A second root is Christian social teaching, which did not develop at the same time with ordoliberalism but in cooperation with it. No less a figure than Dahrendorf stated in his third *Ludwig Erhard lecture* in 2004: “Whoever in Germany talks about social market economy means Ludwig Erhard plus Catholic social teaching”<sup>1</sup> (Dahrendorf 2004). Not many people know the importance of Catholic social teaching for the concept and concretization of social market economy. Likewise, Koslowski, for instance, indicated that one must not think (and also need not fear) that “social market economy [...] is Catholic social teaching

translated into German reality”<sup>2</sup> (Koslowski 2004, p.57) emphasizing that – even if this assumption is not completely false – other factors would have influenced the conception of social market economy. In a broad sense, the most important resources of social market economy, according to European bishops,<sup>3</sup> are Greek philosophy, Roman legal culture, and biblical Christian idea of the human beings.

## 3. The concepts of capitalism and its connotations

In the heated controversy about the proposed free trade agreement, i.e., transatlantic trade and investment partnership (TTIP), between the USA and EU, which disappeared with the change of American administrations, many European critics voiced public concern in a very generalized and populist way about an American hegemony of ruthless capitalism, which differs significantly from the economic order of European – or more specifically, the German order, sometimes referred to as “Rhenish capitalism.” What is the distinctive feature of the concept of social market economy? Which differentiations are appropriate when referring to capitalism as a term from an ethical perspective?

### 3.1. “Neo”-capitalism and the “Rhenish” capitalism

Let us reflect on the 1990s for clarification:

After the fall of communism, capitalism seemed to have carried off the victory, and the loss of its ideological opponent seemed to have brought about the “end of history,” a term coined by Francis Fukuyama. This assumption was proved wrong rather quickly. It became clear that the debate between both systems, capitalism and communism, might generally have come to an end. The debates *within* capitalism, however, continued and needed differentiation as to which form of capitalism was actually meant. That was also when Albert distinguished between the neo-capitalist model of quick profits, short-term efficiency, and almost exclusive alignment to Wall Street as opposed to the “other capitalism”

<sup>1</sup> Translated from German: “Wer in Deutschland von Sozialer Marktwirtschaft spricht [...], meint Ludwig Erhard plus Katholische Soziallehre.”

<sup>2</sup> Translated from German: “die Soziale Marktwirtschaft [...] die in Deutschland in die Wirklichkeit übersetzte katholische Soziallehre [sei].”

<sup>3</sup> COMECE 1; cf. also Küppers (2012, p. 15), who referred to the famous expression by the first German President Theodor Heuss, according to whom Europe was built on three hills: “the acropolis, the Roman capitol, and the Calvary.”

(Albert 1992, p.103): the Rhenish model, which is based on the important role of the entrepreneur, the strong position of banks, farsighted investments, and social welfare systems to cover key risks in life and to facilitate the integration of workers' participation and consensus. Albert made clear, indeed, that this issue is not unique to Germany: "Germany is only a specific embodiment of this Rhenish model of capitalism. [author's note: 'Rhenish' refers to its political origin Bonn, the former capital of the Federal Republic of Germany located on the river Rhine] A model that is little-known and often misinterpreted reaching from Northern Europe to Switzerland with even Japan partly adhering to it."<sup>4</sup> (Albert 1992, p.104) Assuming that the model of Rhenish capitalism, described by Albert, refers to social market economy, several crucial distinctions with respect to the economic style of individual countries have to be made when dealing with the issue more closely and from the perspective of social ethics; this issue, however, goes beyond the scope of this paper. It is rather important to add the affirmation of the concept and the implementation of the idea of social market economy in other European countries such as Poland and its constitution in 2007. The EU Lisbon Treaty, in effect since 2009, mentions social market economy as a key economic concept. Paper 2 (paragraph 3) of the Treaty states that "the Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment." Several years ago, Horn pointed out that this European wording – varying significantly from the original understanding of the fathers of social market economy – lists the term just as *one* dimension among others, but not as a framework which only enables the realization of the other targets such as economic growth (Horn 2012, p.28). Certainly, there are differences in the German and the European understanding of social market economy. The integration of this dimension, however, also shows the unifying common ground that justifies the use of the term "social market economy" in a European context. In April 2011, the bishops of the *Commission of the Bishops' Conferences of the European Community* (COMECE) emphasized the

need "to further develop the European internal market based on a competitive social market economy"<sup>5</sup> (Schallenberg and Mazurkiewicz 2012, p.7), in their statement "A European Community of Solidarity and Responsibility." The episcopal statement's very title indicates the relevant values of solidarity and responsibility; values that are not exclusively Christian, but are connected with the Christian understanding of the human beings and society; values that do not provide a clear instruction of how to act, but rather set forth ineluctable goals.

