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**Social Market Economy and
Morality – Contradictory
or Complementary?**

**Prof. Franz Josef Stegmann
Bethlehem Social Academy
South Africa**

Published by: Konrad-Adenauer-Stiftung
31 Princess of Wales Terrace
Parktown 2193
Johannesburg
Republic of South Africa
E-mail: kas-jnb@iafrica.com

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Christian Social Teaching — What Is It? Faith and the Secular World, Christian Understanding of the Human Being, and Social Principles

INTRODUCTION

The problem of the relationship between belief in God and the secular world, between biblical revelation and political or social commitment and between Christian faith and the world of commerce and industry is age-old – however one defines both sides of this tension-laden relationship. The issue belongs to and is one of the central subjects of history; moreover, it relates to human existence itself. Just recall the warning words of Jesus: "It is much harder for a rich person to enter the Kingdom of heaven than for a camel to go through the eye of a needle" (Mt 19, 23-24); remember the fierce disputes in the Early Church as to whether Christians were allowed to become civil servants of the pagan Roman Empire; and recollect the heated discussions of our time on just economic systems, human social development as well as how to keep and make peace.

Has belief in God, has biblical revelation, has the Christian faith anything to say on these matters? Are they entitled and able to contribute to solutions to these problems, and - if so – what is the specific Christian contribution?

In 1923, almost 80 years ago, the philosopher Oswald Spengler published his book *The Decline of the Western World*. This famous work created a great sensation, as Francis Fukuyama's *The End of History* and Samuel P. Huntington's *The Clash of Civilisations* did in recent years.

In his book, Spengler put forward the thesis: "No faith ever changed the world". The world seems so insignificant to every faith and religion that no importance is attached to the task of improving the world of politics or economics. "The world of facts" meant nothing to Jesus. A faith concerned with social issues, a religion dealing with "earthly affairs" has therefore "stopped being a religion".¹ Similar opinions are often voiced. Even though they differ in detail, they all come from the conviction that religion, the Christian faith, and the Church must refrain from the shaping of economic and political life; that they must stay away from the social world and secular reality as such.

This opinion is totally opposed to the self-understanding of the Christian faith. According to the Gospel, the Heavenly Judge will ask in the final judgement: I was hungry and thirsty, naked and sick – did you feed and give drink and clothe me and take care of me (see Mt 25. 35-43)? The Roman Synod of Bishops of 1971 declared that "action on behalf of justice and participation in the transforming of the world fully appear to us as a constitutive dimension of preaching the gospel" and therefore as a constitutive part "of the Church's mission for the redemption of the human race and its liberation from every oppressive situation".² In the Encyclical *Centesimus Annus*, published in 1991, Pope John Paul II stated that the "human

¹ Oswald Spengler, *Der Untergang des Abendlandes. Umriss einer Morphologie der Weltgeschichte*. Vol. 2, München 1923 (Unabridged Edition 1972), 820-821

² Roman Synod of Bishops, *Justice in the World – De justitia in mundo*, Introduction (1971), No. 6

person is the primary route that the Church must travel in fulfilling her mission ... the way traced out by Christ himself; because of that, "care and responsibility for the human person" are "her sole purpose".³

What, however, is the nature of the relationship between Christian faith and the shaping of the secular world? In the course of struggles between popes and emperors in the Middle Ages, Pope Boniface VIII claimed that the spiritual authority has the right and power "to institute and appoint the secular authority and to pass judgement on it"⁴ (*terrenam potestatem instituere et judicare*). In contrast, the Second Vatican Council firmly declared that there is a "rightful independence" and "autonomy of earthly affairs".⁵ This remarkable change on the Christian side, in addition, underlines the importance of our question.

The following remarks do not intend to deal completely with every aspect of this complex issue. They aim rather to give a general overview and some hints of orientation. The first focus of attention will be "rightful independence" and the "autonomy of earthly affairs" (1). In a second step, the connection between Christian faith and economic action and political commitment is considered (2). The third section describes the Christian understanding of the human being as a person, the basis and heart of Christian Social Teaching (3). This is followed by comments on the main social principles for shaping a human society, which are deduced from this understanding (4). Short remarks on the development of Christian Social Teaching and its task form the closing section (5).

1. AUTONOMY IN SECULAR FIELDS OF LIFE

1.1 No direct political mission of the Church

The Church – the community of those who believe in the God of Jesus Christ – received the commandment from her founder to continue his work of salvation by proclaiming his message and by celebrating his sacraments. Her task is the salvation of human beings by the glorification of God through the following of Christ. The Church as an Institution therefore does not possess a direct political, economic or any other secular mission.

In this context, "Christian salvation" must be distinguished from "human welfare". Christian salvation in its fullness and perfection is the "eschatological gift" of the coming Lord at the end of time, but it also has an earthly dimension. One may say: real human welfare on earth is the beginning of eschatological salvation, of eternal perfection, and will be part of this eternal perfection. And Christian salvation – in its fulfilment, eschatological salvation – is the continuation and perfection of true earthly, real human welfare; a perfection that we cannot imagine in this life. In theological terms, we have to distinguish the "order of creation" and the "order of salvation", but basically they are one reality. The Second Vatican Council described this issue precisely:

"Earthly progress must be carefully distinguished from the growth of Christ's kingdom."

Its expectation, however, "must not weaken but rather stimulate our concern for cultivating this earth". For we shall find "again the values of human dignity, brotherhood and freedom, and indeed all the good fruits of our nature and enterprise ... freed of stain, burnished and transfigured ... when Christ hands over to the Father a kingdom eternal and universal". We

³ John Paul II, On the Hundredth Anniversary of Rerum Novarum – Centesimus Annus (1991), No. 53, 1.

⁴ Boniface VIII, Bull Unam Sanctam (1302), in: Hubert Jedin (Ed.), Handbuch der Kirchengeschichte, Vol. III/2, Freiburg 1968, 353.

⁵ Second Vatican Council, Pastoral Constitution on the Church in the Modern World – Gaudium et Spes (1965), Art. 36,2,4.

shall find again the results of human efforts and activities on earth – "freed from stain, burnished, and transfigured"⁶ – in the Kingdom of God.

According to her self-understanding, the Church received the commandment from her founder Jesus Christ to continue his work of salvation. The Church therefore does not possess any immediate secular mission. The Holy Scripture reports that Jesus scarcely referred to the economic and political issues of his time. It is true, Jesus fervently took care of the poor, the weak and the marginalised, but he did not extend social responsibility to the direct shaping of political and economic conditions themselves. He did not call for a new political order, and he did not demand the reform of the economic or social System – for example, to abolish slavery. Jesus came into the world and shed his blood – stated Oswald von Nell-Breuning SJ, a foremost social scientist and theologian, and doyen of Christian Social Teaching – "in order to restore the relationship between mankind and God, which was disturbed by human sin".⁷ Continuing his saving work, the Church must not immediately interfere in the political and economic arenas and must not lay down and prescribe political or economic models.

A second consideration proceeds from the nature of politics and economy. Action in state and industry and commerce – ie, political and economic action – is usually quite concrete; it is concerned – not exclusively, but for the most part – with decisions about factual problems, about questions of detail. The Christian message does not contain concrete instructions for the solution of specific political or economic problems. For that, political competence and knowledge of economic facts are needed. The Christian message gives — as we shall see later — general guidelines for the social life of human beings. But the Church — Pope John Paul II underlines this in the Encyclical *Sollicitudo Rei Socialis* of 1987 — "does not have technical solutions to offer" and "does not propose economic and political systems or programmes, provided that human dignity is properly respected and promoted".⁸

As the respected theologian Karl Rahner emphasised:

"If and in so far as politics and economics consist in having a concrete programme at one's disposal, it is impossible for there to be the one Christian policy in state and economy."⁹

It therefore follows that it is not up to the Church to intervene directly in the world of politics, commerce and industry, etc. or to prescribe exemplary "model structures" of a political, economic or any other kind. Those who suggest that the relationship between Christian faith and the secular world implies that the Church should give detailed political and economic instructions, offend against her nature and against her mission. Neither a "politicisation of the faith" nor a "clericalisation of economics" are compatible and reconcilable with the message of Jesus.

1.2 "Autonomy of earthly affairs"

This conclusion leads to a second issue which is the reverse of the previous considerations: state and economy, political and economic action — in general: the world, the secular spheres and action in them — enjoy a real autonomy. When the Pharisees asked whether a believing Jew was allowed to pay taxes to the pagan Roman Emperor — both an important economic and political question — Jesus gave the well-known reply:

⁶ Second Vatican Council (1965), Art. 39,3-5.

⁷ Oswald von Nell-Breuning, *Soziale Sicherheit. Zu Grundfragen der Sozialordnung aus christlicher Verantwortung*, Freiburg 1979, 201.

⁸ John Paul II, *On Social Concern – Sollicitudo Rei Socialis* (1987), No. 41,1.

⁹ Karl Rahner, *Theologische Deutung der Position des Christen in der modernen Welt*, in: Karl Rahner, *Sendung und Gnade*, Innsbruck 1961, 13-47, 21

"Pay the Emperor what belongs to the Emperor, and pay God what belongs to God" (Mt 22, 21).

You may not read too much into this famous answer; it does not aim at our question directly. But Jesus made a clear distinction between both fields.

The Pastoral Constitution of the Second Vatican Council, published in 1965, describes the independence of the profane spheres of life as follows: there is an "autonomy of earthly affairs" in the sense "that created things and societies themselves enjoy their own laws and values which must be gradually deciphered, put to use, and regulated by men". That autonomy "is not merely required by modern man, but harmonises also with the will of the Creator. For by the very circumstance of their having been created, all things are endowed with their own stability, truth, goodness, proper laws and order", which one "must respect". Focusing on this independence, the Council points the finger of criticism at the Church herself:

"Consequently, we cannot but deplore certain habits of mind, sometimes found too among Christians, which do not sufficiently attend the rightful independence of science."

In different ways, both texts say that "earthly affairs", human activities in these fields as well as state and economy, political and economic action, enjoy a real "autonomy". This "rightful independence" of the profane areas of life and the affirmation of the "worldly world" are new accents.

It is true, the "autonomy of earthly affairs" is not to be understood in an absolute sense. Being, value and goodness befit "temporal affairs" insofar as they are created things, founded in the creative will of God and dependent on him. Nevertheless, it is indeed a "rightful independence", a real "autonomy".¹⁰

1.3 From a "divinised" to a "hominised" world

The historical background of this new understanding of the world has been described by Johann Baptist Metz — one of the "fathers" of so-called Liberation Theology — as "the situation of change from a divinised to a hominised world".¹¹ For thousands of years, human beings believed themselves to be at the mercy of nature, but at the same time they felt themselves to be secure in it. Nature was therefore seen to be holy. It not only bore divine traits, but it seemed to be divine, to be like a god, even to be a god; it was "a divinised world". In modern times, however, things have changed fundamentally: to an increasing degree, the world and nature are shaped and formed by human beings to such an extent that we can say we live in "a hominised world".

A reference from cultural history may indicate the huge change in the relationship between humans and world that has taken place in recent times. In the 26th canto (91-142) of the "Inferno" of the "Divina Comedia", the famous Italian poet Dante Alighieri (1265-1321) describes the last adventure of Ulysses or Odysseus which the ancient Greek poet Homer did not tell in his poem "Odyssey" and did not know about. After his return to the Island of Ithaka, the adventurer started again and sailed through the Straits of Gibraltar. Sailing into the wide ocean, he crossed the border which mortals are not allowed to cross". At the end of their "wild flight" - as Dante called the journey - a huge wave engulfed the ship and the whole Crew. Odysseus and his people did not cross the Limits set to humans without being

¹⁰ Second Vatican Council, Pastoral Constitution (1965), Art. 36, 2,4,5.

¹¹ Johann Baptist Metz, Die Zukunft des Glaubens in einer hominisierten Welt, in: Johann Baptist Metz (Ed.), Weltverständnis im Glauben, Mainz 1965, 45-62,46.

punished. The real Ulysses, Christopher Columbus, mastered the ocean two centuries later and was not engulfed by a huge wave - in 1492 Columbus, arrived at America. The world, which once naturally merged into metaphysical and eternal spheres, was discovered just as the secular world in modern times. It is only world and nothing else.

From this "experience of the worldliness of the world",¹² as Joseph Ratzinger says, resulted the knowledge and experience of its "makeability". Modern humans no longer believe themselves - no longer to the same extent - to be at the mercy of world and nature. On the contrary, world and nature are exposed to their intervention, are subject to their activities, are formed and shaped by them and belong to them. They understand themselves as "builders" of the world, who make their world; a world of the human beings, "a hominised world".

An analysis of this "change" shows that the "de-divinisation" of the world - which already in ancient times was considered to be atheistic - has resulted not in opposition to Christianity but just from Christian faith. Only belief in a creator, who is infinitely superior to the world and eternally more noble, revealed its pure secular "worldliness" and caused an initial secularisation. Thus the modern understanding of the world - which studies its laws and challenges it by work, science and technology - is rooted "in the Christian teaching of the radical 'createdness' of the world".¹³ It is true that the inquiry into the laws of nature and the objective matter-of-fact treatment of it often developed in a clash with Church representatives. The most well-known example may be the Galileo case. But they go back basically to the Jewish-Christian understanding of the world. The Jewish-Christian approach has enabled people to investigate the laws of nature and to deal rationally with the world. For "only a world not full of gods", but created by God, and "only a world in which sun and moon are not divine rulers of the cosmos, but lights hung up by the divine creator" - only such a "worldly world" - "could become a starting point of scientific factual research into the world, and it was not by chance that it developed in a sphere shaped and stamped by Christianity".¹⁴

This process of "secularisation of the world", however, also has negative implications and creates dangers. Technical hominisation and manipulation may also happen to human beings. They are no longer self-determining subjects, but can become objects of intentional manipulations. Accordingly, hominisation is indeed not always and automatically humanisation.