## 3.2. The concept of capitalism in Catholic social teaching

Let us take a quick look at the concept of capitalism, as it is outlined by the social teaching of the church, i.e., in Papal documents.

The second social encyclical, *Quadragesimo anno* (1931), promulgated by Pope Pius XIth, is the first that deals with issues of capitalism as an economic order and appreciates it at least partly. In the following sections, this is further commented on.

### 3.2.1. Positive and negative versions of capitalism (Pope John Paul II)

The remarks by Pope John Paul II in his encyclical, *Centesimus annus* (1991), are the most important ones for our purposes. In a differentiated manner, he clarified that one cannot simply speak of capitalism as such: faced with the fall of communism and the subsequent transformation processes, he asked whether capitalism could be seen as the victorious system. He answered that "capitalism" can be assessed positively, when the economic system "recognizes the fundamental and positive role of business, the market, private property, and the resulting responsibility for the means of production as well as free human creativity in the economic sector." But "capitalism" is certainly negatively assessed if it refers to a system, "in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious" (CA 42). Even if the encyclical does not use the term "social market economy" for the version of capitalism that John Paul approved of, it exactly describes the patterns of this form of market economy.

4 Translated from German: "Deutschland ist nur eine besondere Verkörperung dieses rheinischen Modells des Kapitalismus. Ein Modell, das kaum bekannt ist und wenig verstanden wird, das von Nordeuropa bis in die Schweiz reicht und dem auch Japan teilweise angehört."

5 Translated from German: "den europäischen Binnenmarkt auf der Grundlage einer wettbewerbsfähigen Sozialen Marktwirtschaft weiterzuentwickeln."

### 3.2.2. Market economy and exclusion (Pope Francis)

In contrast, Pope Francis' strong and empathetic words in his negative evaluation of capitalism sound very different, culminating in his initially quoted assertion that "such an economy kills" (EG 53). In *Evangelii Gaudium*, he connected a material and a sociological aspect: His main purpose was to say, "[n]o to an economy of exclusion and inequality" (EG 53). This points out the crucial aspect in this context: it is no longer simply about exploitation and oppression, but something new" (EG 53). The "new" is that the pope considered people who were negatively affected by capitalism in a fashion that excluded from society: "The excluded are not the 'exploited' but the outcast, the 'leftovers'" (EG 53). Exploitation was the key problem of society in the era of early industrialization in the 19th century. Now, the key problem is exclusion. His reference to the elderly homeless carving out a miserable existence in the streets, mentioned in *Evangelii Gaudium*, being ignored by the press, while a fall of two points at the stock market is news, was criticized from an economic perspective. Another look at the statement's overall context, however, proves the critics wrong, who accuse him of not having a clue of economic processes and correlations. Such critics are making a hermeneutic mistake and misjudge his language and intention: he was leveling social criticism in prophetic language. His main aim was the concern about the human beings, the poor, the deprived, and the outcast in particular. The quoted example expresses his outrage that public awareness seems to make the loss at the stock market – be it ever so small – an incomparably higher priority than the loss of a life of dignity and of participation in society. This reference to the dignity of the human beings and the resulting concern for those in danger of losing this dignity in society is a genuine mission of the church and represents the specifically social and humane dimension of proclamation.

He also criticized the global system, in which money stands an end in itself and lives a life of its own, withdrawn from social responsibility. He criticized the "worship of the ancient golden calf (cf. Ex 32:1-35)" and noted that it has found "a new and ruthless guise in the idolatry of money" (EG 55) in the economy's dictatorship and the "tyranny" of markets and financial speculation. This situation has resulted in the current circumstances of gross social injustice, which is the actual focus of his criticism. The pope knew these circumstances deeply and first hand. The insight, however, that they are only a reflection of the dramatic circumstances in Argentina falls short (cf. Deckers 2013). His attention was focused on the people who were excluded and left behind, "without work, without possibilities, without any means

of escape" (EG 53) as a consequence of the system's excesses. In light of his analysis of the state of affairs, there might be unexpected approval of his ideas by representatives of the entire array of political parties. After all, this is not the first time in history such criticisms have been exercised. After all, Marx and Bishop Wilhelm Emmanuel von Ketteler agreed with each other on their criticism of capitalism in the 19th century, however, much to the dismay of Marx, who complained to Engels (1820-1895) in a letter in 1869 on the occasion of a trip through the Rhine Valley, "wherever it seems appropriate to them, such dogs as Bishop Ketteler in Mainz and the parsons at the Dusseldorf Convention flirt with the Labor Question"<sup>6</sup> (Marx and Engels 1957 ff., p.371). But that was as true then as it is today: the litmus test is not the diagnosis or the description of the symptoms, but the therapy.

Pope Francis did not want to establish a different system. Apart from various market critical statements, there are passages in the text which approve of the market. In fact, he intended to change the ruling system. This intention shows that he was, by all means, on par with other representatives of the Christian social movement of the 19th century (e.g., Bishop Ketteler and Georg von Hertling) who also sought a reform *within* the system. He also mentioned the decisive criteria for this reform: human dignity and the common good. Hence, he was in the best socio-ethical tradition. All economic activities are to be evaluated based on these criteria: "Business is a vocation, and a noble vocation, provided that those engaged in it see themselves challenged by a greater meaning in life; this will enable them truly to serve the common good by striving to increase the goods of this world and to make them more accessible to all" (EG 203).

Not least, Francis made (Western) Europeans and representatives of social market economy take the demand of humanity to heart, the demand to give the economy (again) a "face" and "a truly human purpose" (EG 55) at the sight of "a globalization of indifference" (EG 54) and the "idolatry of money" (EG 55).

Later remarks by Pope Francis on issues of the market order show more clear-cut differentiations: in his speech to celebrate the conferral of the Charlemagne Prize, he referred explicitly and in an affirmative manner to the "social market economy encouraged by my predecessors (cf. John Paul II, Address to the Ambassador of the Federal Republic of Germany, 8 November 1990)." In this passage, he markedly pointed out the relevant and specific criteria: "It would involve passing from an

<sup>6</sup> Translated from German: "Die Hunde kokettieren (z.B. Bischof Ketteler in Mainz, die Pfaffen auf dem Düsseldorfer Kongress usw.), wo es passend scheint, mit der Arbeiterfrage."

economy directed at revenue, profiting from speculation and lending at interest, to a social economy that invests in persons by creating jobs and providing training (Papst Franziskus 2016)."

The pope was certainly not a papal representative of social market economy. The reason is clearly not only that his knowledge of this economic system is not extensive and encompasses possibly only its elementary principles. Instead, his demands for a humane market order are, once again, intended to be food for thought for representatives of the Western system. Without denying the earlier achievements of social market economy and the Christian impulses that illuminate such an order, there are several phenomena that call into question the consequences of this papal "wake-up call" that have implications for the current implementation of social market economic orders. These include issues such as the large number of welfare recipients, the problems of demographic change and intergenerational justice, the growing low-wage sector and the danger of old-age poverty, the global financial crisis, and the absent control of financial markets. The purpose of establishing a just, decent, and humane order, which – Francis emphasized – calls for a decision in favor of an ethics that "makes money and power relative," that "condemns the manipulation and debasement of the person" and that, not least, "leads to a God who calls for a committed response which is outside the categories of the marketplace" (EG 57).

In the following, several crucial elements of a social market order, the social market economy, are taken into account.

## 4. The anthropological and socio-ethical foundation of a social market economy

### 4.1. Freedom and social progress

According to Müller-Armack, the term "social market economy" can be defined "as a regulatory idea whose aim it is, to connect free initiative with social progress, which is only just secured by market-based performance, on the foundation of a competitive economy"<sup>7</sup> (Müller-Armack 1956, p.390). The term "freedom," which shows the fundamental target value of social market economy

7 Translated from German: "als eine ordnungspolitische Idee [...], deren Ziel es ist, auf der Basis der Wettbewerbswirtschaft die freie Initiative mit einem gerade durch die marktwirtschaftliche Leistung gesicherten sozialen Fortschritt zu verbinden."

and also of a humane market economy, is specified by a definition of Erhard: "Freedom must not become idleness, without responsibility, without roots. The connection between freedom and responsibility instead requires order (Erhard 1961)."<sup>8</sup> In another passage, he spoke about the necessary connection of the principle of freedom of the market with social balance and the moral responsibility of every individual toward the whole (cf., Wünsche 2001, p.2).

Social market economy is considered a sophisticated product in need of appropriate care because of its specific nature. Understood in this way, market economy not only functions like an automatized formal rule system, but also builds on a social and value system based on civil rights.

The search for the particular structure of this form of capitalism – at the same time, the search for Catholic social teaching as a pillar of social market economy – does not primarily deal with individual economic issues, but rather with the fundamental ethical questions of freedom and responsibility, order and social justice, and reliability of structures and attitudes, with questions that have been largely neglected by economic theorizing for the past two decades up to the present, but that – clearly revealed by the financial crisis of 2008 and 2009 – are absolutely essential for a successful economy and society (cf., Schallenberg 2011, p.30).