"Secularisation of the world" may finally be understood and put into practice in an absolute sense: the world is not seen as God's creation at all but only as the work of humans who then misunderstand themselves to be the sole creators of the world.

1.4 Politics, economics and "knowledge of facts"

From what has been said up to now (there is "rightful independence" of the secular world and no direct political mission of the Church), a logical conclusion follows: first and foremost, political and economic action must be based on the "knowledge of facts". This involves not only technical expertise, but also knowledge of structure, function and the order of reality as such - a knowledge which the natural light of human insight is capable of achieving. Knowledge of facts in this sense includes, firstly, empirical knowledge from everyday life. The basic norms of moral order are not first and foremost the results of philosophical

¹² Josef Ratzinger, *Der Christ und die Welt von heute*, in Metz (Ed.), *Weltverständnis im Glauben*, 143-160, 154.

¹³ Karl Rahner, *Theologische Deutung der Gegenwartssituation als Situation der Kirche*, in: *Handbuch der Pastoraltheologie*, Vol. 2, Freiburg 1966, 233-256, 237.

¹⁴ Ratzinger, *Der Christ und die Welt von heute*, 147(see note 12)

reflection; neither do they “fall from heaven”, but grew and are growing from the experiences and needs of human coexistence.

Secondly, knowledge of facts includes “functional knowledge” that is learnt from the social sciences such as sociology, economics, history, political science, etc.. They teach us how human coexistence “functions” and describe the political, economic, cultural and other factors by which it is determined today and was determined in the past.

Apart from functional knowledge, there is a third factor, the scope and content of which are difficult to define. This factor is the basic stock of generally comprehensible structures, meanings and values; for instance, the right of every human being to own and use those things necessary for his/her life, or that without a minimum of truthfulness the social life of human beings is impossible - no matter how many reservations, exceptions and distinctions are made in individual cases. Thus, throughout the history of man, all peoples have known unacceptable killings and detestable “murder”, even if the boundaries between criminal murder and ritual killing, the killing of an enemy, the killing of a criminal, burning of widows, etc. have often been unclear and vague.

This basic stock of values and norms - which is hard to define - is derived from the reality of the human being and proceeds from the background of general human experience. Human coexistence cannot succeed when the physical integrity of human individuals is not protected, when their moral freedom is not guaranteed, or when a human social life is not possible.

The essential features of these and similar insights can be recognised by the human mind and are available to everyone. The reflecting reason shapes them into legal norms and rules of action. In the historical process of human self-recognition, there is definitely a progress which must be maintained if mankind is to live a decent and humane life. Today, for instance, slavery has to be judged as a grave and direct offence against human dignity and natural law, although in ancient times and even in the Middle Ages, it was justified by saying that some people need direction by “a wiser man.”¹⁵

In our context, knowledge of facts implies all three of the above-mentioned fields. Political action, economic action, etc. must depend on and be guided by this insight into the social reality - an insight of which the natural light of human reason is capable.

Furthermore, due to its pluralistic world view, the society in which we now live needs a concept of social order, the essentials of which are generally comprehensible and accessible to all. This common basis may be narrow and small, but without such a basis, no responsible cooperation between the different groupings and ideologies in a community will be possible. If only for that reason, a set of shared common values and norms is imperative and vital for society.

What has been considered up to now is, of course, meant for the political or economic actions of Christians as well. They should, above all, act properly and according to the knowledge of facts. For example, a Christian doctor cannot operate on an appendix using “Christian principles”; this can only be done according to medical rules. To behave as a Christian demands that one always acts as professionally as possible. The “Christian frame of mind” demands - coming back to the doctor - that he/she no longer handle a scalpel when his/her fingers begin trembling. Regarding political action, Pope John XXIII therefore rightly

¹⁵ Thomas Aquinas, *Summa theologiae*, 2 II, q57, a3, ad 2; q104, a5.

emphasised in his Encyclical *Pacem in Terris*, published in 1963: "It is not enough to be illuminated with the gift of faith and enkindled with the desire of forwarding a good cause"; it is necessary as well to be "scientifically competent, technically capable and skilled in the practice of one's own profession".¹⁶ This fundamental insight shows the importance of matter-of-fact information, factual knowledge as well as political and economic information and knowledge of social matters. For Christian Social Teaching, it is therefore imperative to know and take up the results of research and the latent information regarding the social sciences.

2. CONNECTION BETWEEN THE CHRISTIAN FAITH AND POLITICAL AND ECONOMIC ACTION

In a second step, the connection between the mission of salvation entrusted to the Church and the shaping of the secular world is considered. The obvious distinction between both spheres and the emphasis on the "autonomy of earthly affairs" do not mean a segregation. On the contrary, there is a clear mutual connection between Christian faith and socio-political commitment.

2.1 Political and social dimensions of Jesus' message

Even though the Gospel does not present a model of a new economic or political order, the message of Jesus and therefore Christian faith, have a social dimension and are related to politics and economy. The Biblical message - for example the doctrine of the equality of human beings before God or the commandment to love one's neighbour- addresses individuals in order to lead them to eternal salvation. An individual person, however, does not exist only as an individual, but always as a member of a community as well. "No man is an island", said the Poet John Donne. According to the Greek philosopher Aristotle, the human being is political animal" (*Zoon politikon*); according to Thomas Aquinas, the great philosopher and theologian in the Middle Ages, the human being is "a social animal" (*animal social*). The "Robinson" of Daniel Defoe's novel *Robinson Crusoe* does not exist. (Robinson was cast up on a desert Island. But even in the novel, he soon found a fellow human, Friday.) Love of one's neighbour is therefore not only an "I-you relation", but demands to be determined also in the wider quest for liberty, justice and peace for other people; in short, it also carries with it responsibility for state and society.

There is another reason for the political alignment of the biblical message. Jesus lived during times in which the political and economic conditions of life seemed to be unchanging by nature. Conditions did change, of course, but these changes were scarcely noticed, occurring very slowly and over long periods of time. The individual human considered them to be more or less unchangeable. Because of this, the moral instructions of Jesus were necessarily focused on the individual. Nowadays we experience and know that the social structure itself is variable, changing and, to a great extent, subject to shaping by human will and power. Changes of economic or political structures can target and strike entire groups and "classes" of people. Consequently, the Christian commandment to love one's neighbour gains a new dimension and demands that care only for the individual in distress is no longer enough. Love of one's neighbour also calls for the prevention of inhuman social conditions and - whenever they have developed - for their removal. In this sense, from the very beginning and not only later, the message of Jesus also relates to the political and economic life of the human being; it relates to society.

¹⁶ John XXIII, Peace on Earth – *Pacem in Terris* (1963), No. 147-148

2.2 Christian responsibility for the world

In the same way, Christian faith and a Christian's actions are related to politics, economic and social matters. Christians must prove themselves in economic and political life, in the secular world as such. The New Testament clearly distinguishes between the world as evil (see Jn 7,7; 12,31; 1 Cor 1,20.21.27), the world as God's good creation (Act 17,24; Heb 1,10), testifying his divine nature and power (Rom 1, 19.20), revealing his glory (Mt 6,26-30; Acts 14,15-17), and the world as the sphere into which Christians are sent in order to prove themselves (Mt 5.13-16; 24,14; Mk 16,15; Jn 17,18; Rom 1,8; Col 1,6). The biblical "No" against the world as evil must not be falsified to "No" against the world as such.

On the contrary, biblical revelation emphasises the "independence" of "earthly affairs", and demands of Christians to prove themselves in the world, not least in political and economic life. According to their abilities, they are responsible for "temporal affairs" and have to contribute to a just shaping of human coexistence, to a just shaping of society. "The expectation of a new earth" - the Pastoral Constitution of Vatican Council Two reminds us – "must not weaken but rather stimulate our concern for cultivating this one",¹⁷ in which we now live.

Christians therefore "cannot talk about politics as a 'dirty business'" and hope or demand that God "let other people do this 'dirty business'"; the above-mentioned theologian Karl Rahner emphasised this. On the contrary, it is a Christian's duty, according his/her ability, "to work together with all in building a greater, freer, more human world". For "a worldly life without reservation honestly lived"- one may also say: a honestly lived political or economic life - "really is part of a pious life".¹⁸ It is obvious what that insight means for the connection between faith and the secular world, for the importance of socio-political commitment.

Christians are called on to prove themselves in political life, in economic life, in the secular world as such. In the final judgement we shall be asked about our contribution to the creation of a more human world: I was hungry, thirsty, naked - maybe it should be added nowadays: I was unemployed, a refugee, unborn - What did you do? Did you help me (sec Mt 25, 31-46)?

2.3 "Critical function" of Christian revelation and Church

The Gospel does not state in detail how to solve political, economic or any other "earthly" problems here and now. But the revelation might have an important "critical function" for Christian behaviour and action in the world. Jesus proclaimed that liberty, justice, peace, and reconciliation will be in his heavenly kingdom. These "eschatological promises of salvation" belong to the very core of his message and force again and again every Christian to take on social responsibility",¹⁹ because they cannot be individualised. There is no liberty, justice, peace and reconciliation for the single individual only.

By nature, these promises are related to the social life of human beings living together, to the community. Those who want to be Christians must be committed to a free and just society, to peaceful human coexistence.

Christians (and the Church) must therefore always critically examine whether existing social conditions and whether their political and economic activities really serve the common good.

¹⁷ Second Vatican Council, Pastoral Constitution (1965), Art. 39,3.

¹⁸ Karl Rahner, Frömmigkeit früher und heute, in Karl Rahner, Schriften zur Theologie, Vol. 7, Einsiedeln 1971, 11-31,25f.

¹⁹ Johann Baptist Metz, Zur Theologie der Welt, Mainz-München 1968, 105.

The guidelines are liberty, justice, peace and reconciliation. In this way, some selfishness and “ideologisation” of a political or other kind, often not malicious, could be avoided. Such a “critical unrest function” is important, even if the essence of being a Christian does not, of course, only consist in being an “unrestful critic of society”.

2.4 Removal of inhuman social conditions

The Gospel of St. Luke tells the famous story of the Good Samaritan (see Lk 10.30-37). While travelling from Jerusalem to Jericho, a man was attacked by robbers and left half dead on the road. Neither a passing priest nor a levite on his way stopped to care for the injured man, but a man from the pagan Samaria did. The moral of this story may be applied to many social situations of similar kind.

The Encyclical *Quadragesimo Anno*, published in 1931, states that often “conditions of economic and social life are such as to create for vast multitudes of souls very serious obstacles in the pursuit of the one thing necessary, their eternal salvation”.²⁰

Although both statements aim at different goals, they agree in the following way: whenever people are in great distress, whenever – generally speaking – social or political conditions obviously and seriously contradict a humane order of society, biblical revelation and Christian faith directly and in concrete terms demand the removal of such inhuman conditions. Christians must not be passive in situations in which human dignity and basic human rights are trampled on. In cases such as this, the biblical message makes a clear political or economic demand. To use the same metaphor, the man beaten by robbers must not bleed to death, whether he suffers in a Latin American favela, in a South African township, in a camp for Congolese refugees, or is on his way from Jerusalem to Jericho.

The Gospel, however, does not prescribe what to do or how to help: ie, whether the helper should take the injured individual to the nearest inn, patch him up on the spot or help him in some other way. Jesus also does not prescribe how the helper can ensure that the man is not attacked again when returning from Jericho; i.e., the Gospel does not state how the “structure of robbery” is to be removed – all these decisions depend on one's knowledge of facts. Christian revelation, the commandment to love one's neighbour and the demand of solidarity ask of Christians that they are committed to shaping a humane life for human beings. But each person must acquire the knowledge of political, economic and other facts for himself/herself. In order to do so, political information and economic knowledge are imperative.

3. CHRISTIAN UNDERSTANDING OF THE HUMAN BEING AS A PERSON

Jesus did not proclaim a new economic programme, and the Gospel is not a political prescription. The Christian message, however, includes general guidelines and ideas for shaping a humane social order. This leads to Christian Social Teaching in the stricter sense and, in particular, to the Christian understanding of the human being, which forms the basic and core of this social teaching.

Pope John XXIII draws attention to the starting point in his Encyclical *Mater et Magistra*, published in 1961:

“Individual human beings are necessarily the foundation, cause, and end of all social institutions”.

²⁰ Pius XI, *After Forty Years-Quadragesimo Anno* (1931), 130.

By "this very basic principle ... the dignity of the human person is affirmed and defended".²¹ Some remarks and examples may explain what belongs to and is part of the Christian concept of the human person, and what the general guidelines are for shaping a humane social order in this context.

3.1 The human being - image of God

Biblical revelation states that:

"God created human beings, making them to be like himself. He created them male and female" (Gen 1,27).

The Christian understanding of the human being includes the basic fact that each human being is created by and in the image of God: endowed with incomparable value and unique dignity. To be the image of God implies, firstly, the human ability to be self-conscious and self-determining, as well as the unique value and original dignity of each human person. In the 1963 Pastoral Letter *Pacem in Terris*, Pope John XXIII stated "that every human being is a person; that is, his (and her) nature is endowed with intelligence and free will".²²

The Bible adds to this individual feature, secondly, that each human being is related to the world and superior to it, related to other human beings and responsible for them, and related to God, who created all of them and in whom they shall find their eternal fulfilment. "By his innermost nature man is a social being",²³ the Pastoral Constitution of the Second Vatican Council states.

According to the biblical message, both characteristics are essential: the incomparable value and unique dignity of each individual and his/ her relationship to the world, to other human beings and to God. The author of Psalm 8 expressed this biblical truth as follows:

"You made man inferior only to the gods; you crowned him with glory and honour; you appointed him ruler over everything you made."

Because the human being is the image of God - God's visible appearance in the world - according to the biblical revelation, each human being shares in God's sublimity, dignity and majesty. Whoever therefore injures human beings, injures God; whoever attacks one of them, attacks God. The New Testament adds that Jesus Christ became man and brother of every human being, that he died for the salvation of all, and that all are called to resurrection and eternal life. In a unique way, this central biblical message describes human dignity and gives reasons for it.