### 4.2. The economy and humane development

"By economy we understand the whole of institutions and processes for the systematic, permanent and ensured coverage of goods and services that enable the God-ordained [or humane] development of individuals and social structures"<sup>9</sup> (Höffner 2015, p.355). That is the definition of the term "economy" by the Archbishop-to-be of Cologne, Joseph Cardinal Höffner, who wrote his economic doctoral thesis under the supervision of Walter Eucken (1891-1950), the key protagonist of the Freiburg School and one of the fathers of social market economy. He expressed a distinctive feature of a Christian understanding of market economy, stating that economic activity was not an end in itself, but was rather concerned

8 Translated from German: "Freiheit darf nicht zu einem Götzendienst werden, ohne Verantwortung, ohne Bindung, ohne Wurzeln. Die Verbindung zwischen Freiheit und Verantwortung bedarf vielmehr der Ordnung."

9 Translated from German: "Unter Wirtschaft verstehen wir das Insgesamt der Einrichtungen und Verfahren zur planmäßigen, dauernden und gesicherten Deckung des menschlichen Bedarfs an jenen Sachgütern und Diensten, die den einzelnen und den Sozialgebilden die gottgewollte [bzw. menschenwürdige] Entfaltung ermöglichen."

with human beings and the interests of an entire country in both the present and the future. Until the economic crisis of recent years, the second part of Höffner's definition – the orientation toward a comprehensive goal and the meaningfulness of human life, ultimately directed toward the common good – seems to have fallen into oblivion to a large extent. Based on the individual profit and the trust in Adam Smith's "invisible hand," the focus was primarily, or even exclusively, on profit maximization and shareholder value. Every progress in this area was able to stifle the question of human dignity, the human beings themselves, of freedom or justice for some time.

This strong emphasis of ethical values from the perspective of Catholic social teaching does not imply in any degree that the relevance of economic processes is curtailed; likewise, the institution of the market and morals are not juxtaposed. One of the crucial foundations of social market economy – if not *the* key foundation after all – is the insight that the economy and morals are indispensably intertwined. Their connection shows the strength of an ethically responsible and humane market order. "What is possible in a materialistic and realistic manner?" and "What is ethically just?" are the two decisive fundamental questions. According to Oswald von Nell-Breuning (1890-1991), the Nestor of Catholic social teaching, a premise of normative and a premise of a factual nature must come together. But they also *have to* come together, although, while one nature must not prevail at the expense of the other; or using Lehmann's words, one should not leave the economy to the economists (cf., Lehmann 2008).

#### 4.3. Fundamental point of reference: the human being as person

The economic facts are therefore not the only decisive factor: the fundamental ethical point of reference of a social market economy as system of economic order is the understanding of the human being as person in their inalienable dignity and freedom. This fundamental conviction is rooted in the biblical theologoumenon of the image of God and the human being's creatureliness. In secular philosophy, this understanding of the human being as person is based on the formula of humanity of Kant's categorical imperative. The distinction between two patterns of value has been relevant: "In the kingdom of ends everything has either a price or a dignity. What has a price can be replaced by something else as its equivalent; what on the other hand is above all price and therefore admits of no

equivalent has a dignity"<sup>10</sup> (Kant 1785/1956, p.434). If humankind does not have a price and equivalent then, it is accordingly assigned dignity, which requires unconditional recognition and respect. The understanding of the human being as a moral subject with comprehensive rights and duties is inextricably linked with it.

Against this background, any exclusive instrumentalization of humankind is out of the question. In the context of the economy, that means, the human being cannot solely be considered as a factor of production. According to Höffner, the personal factor, i.e., the consideration of man as a human being in their personal dignity freedom, is in fact the necessary – if still insufficient – human destiny in the economic process. Christian social ethics frames this criterion of any action in its conciliar and personalist-oriented reformulation of Catholic social teaching: "For the beginning, the subject and the goal of all social institutions is and must be the human person" (GS 25; GS 63).

This means that for the economy it is not an end in itself but it plays a "serving role." "Despite its [of the economy. Author's note] indispensability, man does not live 'by bread alone'"<sup>11</sup> (Rüstow 2001, p.142). Economic activity has an instrumental value in the service of man and aims at a humane order of society.

## 5. Freedom as basic value of social market economy

### 5.1. Economic freedom as part of a comprehensive human freedom

The freedom of human beings, which is one of the aims of social market economy, certainly deals with economic and entrepreneurial freedom – as aptly stated by Höffner – that "history teaches us that freedom and the dignity of man largely depend on the system of market order"<sup>12</sup> (Höffner 2014, p.337). But the freedom of man is not identical with it. Entrepreneurial and economic freedom rather is a crucial form of expression and experience

10 Translated from German: "Im Reich der Zwecke hat alles entweder einen Preis, oder eine Würde. Was einen Preis hat, an dessen Stelle kann auch etwas anderes, als Äquivalent, gesetzt werden; was dagegen über allen Preis erhaben ist, mithin kein Äquivalent gestattet, hat eine Würde."