Biblical revelation states further that the span between birth and death is a short but crucial time of decision which determines whether human beings achieve the destiny of their lives - a destiny which transcends the present world. Because of this, and although it is only temporary, earthly society is the place where we must prove ourselves and is therefore most important.

Both of these double determinations are essential for the Christian understanding of the human person: the uniqueness and inviolable dignity of the individual and his/her relationship to the community, the transcendent destiny of the human being and everyone's duty to be responsible for the world and the people therein.

²¹ John XXIII, *Christianity and Social Progress-Mater et Magistra* (1961), No. 219-220

²² John XXIII, *Pacem in Terris* (1963), No. 9.

²³ Second Vatican Council, Pastoral Constitution (1965), Art. 12,5.

3.2 Basic equality, of human beings

A second essential of Christian understanding of the human being is no less important for shaping a human society. Contrary to the huge social, cultural and political differences in those times, the Bible emphasises the fundamental equality of all human beings who without exception are children and images of the same creator. In addition, the New Testament attributes special significance to this equality, in particular for the community of the faithful: "There is no difference between Jews and Gentiles, between slaves and free people, between men and women; you are all one in union with Christ Jesus" (Gal 3,28), the apostle Paul writes to his friends in the churches of Galatia.

It is difficult to imagine today the significance of such a statement, in times when a woman was only regarded and recognised as a second-class human being and a slave was not judged as a human being at all. The demand emanating from such a statement has concrete consequences for political ethics and for the action of a Christian: ie, each human being - people of different beliefs, races and gender, the sick, the unborn as well as the elderly - enjoys the same dignity and equal rights. The relevance of this truth to shaping a human social order in view of the present situation almost throughout the world is obvious.

3.3 Main Christian attitudes - "Eschatological reservation"

A further example of what belongs to the Christian conception of the human being and what is important for shaping a human society has already been mentioned. Jesus proclaimed the eschatological promises of liberty, justice, peace and reconciliation as the very core of his salvation. Consequently, liberty, justice, peace and reconciliation are basic Christian attitudes. They are, of course, not only Christian attitudes, but they oblige Christians and challenge them in particular. These "eschatological promises of salvation" force every Christian to take on social responsibility. They cannot be individualised; there is no liberty, justice, peace and reconciliation for the single individual only. By nature, these promises are related to the social life of human beings living together, to the community. Those who want to be Christians must therefore be committed to a free and just society and to peaceful human coexistence.

On the other hand, the eschatological aspect of these promises should not be overlooked. Jesus proclaimed that liberty, justice, peace and reconciliation will come to their fullness in his heavenly kingdom.

"They cannot be simply identified with conditions of an earthly society here and now."

This "eschatological reservation"²⁴ forbids making absolute utopias of any kind; it warns against any "social utopianism" - even if utopias might be imperative. Human beings need visions and utopias as incentives in order to strive for targets. But human actions - and therefore political and economic actions as well - always are and always will be temporary and incomplete.

3.4 "New quality" of ethical rules

The biblical message - and consequently the Christian understanding of the human being - give ethical rules a "new quality". What does "new quality" mean in this context?

As far as I can see, three points of view can be distinguished: one aspect refers to the theology of creation, a second to the theology of redemption and, finally, an eschatological perspective.

²⁴ Metz, *Theologie der Welt*, 105, 110 (see note 19).

According to biblical revelation, God created the human being and the universe. For Christians, therefore, ethical norms and moral laws which our human intellect infers from the nature of human beings and society are ultimately based on God, their creator, and not only on human beings and society.

On the other hand, the new quality results from the revelation that God in Jesus Christ devoted himself to the world and all human beings, accepted them in love and redeemed them. God became man in Jesus of Nazaret and said "a full yes" to human beings and their world.

Finally, the new quality of ethical rules follows, from God's promise that every human activity and the world as such will be completed and fulfilled in God. With regard to this eschatological perspective, the Bible mentions "new heavens and a new earth" (2 Petr 3,13). There we shall find again the results of human works and efforts - the Pastoral Constitution of the Second Vatican Council states - "the values of human dignity, brotherhood, and freedom and indeed all the good fruits of our nature and enterprise ... freed of stain, burnished and transfigured".²⁵

The firm belief that God created man and universe, that in Jesus Christ he accepted all human beings and their world, and that every human activity and its results will be completed in God's fulfilment, "free from stain, burnished and transfigured" - this conviction does not give immediately more ethical insights or more moral laws. It does, however, demand a qualitative change of Christian thinking and action in the sense of a more determined commitment to moral laws and a stronger obligation to shaping a human social order, because this obligation is based on God. Each moral decision made by Christians includes their relationship to God, and therefore more strongly demands of them truly human behaviour. Thus, biblical revelation - and, because of that, Christian understanding of the human being - give ethical rules a "new quality".

4. SOCIAL PRINCIPLES: SOLIDARITY AND SUBSIDIARITY

As outlined up to now, Christian Social Teaching understands the human being in view of biblical revelation. From this understanding it deduces the principles of solidarity and subsidiarity as "laws of building a society"²⁶ - an expression coined by the above-mentioned social scientist Oswald von Nell-Breuning, who seventy years ago worked out the draft of the Encyclical *Quadragesimo Anno*.

4.1 The principle of solidarity

The principle of solidarity implies that the human person by his/her very nature depends on fellow human beings, on the community and, on the other hand, that the community is based on this social nature of the person. The existence of the community is therefore not dependent on the arbitrariness of the individuals. Individuals always influence the community - whether they do something or not, whether they intend to influence or not - and vice versa. This fact of mutual dependence and influence is not pure chance; it is based on the nature of human beings as God created them. It is a principle of existence", a "principle of being", *a principium essendi* according to the Latin expression. I merely refer to human abilities such as the ability to talk and to love - abilities that are "thinkable" and that can exist only in the community of human beings.

²⁵ Second Vatican Council, Pastoral Constitution (1965), Art. 39,5 (see note 6)

²⁶ Oswald von Nell-Breuning, *Baugesetze der Gesellschaft. Solidarität und Subsidiarität*, Freiburg 1990.

From this principle of solidarity, as a principle of existence, a principle of being, the moral obligation and moral principle follows that each human being should behave accordingly and should take on responsibility for his/her fellow human beings, for the community; ie, should practise solidarity. Christian Social Teaching therefore emphasises the importance and necessity of commitment to the community and, in a global view, attaches much significance to development issues.

4.2 The principle of subsidiarity

The principle of subsidiarity is age-old. In 1931 subsidiarity received its classical formulation by Pope Pius XI in the Encyclical *Quadragesimo Anno*, but it expresses human experiences from time immemorial. I mention just a few examples.

When Jethro saw that Moses, his son-in law, was kept busy from morning till night settling disputes and quarrels among the Israelites while they were wandering through the desert, he gave him some good advice:

"You will wear yourself out. This is too much for you to do alone. You should choose some capable men and appoint them as leaders of the people: leaders of thousands, hundreds, fifties, and tens ... They can bring all the difficult Gases to you, but themselves shall decide all the smaller disputes. That will make it easier for you, as they share your burden of responsibility. If you do this you will not wear yourself out" (Ex 18, 18-23).

Abraham Lincoln, the great 19th century United States president (1809-1865) who abolished slavery in his country, clearly expressed the political dimension of the subsidiarity principle:

"The legitimate object of government is to do for a community whatever they need to have done but cannot do at all, or cannot so well do for themselves in their separate and individual capacities. In all that people can individually do as well for themselves, government ought not to interfere."

Alexis de Tocqueville (1805-1859), one of the great French political philosophers of the 19th century, was a strong supporter of the subsidiarity principle. According to him, democratic states should enjoy a powerful central authority; one must, however, not give all areas of responsibility to it, but rather "as many areas as possible to lower bodies".²⁷

These few examples stand for many others. Therefore, the Pastoral Letter *Quadragesimo Anno* did not proclaim a new principle:

"It is indeed true, as history clearly shows, that owing to the change in social conditions, much what was formerly done by small bodies can nowadays be accomplished only by large organisations. Nevertheless, it is a fundamental principle of social philosophy, fixed and unchangeable, that one should not withdraw from individuals and commit to the community what they can accomplish by their own enterprise and industry. So, too, it is an injustice and at the same time a grave evil and a disturbance of right order to transfer to the larger and higher collectivity functions which can be performed and provided for by smaller and lower bodies. Every social activity should, by its very nature, prove a help to members of the social body, it should never destroy or absorb them."²⁸

The principle of subsidiarity implies three main aspects:

²⁷ Alexis de Tocqueville, *Das Zeitalter der Gleichheit*. Ed. by Siegfried Landshut, Stuttgart 1954, 102-103.

²⁸ Pius XI, *Quadragesimo Anno* (1931), No. 79.

- The larger and higher association, the community, must not "withdraw" and arrogate to itself "functions which can be performed (efficiently) and provided for by (individuals or) smaller and lower bodies"; it has only "subsidiarity" to intervene in order to enhance the abilities of the individual, but "never to destroy or absorb them".
- The community, however, must intervene and be "a help", if the individual is overtaxed; but the community must also take back again that "help for self-help", whenever it has been successful - a rule which one might call "subsidiary reduction".²⁹
- The community has to create the conditions in order to enable individuals to practise their abilities and to carry out their tasks as well as possible.

The principle of subsidiarity has often been misunderstood. The English expression "subsidiary" connotes "to be subordinated to someone" or "to be a second class matter, a second class subject". The noun "subsidiarity" is not even to be found in the Duden Oxford Dictionary (1990). With regard to the principle, these connotations are definitely wrong. The expression *subsidium afferre*, as the Latin text reads, demands "to be helpful", to "prove a help to members of the social body", and not "to subordinate someone to somebody"; and the expression *numquam ea destruere et absorbere*, as the Latin text continues, forbids larger associations "to destroy or absorb" their members. Human beings are not second class beings. Because of that, John XXIII rightly stated in the 1961 Pastoral Letter *Mater et Magistra*: "The cardinal point" of Christian Social Teaching and the basis of the subsidiarity principle is that individual human beings "are necessarily foundation, cause, and end of all social institutions".³⁰ Subsidiarity proclaims the help of the community for each of its members, but not their oppression. The principle refers to the human person as an individual, determines the areas of responsibility between the individuals and lower associations (such as families, municipalities and provinces) on the one hand, and the larger, higher community on the other. Its main function is to enable and safeguard freedom and liberty. Whoever puts special emphasis on the right of involvement and co-determination in state and society, is supported by the principle of subsidiarity. A central authority should perform only tasks that cannot be performed effectively at a local level.

Therefore, decentralisation, the transfer of decisions to grass-roots level, federalism in a broader sense, and democratic forms of decision-making are not only in accordance with the principle, but are the realisation of subsidiarity.

To refer to a few current problems: those who, according to the Amsterdam Treaty of Europe's unification process, support the decentralisation of decisions and strive for a Europe of Regions, try to put into effect the principle of subsidiarity. Those who in the process of building the new South Africa make every effort to situate as many areas of responsibility and decisions as possible at the local and provincial level, also try to realise the principle of subsidiarity.

5. DEVELOPMENT AND TASK OF CHRISTIAN SOCIAL TEACHING

5.1 Christian Social Teaching is as old as the Church itself

The Church - the community of those who believe in the God of Jesus Christ - received the commandment from its founder to continue his work of salvation. This implies the Church's duty to look after social, political and economic issues that are significant for human salvation, and to proclaim its social teaching. Christian Social Teaching is therefore as old as

²⁹ Lothar Schneider, *Subsidiäre Gesellschaft – Erfolgreiche Gesellschaft*, Paderborn ³1990, 31-37, 35

³⁰ John XXIII, *Mater et Magistra* (1961), No. 219.

the Church itself. It started in the time of Jesus and continues up to the teaching of a catechist in our days. Jesus, for example, made statements on rich and poor and the apostle Paul taught about state authority. In the Early Church the problem of Christian civil servants in the pagan Roman Empire, and in the Middle Ages the relationship between pope and emperor were, to mention a few examples, fiercely discussed.

Since the 19th century, statements on issues of social life became an important part of the pastoral preaching of the Church and "a valid Instrument of evangelisation".³¹ The Pastoral Letter *The Condition of Labour – Rerum Novarum* (1891) deals with the situation and problems of workers and the Encyclical *After Forty Years – Quadragesimo Anno* (1931) deals with the social order as such, primarily in the European (and North American) context. The Pastoral Letter *Christianity and Social Progress - Mater et Magistra* (1961) analyses current social problems and the Encyclical *Peace on Earth - Pacem in Terris* (1963) outlines conditions for peaceful human coexistence in a global view. The Pastoral Constitution *The Church in the Modern World - Gaudium et Spes* (1965) of the Second Vatican Council considers the relation of the Church to the world of today. The Encyclicals *On the Development of Peoples – Popularum Progressio* (1967) and *On Social Concern - Sollicitudo Rei Socialis* (1987) treat the worldwide problems of development. The Pastoral Letter *On Human Work – Laborem Exercens* (1981) looks at the central significance of human labour; the Encyclical *On the Hundredth Anniversary of Rerum Novarum - Centesimus Annus* (1991), provides the key points of the current social teaching of the Church.

5.2 Scholarly research

Since the 19th century and more or less parallel to these Pastoral Letters, Christian Social Teaching as a special part of scientific theology developed as a discipline of its own. It understands itself as a scholarly research into the Church's pastoral teaching on social issues. The task of this theological social teaching is to explain the social message of the Church, its coherence and structure, to inquire into the special nature of the underlying principles and to assess the validity of its respective conclusions, thus to analyse their temporary or permanent content and, taking into account the results of the social sciences, to contribute answers to new social issues and questions.

CONCLUSION

Christian revelation and the demand of solidarity ask Christians to be committed to shaping a human social order for human beings. But "the Church does not have technical solutions to offer"³² and does not prescribe model structures of a political, economic or any other kind.

First and foremost, political and economic action must be based on the knowledge of real facts. Everyone must acquire this knowledge of political, economic and other facts for himself/ herself. Because of that, "differences of opinion in the application of principles can sometimes arise"³³ even among sincere Christians. Politics and economics are fields of mostly complex issues which, according to the knowledge of facts, can be judged differently.

The Pastoral Constitution of the Second Vatican Council takes up the same point, stating "that with equal sincerity some of the faithful will disagree with others on a given matter". Hence

³¹ John Paul II, *Centesimus Annus* (1991), 55,2.

³² John Paul II, *Sollicitudo Rei Socialis* (1987), No. 41,1.

³³ John XXIII, *Mater et Magistra* (1961), No. 238.

no-one should in situations of disagreement "appropriate the Church's authority (only) for his opinion".³⁴

Biblical revelation and Christian faith demand the removal of inhuman conditions and a commitment to shaping a human social order. The application of these principles in detail and the concrete ways of building a just society depend on political, economic and social knowledge as well as on the experience of the single individual. Plurality of opinion is therefore natural. "Christian faith can lead to different commitments." Christians, however, who decide in favour of those "different commitments" and "at first sight seem to be in opposition" to each other, are asked to make every "effort at mutual understanding of the other's positions and motives".³⁵ In my view, this is a task in particular for Christians engaging in political action, to which Christian Social Teaching should contribute and for which it should qualify them.

³⁴ Second Vatican Council, Pastoral Constitution (1965), Art. 43,6.

³⁵ Paul VI, A Call to Action – *Octogesima Adveniens* (1981), No. 50,1.

Social Market Economy and Christian Social Teaching*

INTRODUCTION

The economic concept known as "Social Market Economy" has played a central role in the political and social upheavals that the world has witnessed since 1989. These upheavals changed the face of Middle and Eastern Europe with profound implications for many parts of the globe including South Africa.

The majority of people in the former communist countries considered Social Market Economy to be the "path of hope" into a better future. I recall the slogan going around the German Democratic Republic during (and after) the "peaceful revolution" of 1989: "If the DM (Deutsche Mark) does not come to us, we shall move to the DM!"

On the other hand, many do not know what is meant by Social Market Economy, or what it ought to be or to achieve. As a result, they associate it with the cruel capitalism that arose in the 18th and 19th centuries, which did not know, and even excluded, social responsibility, ethics, morality and social justice; these words were not even in its vocabulary. In many countries this association is valid, based on people's experiences up to now. If only because of these misconceptions, it is advisable and makes good sense to deal with the issue of Social Market Economy and Christian Social Teaching. But there are still many other reasons. as we shall see, for dealing with the subject of market economy and morality.

In the first part of this paper, I shall outline the neoliberal understanding of the Social Market Economy (1). In this context, the theoretical concept will be the focus. Whenever everyday economic practice does not correspond to this model, one should first inquire why it was not realised instead of blaming the concept. I will then briefly introduce what I call European neoliberalism and examine the reform approaches proposed by these European neoliberals in comparison to classical economic liberalism, often called "Manchester Capitalism", and the basic differences between both economic concepts (2). In a third section, the main aspects of how Social Market Economy is judged by Christian Social Teaching will be presented (3). Finally, an attempt will be made to explain what is needed from its perspective so that neoliberal becomes a genuine Social Market Economy (4).

1. NEOLIBERAL UNDERSTANDING OF SOCIAL MARKET ECONOMY

After World War Two, in particular since 1948, the concept of Social Market Economy gained increasing acceptance (in Central Europe and especially Germany). Neoliberal economists and politicians such as Wilhelm Röpke, Alexander Rüstow, Ludwig Erhard and Alfred Müller-Armack - to name a few - who had opposed the National Socialists and their centrally planned and controlled economy, worked out the first essential traits. The Christian Democratic Union (CDU) declared itself in favour of the concept of Social Market Economy.³⁶ After the founding of the Federal Republic of Germany in 1949, Ludwig Erhard was Minister of Economic Affairs for many years and became known as the father of the German economic miracle. Above all, he and his long-standing advisor and secretary in the

³⁶ See note 7.

ministry, Alfred Müller-Armack, put the theory of Social Market Economy into political and economic practice.

1.1 Competition of achievement and efficiency

The neoliberal "fathers" understood by Social Market Economy, an economic system combining "the principle of freedom in the market with the principle of social justice". The concept is based on the conviction that competition is "an indispensable tool for organising modern mass societies", but that this competition "only works if it is safeguarded by a clean framework and strong legal regulations".³⁷ The central core of Social Market Economy is "competition based on achievements of output and efficiency" (*Leistungswettbewerb*). Since real competition does not automatically result from the free play of forces - as history and modern economics teach - the state policy has the responsibility to enable, establish and promote competition, as well as to safeguard it from restrictions by powerful individuals or collective amalgamations. Legislators and government must therefore create "the legal framework for every economic activity, business, trade and industry"³⁸ (*den rechtlichen Ordnungsrahmen für das wirtschaftliche Geschehen im weitesten Sinn*); this framework "has to prevent restrictions of free competition as much as possible and, at the same time, control unavoidable monopolies and cartels in order to make competition work most effectively for the consumers' interest, advantage and benefit".³⁹

1.2 Social conditions and elements

Added to the "competition of achievements" are equally important social conditions, rules and social objectives that need to be met and which form the so-called "second pillar" of Social Market Economy. These social elements were considered by the neoliberal founders of the Social Market Economy to be on four levels:

- The alignment of industry and commerce with the needs and wishes of the consumers (by the play of supply and demand) and not with a central state authority as it was during the war and post-war periods.
- An income distribution tied to individual performance and achievements and in this sense "a just income distribution".⁴⁰
- A continual improvement in economic production due to the constant pressure of competition.
- Owing to rising productivity, the increasing ability of the state to compensate for socially negative results and to facilitate necessary changes to economic structures.

During the war and post-war periods in Germany, the economy was planned and controlled by a central state authority. Individual consumers were not allowed to buy as much as, or exactly what, they wanted. The government prescribed, for example, how much bread and butter per month, and how many coats and pairs of shoes per year, each person was entitled to buy. Against the background of this centrally planned economy, the alignment of economic activity to the needs and wishes of the consumers appeared in itself already to be a social achievement. It is certainly true that the wishes of consumers can be manipulated by

³⁷ Alfred Müller-Armack, *Soziale Marktwirtschaft*. in: *Handwörterbuch der Sozialwissenschaften*. Vol. 9. Stuttgart 1956. 390-392. 390.

³⁸ Was ist Soziale Marktwirtschaft? Aktionsprogramm der Aktionsgemeinschaft Soziale Marktwirtschaft. in: *Das christliche Gewissen und die soziale Marktwirtschaft des Neoliberalismus*, offprint from *Junge Wirtschaft*. No. 2/ Februars 1960. 7.

³⁹ Müller-Armack, *Soziale Marktwirtschaft*. 391 (see note 2).

⁴⁰ Ludwig Erhard, *Das Problem der freien Marktwirtschaft*, in: *Vierteljahreshefte zur Wirtschaftsordnung*, 1949, 71-87, 78.

advertising, but this is a misuse; the true role of advertising is information. It is therefore useful, even necessary, the advocates of the Social Market Economy say, that independent test institutes give as much objective information to the public as possible.

Sometimes the improvement of efficiency and productivity is criticised as being materialistic. However, according to the famous scholar of social history and economist Alexander Rüstow, as long as "all human beings do not enjoy at least the subsistence level, the improvement of productivity is a more than economic demand, it is a social demand, a moral demand".⁴¹

Greater economic efficiency, finally, increases the capability of the state to correct socially negative results of the market process and to make tolerable necessary changes to the economic structure; ie, it helps those unable to help themselves, for example the sick, old and handicapped. Economic efficiency is the condition for social efficiency. Economic downswing results in social downswing, in cutting back on the welfare state. Economic efficiency is not everything, but without economic efficiency everything becomes nothing.

To sum up: the goal of Social Market Economy is, according to neoliberal thought, to combine the free initiative of individuals in the marketplace with a social welfare development that is based and safeguarded by market economy achievements. According to the programme of the Christian Democratic Union before the first national election in 1949, two economic systems were to be rejected:

- The so-called "free economy of 'liberalist' character". This is the free or pure market economy of earlier centuries known as capitalism and existing in parts of the world up to 110W, in which the weak and poor are exploited by the mighty.
- The "socialist system of a centrally planned and controlled economy" which is not able to manage the problem of both "efficient production" and "just distribution of the products".⁴²

The former prime minister of Bavaria and Chairman of the Christian Social Union, Hanns Seidel, expressed this understanding of Social Market Economy as early as 1947, stating that we need "an effective and sound market economy" as well as "social safeguards" which ensure that the market economy "does not degenerate into a mere profit economy".⁴³

2. NEOLIBERAL REFORMS COMPARED WITH CLASSICAL ECONOMIC LIBERALISM/CAPITALISM

2.1 Neoliberalism - what is it?

I have repeatedly mentioned "neoliberal" and "neoliberalism". What do these terms mean and how are they to be understood? It seems to me that in many countries throughout the world, "neoliberal" and "neoliberalism" are very close, or even identical, to "capitalistic" and "capitalism". Examples of this are the economic policies of Ronald Reagan and Margret Thatcher, or the economic theories held by the wellknown economists Milton Friedman/Chicago and Friedrich August von Hayek, who received the 1974 Nobel Prize for economics. Von Hayek, who lectured in economics in the United States for many years, considered the concept of

⁴¹ Alexander Rüstow, *Wirtschaft als Dienerin der Menschlichkeit*. in: *Was wichtiger ist als Wirtschaft' Vorträge auf der fünfzehnten Tagung der Aktionsgemeinschaft Soziale Marktwirtschaft am 29. Juni 1960*. Ludwigsburg 1960, 7-16, 10.

⁴² *Düsseldorfer Leitsätze der Christlich Demokratischen Union vom 15. Juli 1949*, in: Ossip K. Flechtheim (Ed.), *Dokumente zur parteipolitischen Entwicklung in Deutschland seit 1945*, Vol. 2, Berlin 1963, 58-76 60 f.

⁴³ Hans Ferdinand Groß, *Hanns Seidel 1901-1961, Eine politische Biographie*, München 1992, 70.

Social Market Economy to be a contradiction in itself, a "wooden iron", and rejected its social dimension.⁴⁴

In 1997, the Latin American provincials of the Society of Jesus published a "Letter and Study Document on Neo-Liberalism in Latin America". They described "the neo-liberal economic logic" in South America as "a concept of the human person which limits the greatness of man and woman to their capacity to generate monetary income". That is exactly the point of view from which classical economic liberalism and its absolute rationalism assess the world of industry and commerce, and reject any criteria coming from outside as "alien to the economy-including social and moral considerations". Therefore, "neoliberalism, as it is understood in Latin America" - and in other parts of the world - "is a radical conception of capitalism".⁴⁵

As far as I can see, neoliberalism as developed in Central Europe differs to a large degree from these examples and from what is called neoliberalism in other parts of the world. What I call "European neoliberalism", in principle, adheres to the economy of free competition; at the same time, however, it recognises that old or classical economic liberalism has degenerated into a pure profit economy by establishing nightmares such as Manchesterism or Manchester Capitalism: therefore, European neoliberals try to eliminate it.

After World War Two, to mention just one example, Alexander Rüstow - one of the neoliberal fathers of Social Market Economy - published the book *The Failure of Economic Liberalism*.⁴⁶ He pointed in particular to the lack of an economic framework in classical economic liberalism and to its "socially blind eyes". The book became famous, was published in a number of editions, and had a great deal of influence on economics and economic policy. In contrast to the old economic liberalism, Alexander Rüstow and his fellow European neoliberals put special emphasis on the necessity for social conditions and objectives to be met and on the importance of a legal framework, set to economic activities and to the economy as a whole. They therefore created the term "Palaeoliberalism" in order to distinguish the old or *palaeo* - as the Greek expression reads - liberalism from the modern "socially orientated"⁴⁷ neoliberalism. This old or palaeo economic liberalism without social aims and social responsibility - and still existing in parts of the world - is considerably different from what they called neoliberalism, or "socially orientated" neoliberalism. (Whenever I use the expressions neoliberal or neoliberalism, I am talking about this European neoliberalism.) We should therefore watch closely in order to understand what sort of neoliberalism someone is talking about.

An influential school of thought within neoliberalism is the so-called "ordoliberalism". Its main feature is the concept of "ordo": the ordered competition, the ordered economic conditions, ordered by a strong state. (The academic yearbook of neoliberal economics in Germany, which still exists today, is called *Ordo*.) The idea of ordered or regulated compe-

⁴⁴ See Friedrich August Von Hayek, *Gesetzgebung und Freiheit' Eine neue Darstellung der liberalen Prinzipien der Gerechtigkeit und der politischen Ökonomie*, 3 Vols' Landsberg am Lech 1980-1981; 2nd volume: *Die Illusion der sozialen Gerechtigkeit*.

⁴⁵ The Latin American Provincials of the Society of Jesus, *Letter and Study Document on Neo-Liberalism in Latin America*, in: *Promotio Iustitiae*, No' 67. May, 1997, 41-60. 45. 48.

⁴⁶ Alexander Rüstow. *Das Versagen des Wirtschaftsliberalismus*. Bad Godesberg ² 1950.