11 Translated from German: "Trotz ihrer selbstverständlichen Unentbehrlichkeit [lebt der Mensch] nicht vom Brot allein."

12 Translated from German: "(d)ie Geschichte lehrt, dass Freiheit und Würde des Menschen weithin vom Ordnungssystem der Wirtschaft abhängen."

of human freedom and at the same time its foundation. A market-based order is the decisive condition of possibility to responsibly implement this economic freedom.

The integration of economic freedom in a concept of a more comprehensive freedom is also clarified by Müller-Armack when – faced with his experiences during the Nazi dictatorship – he wrote in his paper *Economic direction and the market economy* (Müller-Armack 1966b/1976, p.81): “Today it is necessary to clarify how little possibilities there are to realize ideals of human freedom and personal dignity, if the market order we choose contradicts these ideals.”<sup>13</sup>

The concept of freedom applied in this paper is ethically substantial. Freedom is neither considered an arbitrary form of freedom nor a “freedom from.” Likewise, freedom from tariffs and trade barriers alone is not enough. Instead, freedom expresses itself as a positive “freedom for,” as a freedom of individuals and individual groups also for economic and entrepreneurial activities. The integration of its basic value into a dimension of responsibility of the society’s common good and of a constitutional framework is constitutive of such a concept of freedom. It becomes clear, however, that the basic value of freedom can never be understood without referring to the question of social justice. The sociopolitical dimension, ultimately the welfare state, is not a simple add-on, which could be left out depending on the situation.

Consequently, in the concept of social market economy, the term “market economy” does not involve – as critics of the so-called “neoliberalism” often claim<sup>14</sup> – stiff competition leading into a merciless and an almost social-Darwinist process of selection either. The current Papal statement “such an economy kills” refers to exactly such an economic order, which would by no means be tolerable from the perspective of Christian social responsibility.

## 5.2. The market as place for the development of economic freedom

The concept of social market economy originates from the insight that the primary aim of any economic activity, namely the optimal supply of goods of all people, is only realizable through the freedom of all economic subjects, through their economic creativity enabled by the institution of the market. The concept is based on the principle that all members of society have to

13 Translated from German: “Es gilt heute Klarheit darüber zu gewinnen, wie wenig es möglich ist, die Ideale menschlicher Freiheit und persönlicher Würde zu verwirklichen, sofern die wirtschaftliche Ordnung, die wir wählen, dem widerspricht.”

14 Cf. the view of Butterwegge et al. (2008).

and also are able to contribute to this optimal supply of goods because of their various capabilities and skills. Thus, the above-mentioned Christian-occidental anthropology with its understanding of the human being as person comes full circle.

Based on such an anthropological foundation, one can justifiably draw the conclusion – quite unlike popular resentments today like to suggest in society – that (Christian) social ethics can inherently approve of a market model; since the market is a place of social interaction, in which the individual offers their economic capacity for the comparative judgment of their fellow members of society under the conditions of publically regulated competition (cf., Roos 1997, p.44). Thus, the market is also the necessary place to realize fundamental human rights – for instance, the free choice of employment and the workplace and the autonomous handling of property. Consequently, the institution of the market cannot only be approved of as a matter of principle, but is rather a *necessary* institution and consequence to realize freedom as a fundamental dimension of human life. A market order therefore proves to be a correlate for the political order of democracy to realize specific freedom.

## 5.3. Competition as an instrument

The individual freedom intended in this paper must be conceptualized together with the pursuit of (social) justice. Pope Pius XI expressed this common bond and differentiation in the social encyclical, *Quadragesimo anno* (1931), by explaining that free competition, “while justified and certainly useful provided it is kept within certain limits, clearly cannot direct economic life” (QA 88), and – one would have to add – must never become a principle which shapes society and “which lets only the strongest survive; and this is often the same as saying, those who fight the most violently, those who give least heed to their conscience” (QA 107). Against the backdrop of social reality during the 19th and 20th centuries and in opposition to an inhuman social Darwinism, these propositions appear plausible to some degree. The text continues as follows: “Therefore, it is most necessary that economic life be again subjected to and governed by a true and effective directing principle.” To benefit people, free competition “needs to be strongly curbed and wisely ruled. But it cannot curb and rule itself” (QA 88). By translating into the terminology of social market economy, this means that as a consequence, economic competition is an indispensable means but never an end in itself or an aim of a humane market economy.