⁴⁷ See Alexander Rüstow. *Paläoliberalismus, Kommunismus, Neoliberalismus*, in: *Das christliche Gewissen und die Soziale Marktwirtschaft*. Offprint from *Junge Wirtschaft*, No. 2 / February 1960, 3-7.

tion was elaborated by the School of Freiburg, which was well-known in economics and headed by the famous economist Walter Eucken.⁴⁸

2.2 Main neoliberal reform approaches

The reform approaches of European neoliberalism compared with earlier capitalism may be summarised - as far as I can see - in four theses:

- *Freedom to contract and free competition are not identical:* The older or palaeoliberal capitalism demanded both absolute freedom of the economic participants as well as free and well-working competition. Its advocates did not realise, however, that the absolute freedom in the marketplace, the absolute freedom to make contracts, allows and entitles the establishment of monopolies and cartels. Absolute freedom of the individual economic participants could and can itself destroy free competition. History teaches that this has repeatedly happened in the past and continues to happen today. (For example, there is no competition if all petrol stations in a region are owned and run by one company.) Rid of competition, the monopolist is tempted to increase prices to the consumers' disadvantage, thereby gaining a monopoly profit. This misuse of the legitimate principle of profitability can be prevented if each economic participant permanently competes with fellow competitors in the marketplace. Competition forces the single enterprise to set its prices as low as possible in order not to be eliminated by fellow competitors, by the market. Only in the case of real and complete competition does the pursuit of self-interest contribute to the best possible provision for all people and serves the public weal: (a part of) what Christian Social Teaching calls the "common good".
- *Competition based on performance and achievements does not arise by itself; it has to be "established" by the state:* In the neoliberal concept, the state is not simply a "night watchman". Since real competition does not automatically result from the free play of forces, as history and modern economics teach, politics has the responsibility to establish and promote "competition of achievements" and to prevent - demands the Encyclical *Quadragesimo Anno*, published in 1931 - "despotic economic domination ... in the hands of a few";⁴⁹ ie, it must prevent monopolies and cartels. Monopolies that are unavoidable must be controlled by the state. Its policy has to provide a "legal framework" for the economy; a constitution that safeguards competition and - if necessary - "establishes" competition. The German expression is *veranstalten*. This term means that whenever and wherever there is no competition, state policy has to make the market participants compete, possibly forcing them to compete. According to neoliberal thinking, this free "competition of achievements", established and guaranteed by the regulating policy of the state, is the so-called "third way" between liberal capitalism and communist collectivism. For the founders of Social Market Economy, therefore, a monopolies law and a monopolies commission that examines take-overs and ensures that a monopoly is not being created, are the core, the "basic law of the Social Market Economy".⁵⁰ (In Germany, the law and the commission had to be introduced by Ludwig Erhard, the abovementioned Minister of Economic Affairs, and his fellow supporters of Social Market Economy against heavy opposition from industry and commerce. The national parliament passed the law in 1957.)

⁴⁸ See Walter Eucken, *Die Wettbewerbsordnung und ihre Verwirklichung*, in: *Ordo* 2 (1949) 1-99: id., *Nationalökonomie -Wozu?* Düsseldorf⁴ 1961; id., *Die Grundlagen der Nationalökonomie*, Berlin 1965; id., *Grundsätze der Wirtschaftspolitik*. Ed. by Edith Eucken and K. Paul Hensel, Tübingen⁵ 1975.

⁴⁹ Pius XI. *After Forty Years - Quadragesimo Anno* (1931), No' 105'

⁵⁰ Hans Herbert Götz, *Wettbewerb und Monopolkampf. Erinnerung an Franz Böhm*, in: *Frankfurter Allgemeine-Zeitung*, No. 102 / 3 May 1995, 10.

- Many things of great importance for human beings are inaccessible to the market mechanism:* In contrast to palaeoliberal capitalists, the European neoliberals realised that economic competition alone is insufficient to form a humane economic order. Competition must be complemented by social and economic interventions of the state. "For many things which are inaccessible to the market mechanism are of the greatest importance for human needs". People who are not, who are not yet or who are no longer, able to compete "cannot be abandoned to the market". These "market passives" as Alexander Rüstow stated are unable "to take care of themselves in a manner required by the market because they are ill, they are weak, they are young, they are old, etc.". Rather, "one must do something for them if one wants to be responsible and humane".⁵¹ The community (the state) therefore has to establish a so-called "social net" to take care of these people. In contrast, neoliberalism in South America - as the above-mentioned provincials of the Society of Jesus emphasise - "acknowledges the laws of market alone" and because of that, its supporters "are not shocked by the hunger and insecurity of multitudes left hopeless"⁵² State intervention is also required in order to facilitate those necessary changes in the economic structure which are beyond the ability of the people affected. Such changes "cannot be allowed to regulate themselves, at some time or another, in a palaeoliberal and capitalistic manner". But state intervention should "conform to and be in accordance with the rules of the market and not prevent these changes and make them impossible".⁵³ We can see that there is a whole series of areas which, totally or partially, will be inaccessible to the market mechanism, either for a certain time or permanently, but which are of fundamental importance for human beings. Pope John Paul II completely agrees with this European neoliberal reform approach in his Pastoral Letter *Centesimus Annus*, published in 1991: "There are collective and qualitative needs which cannot be satisfied by market mechanisms. There are important human needs which escape its logic."⁵⁴
- Economy, market and competition are not an end in themselves, but must be at the service of human needs, at the service of the human society:* The South American provincials of the Society of Jesus write in their previously mentioned letter: "Neo-liberalism, as it is understood in Latin America, is a radical conception of capitalism that tends to absolutise the market and transform it into the end of all intelligent and rational human behaviour."⁵⁵ In what I call European neoliberalism, however, both market and competition are evaluated in terms of "the service they perform". Market and competition, including the profit factor are - to quote again the neoliberal economist Alexander Rüstow - "not an end in themselves but rather a means to an end",⁵⁶ a tool for supplying people in the best possible way; they must be at the service of human needs. There are many things "which are more important than the economy". Rüstow mentioned family, cultural, moral and human matters as such, which are more important than the market itself. The economy is there "to serve these trans-economic values" and must give them "priority in the case of a conflict".⁵⁷

To summarise: in Europe, the neoliberal fathers of Social Market Economy understood it as a system combining economic efficiency by the "competition of achievements" and the realisa-

⁵¹ Rüstow, Paläoliberalismus, Kommunismus, Neoliberalismus, 5 (see note 12).

⁵² Letter on Neo-Liberalism in Latin America, 45 (see footnote 10).

⁵³ Rüstow, Palaeoliberalismus, Kommunismus, Neoliberalismus. 6 (see note 12).

⁵⁴ John Paul II. On the Hundredth Anniversary of Rerum Novarum - *Centesimus Annus* (1991), No. 40.2.

⁵⁵ Letter on Neo-Liberalism in Latin America. 48 (see footnote 10).

⁵⁶ Rüstow, Paläoliberalismus. Kommunismus, Neoliberalismus, 6 (see note 12).

⁵⁷ Rüstow, Wirtschaft als Dienerin der Menschlichkeit, 8, 15 (see note 6).

tion of social conditions and objectives. The core of the model is the regulated competition that promotes and guarantees economic efficiency and productivity. The supporters of this model at the same time reject unlimited freedom in the marketplace, as well as the disregard for social elements and social responsibility that always characterises old or palaeoliberal capitalism. In comparison with classical economic liberalism, these European neoliberals proposed remarkable reforms. They realised, for instance, that absolute freedom can damage, cut down and even destroy competition, that competition has to be "established" and promoted by a strong state, and that important human needs and values cannot be left to the market. The state must safeguard competition by law, must compensate for socially negative results of the economic process by social policy, and must make necessary changes in the economic structure endurable by economic policy. Because of that, Social Market Economy in neoliberal terms and what I call Manchester Capitalism are fundamentally different, and Social Market Economy requires a powerful state. The essential difference between old or palaeo liberalism and neoliberalism might be described as Wilhelm Röpke, one of the founders of Social Market Economy, described it: "According to the palaeoliberal concept, competition was a natural plant" growing by itself; "according to our neoliberal conviction, it is a cultivated plant"⁵⁸ which must be tended, pruned and nursed.

3. SOCIAL MARKET ECONOMY AND CHRISTIAN SOCIAL TEACHING

How does Christian Social Teaching judge Social Market Economy in European neoliberal terms? First, I shall give a brief historical summary of the Catholic Church's attitude towards market economy. I will then point out main aspects of how Social Market Economy in the outlined neoliberal understanding is judged by Christian Social Teaching.

3.1 The Catholic Church and Market Economy

For a long time the attitude of the Church Magisterium towards competitive or market economy was reserved and cautious. "Free competition, though justified and quite useful within certain limits", the Encyclical *Quadragesimo Anno* of 1931 states, "cannot be the guiding principle of economic life". Some translations read: free competition "cannot be the ruling principle of the economic world" or "an adequate controlling principle in economic affairs", The Latin text states: "*Liberuni certamen...rem oeconomicarum dirigere nequit* - Free competition cannot direct the economy". It is true, the Encyclical explains its statement in the sense that "unregulated competition" cannot be "a principle of self-direction".⁵⁹ But all in all, in the past the Church Magisterium was more or less reserved and sceptical towards market and competition as such.

This attitude has changed greatly in recent years. I quote only a few voices: in 1985, Joseph Cardinal Höffner of Cologne - for many years Professor of Christian Social Teaching and then Chairman of the (German) Catholic Bishops, Conference - declared himself in favour of "a socially tempered, socially oriented market economic order".⁶⁰ The Pastoral Letter *Centesimus Annus* of 1991 judges "business economy, market economy or simply free economy... certainly in the affirmative" sense, if it is "circumscribed within a strong juridical framework which places it at the service of human freedom in its totality", Pope John Paul II

⁵⁸ Quoted according to Oswald von Nell-Breuning, *Trennendes und Gemeinsames in den Hauptrichtungen der Wirtschaftswissenschaft und Wirtschaftspolitik*. in: *Grundsatzfragen der Wirtschaftsordnung* Berlin 1954. 215-231, 218.

⁵⁹ Pius XI, *Quadragesimo Anno* (1931), No. 88.

⁶⁰ Joseph Cardinal Höffner, *Wirtschaftsordnung und Wirtschaftsethik. Richtlinien der katholischen Soziallehre*. Bonn 1985, 41.

avoids the (specifically German) expression "Social Market Economy", although he describes in detail its ethical foundations and economic consequences. He uses the concepts "freedom" and "social justice" to show the ethical basis of Social Market Economy; he uses "market mechanisms" and "public control" as its two fundamental regulatory elements. And his references to "abundant work opportunities", to a "solid system of social security," and to the removal of the "commodity" character of labour by means of legislation to safeguard its "dignity",⁶¹ express the principal objectives of a Social Market Economy. Commentators therefore called the Encyclical "a declared belief in Social Market Economy".⁶² The pastoral statement "The Common Good", published in 1996 by the Catholic Bishops- Conference of England, stresses "that market forces, when properly regulated in the name of the common good can be an efficient mechanism for matching resources to needs". The market economy ensures "that individual decisions can be made according to individual wants and needs".⁶³ In the same year - to mention a last Church voice - Bishop Josef Homeyer (who is in Charge of social affairs in the German Catholic Bishops' Conference) called the Social Market Economy "one of the greatest achievements of a free democracy". But it must be a true Social Market Economy; "it must not be changed into a market economy without this adjective. Market economy needs stability", and stability "depends on social peace. Without social peace the basic aims of Christian Social Teaching are in danger, and in addition, in the longer term a competitive economy is not possible".⁶⁴

This understanding corresponds, as we shall see, with the way Social Market Economy - in the full sense of the word - sees itself, competition is not the only but one "guiding principle of economic life" and must be complemented by equally important social elements.

For a long time the Social Democrats, who are the great left-wing party in Germany, rejected the concept of Social Market Economy. A few years after World War Two, however, they began to change this conviction. I will not go into detail, but will mention two examples. In 1956, one of the party's leading economists criticised a centrally directed economy as "a system of lack of freedom", and demanded that our "free and democratic socialism" should declare itself in favour of "an economic order that, in principle, is a market economy". The Bad Godesberg party conference of 1959 confirmed this change of position. The so-called Godesberger Programm emphasised: "Free competition and free initiative of trade and industry are important elements" of our policy, "In a totalitarian way centrally planned and controlled economy destroys freedom. Therefore, the Social Democratic Party says yes to the free market, wherever there is real competition... competition as much as possible - planning as far as necessary". The same goes for the Berliner Programm which was passed by the party conference in December 1989.⁶⁵

⁶¹ John Paul II, *Centesimus Annus* (1991). No. 42.2; 19,1-2. See Joseph Cardinal Höffner, *Christian Social Teaching with an Introduction and Complementary Notes* by Lothar Roos, *Ordo Socialis* (Köln) 1997, 158.

⁶² Peter Langhorst, "*Centesimus Annus*" und der Mensch. Zur Jahrhundertzyklika Papst Joannes Pauls II" in: *Lebendiges Zeugnis* 47 (1992) 178-189, 189.

⁶³ *The Common Good and the Catholic Church's Social Teaching. A statement by the Catholic Bishops' Conference of England and Wales*, London 1996. No' 78.

⁶⁴ Josef Homeyer, „Marktwirtschaft braucht sozialen Frieden“ in: *Rheinischer Merkur*, No. 43 / 25 October 1996, 11.

⁶⁵ Gerhard Weisser, *Freiheitlicher Sozialismus*, in: *Handwörterbuch der Sozialwissenschaften*, Vol 9, Stuttgart 1956, 509-518, 517; *Grundsatzprogramm der Sozialdemokratischen Partei Deutschlands. Beschlossen vom Außerordentlichen Parteitag der Sozialdemokratischen Partei Deutschlands in Bad Godesberg vom 13. bis 15. November 1959*, Bonn 1959, 13-14; see Hans Langendörfer/Peter Siebenmorgen, *Zwischen Selbstverwirklichungsutopien und Solidargemeinschaft. Das neue Programm der SPD*, in: *Herder Korrespondenz* 44 (1990) 124-129.

3.2 Main aspects of a critical judgement of Social Market Economy from the perspective of Christian Social Teaching

How is the Social Market Economy in the outlined understanding of European neoliberalism judged by Christian Social Teaching?

3.2.1 Christian Social Teaching agrees with the concept of economic competition

In principle, free market and fair competition are to be approved. I refer to the late Jesuit Father Oswald von Nell-Breuning. He was a foremost social scientist and theologian, a doyen of Christian Social Teaching who as a young lecturer had worked out the draft of the Encyclical *Quadragesimo Anno* of 1931. Von Nell-Breuning had great influence on the development of Christian Social Teaching (and after 1945, on German social policy). His whole life committed to the trade union movement. He could not be suspected of sympathy with any kind of capitalism. After World War Two, Germany's industry was destroyed and its economy ruined. In this disastrous situation, Von Nell-Breuning demanded in 1948: "First get market economy going as much as possible"⁶⁶ and eliminate the centrally planned and controlled economic system.

The main reasons for this assertion were - and are as follows: material resources, when compared with the material needs of mankind, are in short supply. The commandment of solidarity demands, therefore, that sufficient material goods necessary for life are made available to as many people as possible. Competition and market - more than all the other economic systems we know to date - are able to utilise the scarce and limited economic potential in the best possible way and thus, on the whole, to stimulate a more productive activity.

The above-mentioned statement by the English Bishops states that: "No other system has so far shown itself superior in encouraging wealth creation and hence in advancing the prosperity of the community, and enabling poverty and hardship to be more generously relieved. Centrally commanded economies, in contrast, have been seen to be inefficient, wasteful, and unresponsive to human needs."⁶⁷ Economic inefficiency and the squandering of resources in the socialism that actually existed and which has broken down in our time, are an obvious and concrete proof. In this context, therefore, the Pastoral Letter *Centesimus Annus* of 1991 emphasises:

"Certainly the mechanisms of the market secure advantages: they help to utilise resources better they promote the exchange of products: above all they give central place to the person's desires and preferences."⁶⁸

The more the volume of goods necessary for life can be increased and the more consumption of limited resources can be decreased - for example, the consumption of scarce energy and the demands made on the natural environment to produce these goods - the less the living conditions of future generations will be burdened.

⁶⁶ Oswald von Nell-Breuning, Address at the 1st meeting of the Advisory Council of Economic Administration. 23-24 January 1948 in Königstein im Taunus (shorthand record), in: Oswald von Nell-Breuning, *Wirtschaft und Gesellschaft heute*, Vol. 1, Freiburg 1956. 156-158. 158.

⁶⁷ *The Common Good* (1996), No. 78 (see note 28).

⁶⁸ John Paul II, *Centesimus Annus* (1991), No. 40,2.

Uneconomic utilisation of limited economic resources and the squandering of the economic potential violates human solidarity or - in Christian words - breaks the commandment to love one's neighbour. Because of that, the moral quality and value of a market economy lie primarily in its ability to use scarce and limited economic resources to the optimum.

On the other hand, the state ought only to exert as much authority and pressure as is absolutely necessary, and ought to give as much freedom as possible to individuals. Christian Social Teaching more precisely: the commandment of subsidiarity, which is one of its basic principles - demands that individuals themselves be active agents and subjects in the economic field. The subsidiarity principle claims "that one should not withdraw from individuals and commit to the community what they can accomplish by their own enterprise and industry". This would be "an injustice and a grave evil",⁶⁹ stresses the Encyclical *Quadragesimo Anno* of 1931, which formulated the principle for the first time. Subsidiarity therefore holds that those things which can be done or decided by individuals or at a lower level of society, should not be taken over by a higher level. It demands (I repeat) that individuals themselves be active agents in the economic field - ie, that they have the opportunity to take the economic initiative.

They are not simply parts or functionaries of an economic collective, whether this is called people's democracy, the state or anything else. Regarding this point, neoliberalism and Catholic Social Teaching "are in complete agreement".⁷⁰

3.2.2 The understanding of freedom and the priority of the economy in neoliberalism needs to be criticised

To a great extent, the neoliberal concept of freedom is just a formal one. The scope of decision and action of the individual should be limited as little as possible. The understanding of freedom which is oriented to the human being and his/her dignity demands, however, that free decisions must be aligned to one's responsibility for one's neighbour and - being a Christian - to one's responsibility to God.

A second question refers to the role of economic freedom. Without doubt, economic freedom takes "a legitimate place in the systems of values". But economic freedom is "neither the only nor the highest value"; it rather stands among other values such as social justice, common good and solidarity. Sometimes freedom "might even take second place to them".⁷¹

Another objection, connected to the previous one, refers to the neoliberal over-emphasis on the economy. In neoliberal theory and especially in neoliberal practice, the economy de facto is often seen and treated as equivalent to the "market forces", the market mechanism, ruled by competition. For Christian Social Teaching the economy is a part of comprehensive societal transactions, and economic actions have important social implications. The quality of an economy is therefore to be measured by the extent to which it contributes to the creation of human conditions of life for all. An abundance of economic goods and material wealth alone is not desirable if, for example, this wealth is unjustly distributed. The objective of the economy is not to produce an abundance of goods for some people - that is to say, for the rich - but

⁶⁹ Pius XI, *Quadragesimo Anno* (1931). No. 79

⁷⁰ Oswald von Nell-Breuning, *Neoliberalismus und katholische Soziallehre*, in: Oswald von Nell-Breuning, *Wirtschaft und Gesellschaft heute*, Vol. 3, Freiburg 1960, 81-98, 82.

⁷¹ Georg Bernhard Kripp, *Wirtschaftsfreiheit und katholische Soziallehre*, Zürich - St' Gallen 1967, 171-172.

to ensure the best possible provision for all; the objective of the economy is "not to meet the demand to a maximal extent but in an optimal way". Guidelines for economic activities therefore cannot be obtained only from the economic sphere itself; these guidelines must also be determined by ethical and human values - by the dignity of the human person.

Social Market Economy in neoliberal thought is therefore called "social" without full justification and only "on credit", even though it constitutes a huge progress compared to palaeoliberal capitalism. This Social Market Economy is completely identical with the economic ideas of the outlined neoliberalism and, to my mind, some European neoliberals are deliberately using the expression "free market economy - in the same sense as Social Market Economy. It would therefore be better and more honest if they only spoke of Neoliberal instead of Social Market Economy even though it marks - I emphasise once again - a huge progress in comparison with Manchester Capitalism.

4. FROM A NEOLIBERAL TO A (GENUINE) SOCIAL MARKET ECONOMY

4.1 Market economy and social dimension -equal in weight

Social Market Economy in neoliberal terms implies free and well-working competition that is safeguarded by the state, as well as social targets for the economy. Its guiding principle was and is: good economic policy is good social policy. What is crucial for neoliberals is that the economy should achieve the maximum output, and the economic process should be allowed free play. Afterwards - if necessary - social corrections ought to be carried out.

Against this view I put forward the following objection. Social Market Economy in the outlined neoliberal understanding is not yet a Social Market Economy in the real and full sense of the term. We should not overlook this, especially in view of economic practices after the collapse of the centrally controlled economies in former Eastern bloc states, but also elsewhere. I mentioned what I call "capitalistic neoliberalism", up to now existing in many countries, not only in Latin America. Some of these practices, maybe many of them, have only pretensions to be considered as Social Market Economy. But Social Market Economy in true neoliberal thought is also called "social" without full justification. It is not enough to make possible and to safeguard the process of the free market and economic competition, and afterwards - perhaps - to correct socially detrimental results. It is not good enough to pull the child out of the river, after it has fallen in. It is just as crucial that from the very beginning the social dimension is recognised as essential and equal in weight to all economic activities. To use the metaphor again, the child must be protected from falling into the water. Social Market Economy in the real and full sense, which is not a simple neoliberal one, does not only safeguard the "play of the competing market forces" and later on - if necessary - carry out social corrections. From the very outset, state and politics have to provide those presuppositions and conditions which are needed - as the repeatedly mentioned Oswald von Nell-Breuning demanded - for "a human economic process and for its positive social results"⁷² (für einen sozial befriedigenden Vollzug und ein sozial gerechtes Ergebnis der Wirtschaft).

4.2 Humane economic process - positive social results

The "human production process" includes the humanisation of working conditions so that employees are not already crushed under the wheels of the production process, and it also

⁷² Oswald von Nell-Breuning, *Wie "sozial" ist die "Soziale Marktwirtschaft"?* in: *Den Kapitalismus umbiegen. Schriften zu Kirche, Wirtschaft und Gesellschaft*, ed. by Friedhelm Hengsbach, Düsseldorf, 1990, 222-238, 236.

includes the involvement of the work force in economic decision making.⁷³ "The human economic process" aims to provide the conditions for the creation of new, sustainable jobs by changing the economic structure before segments of industry and their jobs go into decline. All these goals are examples which belong to a "human economic process".

"Positive social results" demand, for instance, the integration of ecological targets that are becoming increasingly important. Destruction of the environment must not be accepted. "It is the task of the state", the Pastoral Letter *Centesimus Annus* of 1991 firmly declares, "to provide for the defence and preservation of common goods such as the natural and human environments, which cannot be safeguarded simply by market forces".⁷⁴ "Positive social results" include a just income distribution: an abundance of wealth alone is not a desirable aim. If this wealth is unjustly distributed. Therefore, it is the task of Social Market Economy to direct the allocation of the national product to different groups of people so that the distribution of income and fortune is adequate and fair.

For some years the model of the Social Market Economy has had to face an additional serious problem. In the context of the growing global "interdependence of national economies"⁷⁵ - as the Encyclical *Pacem in Terris*, published in 1963, states - until today the world economy lacks a global framework that would correspond to the domestic or national framework within a state. The much discussed globalisation enables economic participants and, in particular, transnational companies to act more and more outside any framework. The framework, however, is essential for the concept of Social Market Economy. The "hot potato" of an international economic order results from this lack of framework. The existence of the United Nations and its institutions are at best if at all - first steps, Europe is presently attempting to shape a kind of regional framework by founding the European Union. In the long-term, in my view, a global framework is absolutely necessary. This must not be "a world state - which seems neither to be possible nor, because of the danger of a global dictatorship, desirable. But a "world federation of independent states", as political scientists correctly suggest, their "institutionalised cooperation"⁷⁶ on a global level is imperative - in whatever way it may be organised. Hans Tietmeyer, then president of the German Federal Bank and no utopian dreamer, demanded "a worldwide social order" which "ought to be established step by step".⁷⁷ And the *Frankfurter Allgemeine Zeitung*, one of the opinion-forming newspapers in Europe and not opposed to big business, firmly stated that "in the long term a global competition authority will be necessary in order to prevent private monopolies of power".⁷⁸ In addition, such a global cooperation is imperative also for the sake of other vital aims, for example global peace-keeping. I cannot see an alternative.

CONCLUSION

Social Market Economy, according to the true sense of the term and as understood by Christian Social Teaching, not only ought to provide legal guarantees for a free and well-working competition, correcting socially detrimental results at some later stage. Social Market

⁷³ See Franz Josef Stegmann, "Worker Participation" in Decision-Making, in: Praxis, Journal of Christian Business Management, Vol. 5 (No. 3 / September 1997), 11-14.

⁷⁴ John Paul II, *Centesimus Annus* (1991), No. 40,1.

⁷⁵ John XXIII, Peace on Earth *Pacem in Terris* (1963), No. 130'

⁷⁶ Bernhard Sutor, Die Bedeutung der kirchlichen Friedensethik in der gegenwärtigen politischen Situation, in: Stimmen der Zeit 122 (1997) 507-518, 517.

⁷⁷ Christ in der Gegenwart, No. 26 / 28th June 1998, 220.

⁷⁸ Jürgen Jeske, Größe allein ist nicht von Übel, in: Frankfurter Allgemeine Zeitung, No. 154 / 7th July 1998, B 1.

Economy, in the full sense of the term, recognises the social dimension as essential and equal in weight to all economic activities; and it provides from the very beginning those conditions that are needed for "a human economic process and its positive social results".⁷⁹ A mere "regulated competition" is not sufficient.

To express it metaphorically: the bread we eat must first be baked, and for that we need an oven that works well - ie, we need an economy that operates efficiently. And competition and markets are able - more than any economic systems we currently know - to utilise the scarce and limited economic potential in the best possible way. The bread, however, must not be baked under inhuman working conditions and it must be fairly distributed; everyone must get a just share. For that, what is needed is a framework shaped by the legislator in alignment with the common good and carried through by state policy; this is more than the pure neoliberal model demands.

* This paper was presented by Prof. Stegmann at The Winter School – St Augustine College, Johannesburg (July 1998) – under the title “Social market economy: a good chance or a wrong track?” The paper has since been revised and extended.

⁷⁹ See note 37.

Economic Competition and Social Justice*

"The framework is the main place where morality in modern market economy is to be situated"

INTRODUCTION

Let me begin with reference to my native country, and its recent history. World War Two saw the defeat of Germany, its industry destroyed and its economic structure ruined. I was about 15 years old at the time and remember this well. Even in the early 1950s when I attended university, the situation was still quite bad. For example, we could not enter Munich University through the main entrance because there was a huge bomb crater which had not yet been filled. During winter, each student had to bring a bundle of wood every week to heat the stoves of the lecture halls because the automatic heating system, destroyed by bombs, was still out of order. I have many more similar memories of those dark years. Within a period of 15 to 20 years, however, Germany's post-war reconstruction of its economy was successful.

Today the Federal Republic of Germany enjoys strong economic power. At the same time, what is as astonishing or, as I see it, more astonishing, is its unusually high social level. Some criticise it as being too high; and even compared with many industrialised countries, Germany's social structure is surprisingly stable. Next to Japan, the number of strike days is one of the lowest in industrialised countries.

Germany certainly faced many economic problems, particularly in recent years. Take for instance the problems caused by unification. Since 1990, about DM150 billion (R450 billion) have been and are annually transferred to the former communist German Democratic Republic to reconstruct its ruined economy. Then there are problems caused by the reversed population pyramid, whereby the same number of people in the workforce must bear the costs for an increasingly older population. Added to this are the problems caused by economic globalisation. Owing to the high wage level, many companies transfer factories from Germany to Eastern Europe or — particularly during recent years — to South East Asia, where wages are much lower. Nevertheless, economic and social standards are remarkably high, and the so-called "social net" is tense and tight — again some criticise: too tight.