## 6. (Social) justice as fundamental value of social market economy

Let us take a closer look at the second pillar of an ethically responsible social market economy.

### 6.1. Welfare policy and participation

The keyword “social justice” is the second constitutive pillar. The European bishops emphasized in their above-mentioned statement *A European Community of Solidarity and Responsibility* (the title putting the importance of competition into perspective once again) that they are “of the opinion that in this model for European policy [social market economy, author’s note], the emphasis should be on the ‘social’ rather than the ‘highly competitive’ dimension” (No. 6). Several aspects of their comments are relevant in this paper: first, one has to emphasize that the competitive market itself indeed can be a means to achieve progress in social justice if, for instance, “economic resources are used in an efficient manner,” and if people “always look for new and better solutions to economic problems” (No. 6, Kommission der Bischofskonferenzen der Europäischen Gemeinschaft (COMECE) 2011b). By opposing to common notion today, the intention to facilitate competition need not contradict the achievement of justice but can be seen as a fundamental opportunity to *achieve more* justice.

At the same time, this link between competition and social justice makes obvious that social justice does not primarily mean economic equality and protection of all citizens – managed and ensured by the state in the most extensive manner possible. Similarly, it primarily does not mean the result of redistribution policies by the state which are supposed to correct and eliminate market-based inequalities *ex post*. The key objective of comprehensive social policy is best expressed in normative manner: it does not primarily aim at *distributive* justice but rather at *participative* justice. Participative justice is the key purpose of every political community that is serious about participation and civil rights and liberties. It obviously has to deal with the (material) prerequisites, without which a life in decent conditions could barely be realized. Its crucial intention, however, goes beyond that: policymakers have to be concerned with the establishment of a framework, in which individual citizens and smaller units can act and shape economic processes. Based on individual member states, this is the concept of an *enabling* and *subsidiary welfare state*; on a bi- or multilateral or even global level, this framework implies trade agreements,

for instance. While social policy of the subsidiary welfare state used to be focused more on the material protection of living (or surviving), it now tends to shape and influence the society as a whole and is understood as “qualitative social policy,”<sup>15</sup> according to the economist Goldschmidt (2007, p.12). This view certainly coincides with Schreiber’s assumption (1904-1975), the “father” of the intergenerational contract, who had earlier employed the term “constructive social policy”<sup>16</sup> (Schreiber 1959, p.72).

Qualitative social policy aims at participation and inclusion, whose necessary – but insufficient – precondition is participation in the market. The economic material safety alone is not enough to guarantee individual participation. On a national level, the dimensions of family policy, education policy, and labor market policy are additionally necessary to enable a more comprehensive participation in society.

### 6.2. Primacy of governance

The fundamental idea connecting all representatives of (Freiburg) ordo-liberalism on the one hand and the concepts of economic ethics in Christian social ethics on the other hand is to enable freedom in market-based actions, guaranteed, and controlled by the state. Speaking from the perspective of ethics, this freedom is specified as responsible behavior focusing on the common good and justice.

The essential functioning of the free market, defined by John Paul II in his final social encyclical as the “*most efficient* instrument for utilizing resources and effectively responding to needs” (CA 34; emphasis by the author), is necessarily based on structures and institutions. They are intended to enable virtually every member of the society to participate in the society according to their own values and goals. From an ethical perspective, these structures have a highly relevant function: they facilitate and stabilize freedom and, thus, have a relieving effect on the individual and on the society.

This framework must be set up as an articulation of social justice and social security so that the advantages of the market enable the individual and societal focus on freedom. In our market order, this necessarily implies the standards of consumer protection, which involves the protection of possible dangers, when products and services are launched, even if there are fears of negative consequences for people and the environment due to a preliminary risk assessment. Against this backdrop,

15 Translated from German: “qualitative Sozialpolitik.”

16 Translated from German: “konstruktive Sozialpolitik.”



one has to understand the European concern over free trade agreements, TTIP for instance, in the course of which these high consumer protection standards would have been lowered for competition's sake, so that the lowest – and not the highest – level of protection would have been applied, and that – if applicable – the precautionary principle would yield to the principle of harm reduction. Such a procedure is rightly considered a contradiction to the above-mentioned normative origin of the key position of the human being and the subsequent obligation of protection.

The aim of governance – oriented at the common good of all people – is precisely to absorb shocks and disadvantages. This is related to the above-mentioned protection of all people, but first and foremost to the focus on the “market passive” and the “market weak” that cannot make a living on the market on their own or not at all. More precisely and with respect to our community, this implies the provision of public goods and the protection against existential risks.