Many factors contributed positively to Germany's economic and social post-war reconstruction. An example is aid from the United States via the Marshall Plan during the first post-war years. One of the most important factors, however, was the general policy of economic competition as a main part of Social Market Economy. (The second paper in this volume entitled Social Market Economy and Christian Social Teaching deals with this economic system.) The issue of economic competition and its relationship to social justice will be the focus of this paper.

Are market economy and economic competition on the one hand, and social justice and morality on the other, contradictory, as it seems at first glance and is often asserted?

Another reason for dealing with the relations between economic competition and social justice is just as important. Until recent times, a naive belief in progress was often dominant. It was believed that almost all problems could be solved by political, economic, scientific or other means. Today, problems such as underdevelopment, unemployment, environmental pol-

lution, drug abuse, crime of every kind, etc. seem to be more and more difficult to solve. In this situation, the issues of economic competition and social justice, of market economy and morality acquire additional significance.

This paper will briefly describe the tensionladen relationship between economic competition and morality (1). Why do freedom in the marketplace and social justice seem to exclude each other? I shall then briefly present the thesis of economic ethics: in a market economy the framework is the main place — not the only one, but the main place — where morality is to be situated (2). In the third and longer section, I will explain this thesis in eight steps and give reasons for it (3).

1. CONTRADICTION BETWEEN MARKET ECONOMY AND MORALITY

In academic discussions and even more in the fields of economic policy and everyday economic life, two contrasting positions frequently come into conflict. Some make the autonomy of economic forces of the market, of economic laws and of the economy as such, absolute and are convinced that compliance with and subordination to moral laws in the economic area create bad results. In a market economy each individual economic participant tries to minimise the costs of his/her products and to maximise sales revenue in order to make as much profit as possible. This principle of profitability is supplemented by the principle of competition. At the same time, fellow competitors try to minimise their costs and to maximise their earnings. By doing so, all of them put pressure on costs and prices, because each competitor wants to sell as many products as possible. Therefore, at the core of a market economy is competition; ie, the free play of market forces.

A crucial condition of this play of market forces is freedom of decision by the individual economic participants. Compliance with moral laws — even if well meant but coming from outside the economic field and, consequently, alien to the economy — would restrict this freedom, cause additional costs and disturb the free market process. Subordination to moral laws would therefore prevent the economy from operating efficiently and would create negative results. As a result, social considerations and morality do not and must not have a place in this "play of market forces".

Others claim the absolute priority, of ethics over the economy. Economy and market are not an end in themselves. They must be at the service of human beings and their needs. The aim of the economy is not to enable individual market participants to make as high a profit as possible, but rather to supply all people in the best possible way.

Many things are more important than the economy; profit has a low priority, if at all. The economy is there to serve these needs and values; in any case, therefore, it has to be subordinated to morality and must give ethics absolute priority. People holding these moral convictions often only make moralising appeals to economic participants, without taking into account the particular nature and requirements of the economy; and, therefore, business people just as often do not listen to those appeals and do not accept them.

The basis of both contrasting views is the fact that in a market economy, in an economy that is competitive, additional efforts - for example for social or ecological targets, or for human and moral purposes as such - seem to be wellnigh impossible. As a rule, economic efforts are connected with expenses, with costs. In a market economy, additional efforts - ie, additional expenditure - can be used and exploited by fellow competitors who do not have to bear those additional costs. If for a longer time the expenses of an enterprise are higher than the costs of

its competitors, the enterprise will become bankrupt and will be eliminated by the market. Competition and morality are consequently thought to exclude each other.

From this fact two famous figures - Karl Marx and Friedrich August von Hayek (who received the 1974 Nobel Prize for economics) - drew contrasting conclusions. Karl Marx demanded for the sake of social justice and morality the elimination of economic competition as fully as possible.

By contrast, von Hayek (who lectured in economics in the United States for many years) considered the concept of Social Market Economy to be a contradiction in itself, a "wooden iron", and rejected its social dimension in favour of market efficiency. He therefore gave the second volume of his main work *Legislation and Liberty* the title "The illusion of social justice".⁸⁰ Thus, morality and competition, market economy and social justice seem to exclude each other.

2. RESOLVING THE CONFLICT BETWEEN COMPETITION AND MORALITY BY THE FRAMEWORK

Whenever the expenses an enterprise has to bear exceed the expenses of its Fellow competitors permanently or even only for some time, the enterprise will become bankrupt and will be eliminated by the market. At this level, therefore, competition and morality do exclude each other.

Do they exclude one another? If so then must they? Can the dilemma be solved? It is a real dilemma; a real conflict. Modern economic ethics claim that this conflict between competition and morality can be solved - at least to a great extent. A new approach that understands economic ethics primarily as the ethics of institutions and structures, tries to do so. I will first briefly introduce this economic-ethic approach, after which I will give reasons and explanations.

When I was studying at Munich University, I enjoyed mountain climbing. When you are on a hike and your friends realise they left their lunch behind, you will surely share your food with them. But when this happens for a third or fourth time, you will probably check their backpacks before starting off. This face-to-face relationship makes it easy to detect and change deviant behaviour.

But when the breakfast jam I buy from the store becomes progressively less tasty, I cannot exercise control in the same way. Instead, switch brands. If other consumers do the same, the jam producer will begin to notice a drop in sales, and should look for the cause and attempt to remove it.

What does this tell us? In modern mass society without one-to-one relationships, controls operate in a different way from those in a small and accessible group. This experience and insight leads to the basic thesis:

⁸⁰ Friedrich August von Hayek. *Gesetzgebung und Freiheit. Eine neue Darstellung der liberalen Prinzipien der Gerechtigkeit und der politischen Ökonomie*, 3 Vols, Landsberg am Lech 1980-1983; 2nd Volume: *Die Illusion der sozialen Gerechtigkeit*.

"The framework is the main place - not the only, but the main place - where morality in the market economy is to be situated."⁸¹ (Die Rahmenordnung ist der systematische - nicht der einzige - Ort der Moral in der Marktwirtschaft).

3. FRAMEWORK: MAIN PLACE OF MORALITY IN MARKET ECONOMY

In this section I will explain why the main place of morality in modern market economy is the framework and will provide reasons for this thesis.

3.1 Distinction between individual motives and national economic results

The starting point is the distinction between individual motives for economic activities and national economic results of activities. Enterprises and individual economic participants rightfully try to make a profit; even as large a profit as possible is their legitimate aim.

As a rule, self-interest is the motive for their activities. People work and are busy in order to meet their needs, to fulfil their purposes and to realise their aims. These mainly economic motives do not exclude other motives. For example, a father naturally wants to provide well for his family,. He regards this as his moral duty and therefore tries to get an appropriate income in order to do so. Thus, to a great extent, economic activities are inspired and motivated by individual economic interests. In other words in the broader sense self-interest - which is not necessarily selfishness - is the driving force and incentive for individual economic activities.

In addition, whenever market participants are unable to make a profit but, for a longer time, suffer losses and go into the red, they will be eliminated by the market and do not survive.

With regard to what is called the national economy, the situation is completely different. The task of the national economy is to ensure the best possible provision for all people; ie. "the 'social aim and object' of market and competition is the welfare of everyone, the public weal",⁸² (a part of) what Catholic Social Teaching calls the "common good". This distinction between the level of individual motives (of individual economic participants and their targets) and the level of the national economic system (the national economy and its task) is decisive and must not be overlooked or mixed up. This separating of individual economic participants and their motives on the one hand, and the national economy and its task on the other, already forms the basis of Adam Smith's (the founder of classical liberal economics) statement:

"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect what we need to eat but from their regard to their own interest. We do not talk to them of our needs, but of their advantages".⁸³

3.2 Distinction between framework for activities and activities within the framework

The activities of individual economic participants do not, however, automatically realise the best possible supply to all people, the public good. Historical experience and modern economics teach this. They put it into effect only within an adequate framework, within a proper

⁸¹ Karl Homann, Wirtschaftsethik. in: Lexikon der Wirtschaftsethik. Ed. by Georges Enderle a.o., Freiburg 1993. 1286-1296. 1290.

⁸² Karl Homann, Wettbewerb und Moral, in: Jahrbuch für Christliche Sozialwissenschaften 31 (1990) 34-56, 39.

⁸³ Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations. London 1776 (Der Wohlstand der Nationen. Eine Untersuchung seiner Natur und seiner Ursachen. ed. by Horst Claus Recktenwald, München³ 1990, 17).

order. We must therefore draw a distinction between the "framework for activities" and "activities within the framework". The framework for activities includes the constitution, economic laws, the legal order of competition, and other essential features of the political and economic convictions of the community. This framework is the area of responsibility of the national legislator - and, in our time, of global institutions. Activities within the framework are, for example, investment policies of enterprises, strategies of buying and selling, price policy, etc. These activities are the area, the business of the individual market participants.

One must distinguish - to use the metaphor of a football match - between "rules of the game", which each player has to observe, and "moves in the game", which depend on the skills of the individual players. Politics - more precisely, the legislator - must establish a legal framework that makes individual economic participants in their own interest act and behave in business life as is demanded by the well-being of everyone. Each economic player, all individual market participants, have to observe the rules of this framework set to their activities and to the economy as a whole; and the state authority has to ensure that these rules are observed. Thus "competition takes place and is carried out within rules which safeguard the public good".⁸⁴ As a result, "the framework is the main place where morality in the market economy is to be situated".⁸⁵ Within the framework, in the field of moves, there is competition. The "moves in the economic game" are free. (We will see later that they are not completely morality-free; ie, the moves in the economic game are what I call "paradigmatically morality-free".) Within the framework, the ability, imagination and, above all, efforts and skills of the individual economic participants are stimulated and challenged. In this way, at the same time, competition and morality - at different levels - come into and remain in effect. The coordination of individual wishes is carried out according to the market rules: the framework has to ensure that self-interested action does not degenerate into selfish action, thereby contradicting social aims and the freedom of others. The pastoral statement "The Common Good" published by the Catholic Bishops' Conference of England in 1996, takes up the same thought: "The good functioning of the market requires a regulated and legal framework."⁸⁶ The key role of the framework is therefore most important and must not be overlooked.

3.3 Moral quality of the market

Market and competition are imperative because they are able to utilise the scarce and limited economic resources in the best possible way -more than any other economic system known or experienced to date. I have dealt already with this issue⁸⁷ and referred to Oswald von Nell-Breuning SJ, a foremost social scientist and doyen of Christian Social Teaching. Having committed his whole life to the trade union movement, he could not be suspected of sympathy with any kind of pure market economy or capitalism. In order to reconstruct the ruined German economy and its destroyed industry, Von Nell-Breuning demanded after World War Two: "First get the market economy going as much as possible"⁸⁸ and eliminate the centrally planned and controlled economic system. (He was a member of the Advisory Council of

⁸⁴ Walter Kerber, Ordnungspolitik, Gemeinwohl und katholische Soziallehre. Der Sozialen Marktwirtschaft zum Gedächtnis, in: Jahrbuch für Christliche Sozialwissenschaften 31 (1990) 11-33, 13.

⁸⁵ See note 2.

⁸⁶ The Common Good and the Catholic Church's Social Teaching. A statement by the Catholic Bishops' Conference of England and Wales, London 1996, No. 78.

⁸⁷ See "Social Market Economy and Christian Social Teaching" 3.2.1 (p. 25) of this publication.

⁸⁸ Oswald von Nell-Breuning, Address at the 1st meeting of the Advisory Council of Economic Administration., 23-24 January 1948 in Königstein im Taunus (shorthand record). in: Oswald von Nell-Breuning, Wirtschaft und Gesellschaft heute, Vol. I. Freiburg 1956, 156-158. 158.

Economic Administration, the predecessor of the Ministry of Economic Affairs, and made this demand at its first meeting in 1948.)

The main reasons for Von Nell-Breuning's assertion were - and are - as follows: material resources, when compared with the material needs of mankind, are in short supply. The commandment of solidarity therefore demands that sufficient material goods necessary for life are made available to as many people as possible. Competition and market - more than all the other economic system known to date - are able to utilise the scarce and limited economic potential in the best possible way and thus, on the whole, to stimulate more productive activity. "No other system has so far shown itself superior", the previously mentioned statement of the English Bishops states. "Centrally commanded economies, in contrast, have been seen to be inefficient, wasteful, and unresponsive to human needs."⁸⁹ Economic inefficiency and squandering of resources in the socialism which existed in Russia, Eastern Europe, East Germany and elsewhere, and which has broken down in our time, are obvious and concrete proof. The more the volume of goods that are necessary for life can be increased, and at the same time, the more the consumption of resources to produce these goods can be decreased (for example, the consumption of scarce energy and the demands made on the natural environment to produce these goods), the less the living conditions of future generations will be burdened.

Uneconomic utilisation of limited economic resources and the squandering of the economic potential violates human solidarity, or – in Christian words - breaks the commandment to love one's neighbour. The moral quality and value of a competitive economy therefore lies primarily in its ability to use scarce and limited economic resources to the optimum. This is also Christian Social Teaching's answer to the question: market economy or centrally planned and controlled economy?

3.4 Main problems of a centrally planned and controlled economy

I mentioned above the socialism that existed in Eastern Europe and elsewhere. but deliberately avoided the expression "socialist economy" since I would first have to explain what that is. This would not be easy because people understand it differently. The term "centrally planned and controlled economy" was first used by Friedrich Engels, a friend of Karl Marx. Walter Eucken, a high-profile economist and one of the founders of Social Market Economy, introduced the term into the literature of economics.