Despite his focus on the importance of the market, Benedict XVIth makes his specific perspective clear: referring to the concept of civil economy, he explained that the market is not simply an automatic process that follows fixed rules: if “the market is governed solely by the principle of the equivalence in value of exchanged goods, it cannot produce the social cohesion that it requires in order to function well. Without internal forms of solidarity and mutual trust, the market cannot completely fulfil its proper economic function” (CIV 35). The dimension of trust is explicitly mentioned. According to Benedict, the institutions of the market and of competition cannot adequately succeed without an ethos of solidarity and trust. In its own rules, the market itself is therefore a place where moral behavior is not turned off but can – or is supposed to – shape participants' actions. “The church's social doctrine holds that authentically human social relationships of friendship, solidarity and reciprocity can also be conducted within economic activity, and not only outside it or ‘after’ it” (CIV 36). There is no such explicit emphasis on the importance of an ethos in the works of the fathers of social market economy. The orientation to Christian anthropology and the social teaching of the church reveals, however, that these thoughts also belong to this concept. The representatives of *ordo-liberalism* and the fathers of social market economy certainly do not support the idea that market processes should be governed by completely different ethical principles than in other realms of society; they would emphasize, however, that the economy is not run based on an ethos alone but on an institutional framework aimed at establishing an institutional market order.

## 7. Current challenges and future prospects

### 7.1. Globalization and sustainability

Despite many previous considerations and political actions, the institutions of the social market economy developed in the post World War 2 (WW2) period. It “was the crucial key for the reconstruction of war-ravaged Western Germany”<sup>17</sup> (Aretz 2011, p.3). Currently, the social market economy must face new challenges that are concerned with the current decisive megatrend globalization and that have become specific and urgent since the financial, economic, monetary, and debt crisis of the last decade. Essentially, these challenges manifest themselves in new social and also ecological questions on a push for an at least Europe-wide or even worldwide market order. In the 1980s, an effort had been undertaken to establish a just global market order. Currently, the attempts rather aim at a global framework. This appeals to a key element of social market economy. The question whether the model of social market economy is suitable on a European or even global level is intensely and controversially debated.

After all, the idea of social market economy already has been implemented in Paper 2, paragraph 3, on the Lisbon Treaty of the EU, as mentioned earlier, with the goal of establishing a common market in Europe. It now has to prove successful institutionally, when confronted with other economic models. The wording of the Lisbon Treaty once more reveals both interwoven components mentioned on various occasions: on the one hand, the aim is open competition; on the other hand, it is social security or social progress and sustainability. The second serious challenge is the interconnection of the aims “economic efficiency,” “social balance,” and “ecological compatibility” and is constitutive of such a concept of sustainability.

The model of sustainability refers to the above-mentioned connection between freedom and responsibility. Responsibility for all people, globally, and for future generations is not explicitly mentioned by the fathers of social market economy, but has to be added as a present and future dimension to properly unfold the original idea. The paradigm of sustainability has developed into an integral concept, based on the idea that development must take into account the needs of the current generations without endangering the

<sup>17</sup> Translated from German: “war der zentrale Schlüssel für den Wiederaufbau des kriegszerstörten Westdeutschland.”

possibilities of future generations. The decisive socio-ethical starting point is, above all, global and inter-generational justice that must be achieved through a solidary orientation to not only the current population but also future generations extending geographically to all people currently living on Earth, the poor in particular. From this perspective, the concept of sustainability can be understood as a diachronic extension of the principle of solidarity.

In his latest encyclical, *Laudato si* (2015), Pope Francis presented the concept of integral ecology (and ethics) as an approach to a solution. From the perspective of Christian social teaching, this reveals the foundation for how to deal with this challenge. His argument is as follows:

“Today, however, we have to realize that a true ecological approach always becomes a social approach; it must integrate questions of justice in debates on the environment, so as to hear both the cry of the earth and the cry of the poor.” (LS 49) He is concerned with a holistic concept that inextricably links the human and the social dimension with respect to nature. The questions of ecological and social justice must necessarily be linked together, because we are not faced “with two separate crises, one environmental and the other social, but rather with one complex crisis which is both social and environmental. Strategies for a solution demand an integrated approach to combating poverty, restoring dignity to the excluded, and at the same time protecting nature.” (LS 139)

In the more recent discussion, the term “eco-social market economy” is increasingly used to highlight the inevitable necessity to fully integrate the ecological dimension and the principle of sustainability into the concept of social market economy. The focus on the systematic foundations of this model of market order, however, has shown that the principle of sustainability does not contribute anything completely new or hitherto unknown to our model of market order. It does not simply add another dimension to the social dimension of market economy. Starting from the key elements such as freedom and responsibility and justice and the common good, sustainability implies the development of the social element – globally and with respect to the future. For the fathers of social market economy, the social element was already constitutive of a successful market and of competition. Referring to Walter Eucken, Goldschmidt emphasized that social policies “are neither *against* nor *for* the market; as social policy, it has to be understood as a *policy of*

*social order*”<sup>18</sup> (Goldschmidt 2007, p.9). This does not imply policies that seek to alleviate or correct possibly harmful results of market processes *a posteriori*. According to such an interpretation, the concern for future generations and for global development would also be an aspect that must be considered in retrospect and from which results of market-based actions would have to be corrected afterward. Instead, the aspect of sustainability must already be an integral part of the social context and the considerations of how to design the market order.

Since the growing importance of the ecological question and the principle of sustainability in recent decades, which is constitutive of the global society’s survival, has been gradually realized, it certainly makes sense to separately address this aspect to emphasize its high relevance.

## 7.2. Europe and the ecological renewal of the social market economy

Against the backdrop of a globalizing world, issues of sustainability cannot be solved in national solo efforts anymore. The German perspective must take into account at least the role of Europe in the ecological renewal of social market economy. Two aspects are relevant as follows:

1. Nature is a global common good, and the preservation of natural resources therefore constitute a task only to be solved globally, as “no single country will be able to take the necessary protection measures on its own” (Kommission der Bischofskonferenzen der Europäischen Gemeinschaft [COMECE], 2011a, p.29). The appropriate implementation of the principle of sustainability certainly cannot only be Europe’s or the EU’s task and obligation. Global solutions have to be developed. In this context, the “principle of common, but differentiated responsibilities” (Kommission der Bischofskonferenzen der Europäischen Gemeinschaft [COMECE], 2011a, p.29) becomes important. According to the COMECE document of 2008, this principle “has been accepted by all states that are parties to the Framework Convention on Climate Change. It recognizes the global responsibility for the protection of the Earth’s climate system and aims towards worldwide cooperation. It leads to different commitments with regard to prerequisites and content. The industrialized states including the Member States of the European Union have here a special responsibility” (Kommission der Bischofskonferenzen der Europäischen Gemeinschaft [COMECE], 2011a, p.29). Europe cannot single-handedly solve the ecological problem, as it cannot fully implement the dimension

<sup>18</sup> Translated from German: “ist weder *gegen* noch *für* den Markt, sie ist als Sozialpolitik mit dem Markt zu verstehen, als eine *Politik der sozialen Ordnung*.”

of sustainability on its own. Based on its technological and financial resources and on its broad experience with such cooperative action, Europe is obliged to make an appropriate and specific contribution. According to COMECE, the EU should take into account in particular those who suffer most from the ignorance of the dimension of sustainability, i.e., the poor around the globe and future generations.

2. A key element in the concept of social market economy and in the works of its “founding fathers” is the role of the state, which is intended to be a strong and effective state, but not a total state. It must control the economic process by means of a regulatory framework – the economic ethicist Karl Homann, like Ludwig Erhard later on, spoke of “rules of the game” – so that the goals such as justice and the common good are achieved. If the purpose is a renewed social market economy in the European context, a problematic spot is reached exactly here: Europe does not have such a governmental authority similar to an individual nation state that could shape and enforce this framework – even if the calls for the reinforcement of key responsibilities currently do not end. The same problem arises at a global level to a much higher extent. Certainly, there are institutions at EU level which are qualified and liable to provide the implementation and enforcement of particular elements of an economic order but that system differs considerably from state action in a national economy. A European or even global social market economy would require a specific structural design. Currently, however, there are notable deficits of theoretical and political nature.

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## 8. Conclusion: a focus on humane and just standards

After the line of reasoning about Catholic social teaching or Christian social ethics as a pillar of social market economy, one can state that the issue at the center of this discussion is the question of ineluctable standards of humanity and justice, of fundamental values of social and economic order that is ultimately implemented in the inner core of our culture and is constitutive of a viable relationship between the economy and social responsibility. This relationship is no longer restricted to national borders, but has a global and transnational orientation. Measuring with these standards poses a big challenge for the members of the specific economic process, but, at the same time, is an opportunity to shape a large economic area according to these standards and, what is more, to effectively set international standards, thereby contributing to a humane arrangement of globalization. It is apparent that this is a task for all economic actors, ultimately also for societies. This might also account for the irenic character of social market economy, pointed out by Müller-Armack that peace between peoples ultimately depends on an economic order that respects individual freedom, human dignity, and the concern for just terms of trade.

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