The expression "centrally planned and controlled economy" describes an economic system in which a central state authority plans and controls the whole national economic process as well as the activities of the individual economic participants. This is its crucial characteristic. The central authority draws up the economic plan, directs the economic process and determines economic activities: production and consumption, prices and wages, investments and income, etc. The single economic units are executors of the plan: their managers are officials of the state. Its central authority plans and controls both the micro-economic and macroeconomic processes. The economies of the former Eastern bloc states or the German economy during the war are illustrative examples of such a centrally planned and controlled economy. However, these economies and economies like these are by their nature unable to meet the needs of the people.

This insight is of some topical importance. Recently, the Southern African Catholic Bishops' Conference published "Economic Justice in South Africa. A Pastoral Statement". In part 3, Discerning Economic Justice, it states that poverty, unemployment, the gap between rich and

⁸⁹ The Common Good (1996). No. 78 (see note 7).

poor, materialism, etc. are the main criteria to judge the morality of an economic system. I agree with this fully. In the same context, however, the statement says that "understanding how the different economic systems work tells us little or nothing about which of them is more, or less, just than the other".⁹⁰ I believe that this assertion should be questioned. The centrally planned and controlled economy is by its nature unable to meet the needs and wishes of the people, for the following reasons:

3.4.1 Exclusion of the self-interest of individual economic participants

A major problem with "centrally commanded economies"⁹¹ - as the already mentioned Statement "The Common Good" by the Catholic Bishops' Conference of England calls them - is the fact that the self-interest of individual economic participants is not taken into account. In general, economic activities are motivated by individual benefit and profit objectives. These motives of self-interest do not exclude other motives, as I have already mentioned. For example, a father wants to provide for his family as best as possible and therefore makes every effort to earn an appropriate income in order to do so. Thus economic activities are - to a great extent - inspired by individual interests; ie, self-interest is the driving force and incentive to economic achievement. Self-interest is not the same as selfishness and should not be confused with it (of course, it can degenerate into selfishness). But self-interest is basically a natural human attitude. Recall the words of Jesus: "Love your neighbour as you love yourself (Mt 19. 19: Mk 12. 31). The commandment to overcome greed and selfishness does not mean that we have to put aside our own desires and ambitions. This would be an inhuman demand. Self-interest is the motivating force behind our activities - economic activities included.

A centrally planned economy is an obstacle to that and excludes, more or less, this economic and generally human function of personal advantage as a driving force for economic activities. Income and prices fixed by the state authority determine the degree to which the needs and wishes of the individuals can be fulfilled - at least insofar as this fulfilment depends on the amount of their income. The central economic plan has already fixed these data in advance, without taking into account the individuals' real activities and achievements. This fact excludes the principle of self-interest as the driving force and incentive to economic achievement.

In the past, centrally commanded economies tried to replace the "achievement principle" - through the back door, so to speak - by introducing bonus systems and by fixing high targets that had to be met. However, according to my own experience in former Communist East Germany, neither high fixed quotas nor cleverly thought-out bonus systems for the realisation of planned economic targets could replace the principle of self-interest as the main incentive to economic achievement. The history of the past decades has taught us that both attempts did not succeed. The fact that the system did not take into account the self-interest of the economic participants was a main reason for the breakdown of the centrally controlled economies of Eastern Europe and the former Soviet Union.

⁹⁰ Economic Justice in South Africa. A Pastoral Statement. Published by the Southern African Bishops' Conference, Pretoria 1999, 6.

⁹¹ The Common Good (1996), No. 78 (see note 7).

3.4.2 *The problem of a rational economic calculation*

Another difficulty experienced by centrally planned economies is the problem of a "rational economic calculation". The rational economic principle aims at utilising the limited resources as economically as possible. Valuable resources must not be used to produce less valuable goods. In a market economy, price - if not fixed by a state authority or by monopoly arrangements or powerful suppliers - indicates the consumers' appreciation for differing goods and enables us to compare their value. In a centrally commanded economy, price cannot do this job: it cannot play a role in indicating the value of goods. The central plan of the state authority stands in the way of that. Already in advance, it determines the volume of output and fixes prices. This economic system therefore lacks an automatic indicator which constantly reflects consumers' wishes and directs the factors of production to the most economical use. Poor economic utilisation and the squandering of economic resources are the unavoidable results.

Each centrally planned and controlled economy has to confront both these difficulties. According to my experience in the Communist German Democratic Republic, these difficulties were the main grounds for the economic collapse of the former Eastern bloc states. By their nature, such economies are unable to meet the demands of the people. "The Common Good" statement by the English Bishops rightly states that these economics are "inefficient, wasteful, and unresponsive to human needs. Nor have they fostered a climate of personal liberty".⁹² The socialism that actually existed and that has broken down, is a concrete proof of the failure of a centrally planned and controlled economy. Not least for this reason, the slogan going around East Germany during and after the 1989 peaceful resolution was: "If the DM (Deutsche Mark) does not come to us, we shall move to the DM." The DM was the symbol of Social Market Economy.

3.5 Advantages and disadvantages of market and competition

Why are market and competition - in particular in the moral-ethical view often so fiercely disputed and even attacked? Karl Homann, a distinguished economist and social philosopher, sees the main reason for this in the fact that the advantages of market and competition "which create a general increase in prosperity, are scattered, spread, diffused, and in this sense 'imperceptible'". Competition and market are incentives for economic activities; each economic participant tries to make a profit. At the same time, market and competition put pressure on costs and prices; each producer makes every effort not to be eliminated by fellow competitors. The results are "a general increase in prosperity". These (general) advantages of competition and market are, however, "scattered, spread, and in this sense imperceptible" to individuals because the community as a whole profits from the increase in prosperity.

In contrast to this, the disadvantages of market and competition "often affect and hit individual people, single groups, single branches of the industry"⁹³ - for instance farmers, shipyard workers, miners (as happened in Europe during the post 20 or 30 years). The optimal utilisation of limited economic resources requires that uneconomic production and production for which there is no longer a demand are stopped. If, in the longer term, all people will benefit, then changes in economic structures are unavoidable. Subsidies that permanently preserve products no longer in demand and the permanent protection of single branches of industry are not only economically but also morally, detrimental. Such permanent subsidies

⁹² The Common Good (1996), No. 78 (see note 7).

⁹³ Homann, Wettbewerb und Moral, 40 (see note 3).

and the permanent protection of single branches burden and damage the welfare of the community, which has to bear these subsidies and pay them. They therefore damage the public weal. Continuous changes in structure - the "process of creative destruction".⁹⁴ as the (left-wing) Austro-American economist Joseph Schumpeter demanded - are the market economic price for the common good.

3.6 Necessity of the framework

The question now is: how does the community manage to cope with these costs relating to the public well-being in a market economy? What kind of safeguard, what "social net", what framework does the community establish for those individuals who have to bear the burden of changes in structure? Market and competition are only responsible and acceptable if those individuals who are hit by the process of creative destruction - in particular the so-called market passives; ie those unable to take care of themselves in a manner required by the market - are cushioned, supported and carried by the community. In other words, the framework must be shaped to the well-being of all.

At this point, state and politics must start to do their job. This task includes not only to make possible and safeguard the operating of market and competition, and then - perhaps afterwards - to correct socially detrimental results. To use the image I mentioned already: it is not good enough to pull the child out of the water after you have let him fall in. It is crucial that from the very outset, the social dimension is recognised as essential and equal in weight to all economic activities. The child must be protected from falling into the water in the first place. State and politics therefore have to provide those presuppositions and necessary conditions - as the above-mentioned social scientist Oswald von Nell-Breuning emphasised - which are needed for "a human economic process and its positive social results".⁹⁵

The human production process includes the humanisation of working conditions so that employees are not crushed under the wheels of the production process and it demands the involvement of the workforce in economic decision-making.⁹⁶ The human economic process aims to make far-reaching structural changes tolerable by using social cushions; and, above all, it should provide the conditions for the creation of new and sustainable jobs by changing the economic structure before segments of industry and their jobs go into decline. All these goals are examples belonging to a human production process.

Positive social results include, for instance, the integration of ecological targets that are becoming increasingly important. Destruction of the environment must not be accepted. "It is the task of the state", the Encyclical *Centesimus Annus* of 1991 firmly declares, "to provide for the defence and preservation of common goods such as the natural and human environment, which cannot be safeguarded simply by market forces".⁹⁷ Positive social results also demand just income distribution. An abundance of wealth alone is not a desirable aim, if this wealth is unjustly distributed, or unjustly shared. Therefore, it is the task of the

⁹⁴ Joseph A. Schumpeter, *Capitalism Socialism and Democracy*, London 1976 (Kapitalismus, Sozialismus und Demokratie, München³ 1980, 134).

⁹⁵ Oswald von Nell-Breuning, *Wie "sozial- ist die "Soziale Marktwirtschaft?"* in: *Den Kapitalismus umbiegen. Schriften zu Kirche, Wirtschaft und Gesellschaft.* ed. by Friedhelm Hengsbach, Düsseldorf 1990, 222-238, 236.

⁹⁶ See Franz Josef Stegmann, "Worker Participation" in *Decision-Making*, in: *Praxis. Journal for Christian Business Management* Vol. 5 (No. 3 / Sept. 1997) 11-14.

⁹⁷ John Paul II. *On the Hundredth Year of Rerum Novarum - Centesimus Annus* (1991), No. 40,1.

framework to direct the allocation of the national product "to the different groups of people so that the distribution of income and fortune is an adequate and fair one".⁹⁸

A final example concerning countries in Europe: for the industrialised north it is much easier but also much less effective to give money to developing countries than to open their own borders for imports from those countries. For instance, the price of one ton of South African coal transported to Hamburg harbour is DM 200 lower than one ton of German coal produced in the Ruhr region, where I lived for almost 20 years. Why not open the borders more? South Africa could export more coal and create more sustaining jobs for its workforce, and European consumers would get cheaper coal.

These reasons lead to the conclusion that a policy which does not establish and shape a framework that is aligned with the common good, but only reacts and deals with symptoms, misses the task of economic policy and economic ethics. Christian Social Teaching contributes these considerations and hints to shaping a humane economic order. To put it (once more) in my words: the bread we need to eat must first be baked. For that, we need a well-operating oven – ie, an efficiently working economy. And competition and market are able - more than all economic systems we have known - to utilise the scarce and limited economic potential in the best possible way. The bread, however, must not be baked under inhumane working conditions and it must be fairly distributed; everyone must get a just share. For that we need a framework shaped by the legislator - in alignment with the well-being of everyone, with the common good - and carried through by state policy.

3.7 Social Market Economy and its framework

The activities of individual economic participants, mainly motivated by their self-interest, are imperative, but they do not automatically realise the best for all people, nor do they safeguard the welfare of all. They put it into effect only within an adequate framework, within a proper order. This insight is the starting point and basis of the concept known as Social Market Economy. After World War Two, economists and politicians who had opposed the National Socialists and their centrally planned and controlled economy, elaborated the concept and put its theories into political practice.

Social Market Economy⁹⁹ is an economic system combining freedom in the marketplace and social justice. Its central core is "competition based on achievements of output and efficiency".¹⁰⁰ Since real competition does not automatically result from the free play of forces, as taught by history and modern economics, the state policy has the responsibility to enable, establish and promote competition, as well as to safeguard it from restrictions of every kind. Anti-monopoly laws and anti-monopoly commissions, which ensure that monopolies are not created therefore belong to the basic law of Social Market Economy. Monopolies that are unavoidable must be controlled by the state "in order to make competition most effective for the consumers' interest, advantage and benefit".¹⁰¹ According to the concept of Social Market

⁹⁸ Oswald von Nell-Breuning, Das Lohnproblem im Zusammenhang mit der Beteiligung des Arbeiters am Sozialprodukt, insbesondere an der volkswirtschaftlichen Vermögensbildung, in: *Wirtschaft und Gesellschaft heute I*. 410-422, 421 (see note 9).

⁹⁹ See "Social Market Economy and Christian Social Teaching" 1, 2. 4 (p. 19-23, 26-27) of this publication.

¹⁰⁰ Was ist Soziale Marktwirtschaft? Aktionsprogramm der Aktionsgemeinschaft Soziale Marktwirtschaft, in: *Das christliche Gewissen und die soziale Marktwirtschaft*, Offprint from *Junge Wirtschaft*, No. 2 / February 1960, 7.

¹⁰¹ Alfred Müller-Armack, Soziale Marktwirtschaft, in: *Handwörterbuch der Sozialwissenschaften*, Vol. 9, Stuttgart 1956, 391.

Economy, the state is not a simple night watchman; on the contrary, legislators and government have to create "the legal framework for every economic activity, business, trade and industry".¹⁰²

Added to the "competition of achievements", are equally important social conditions and rules. These social objectives form the second pillar of Social Market Economy. Such social elements are the alignment of the economy and production with the needs and wishes of consumers (by the play of supply and demand) and not with a central state authority as existed in Germany during the war and post-war periods; income distribution tied to individual performance and achievement and in this sense. "a just income distribution";¹⁰³ and, above all, social and economic interventions of the state to complement competition.

The founders of the Social Market Economy realised that economic competition alone is insufficient to form a human economic order.

"For many things which are inaccessible to the market mechanism are of the greatest importance for human needs."

People who are not, not yet or no longer able to compete "cannot be abandoned to the market". These market passives are unable to take care of themselves in a manner required by the market because they are ill, weak, young, old etc. As a result, one "must do something for them if one wants to be responsible and human".

State intervention is also required in order to facilitate those necessary changes in the economic structure which are beyond the ability of the individual people affected. Such changes "cannot be allowed to regulate themselves, at some time or another, in a palaeoliberal, that is capitalistic, manner".¹⁰⁴

To summarise: the core of Social Market Economy is "competition of achievements", established by state and politics and safeguarded by a clear framework. This regulated competition promotes and guarantees economic efficiency and productivity. Added to economic competition are, just as importantly, social conditions and objectives which form the second pillar of Social Market Economy. According to Christian Social Teaching, it is crucial that this social dimension is recognised as equal in weight to all economic activities. Social corrections must not be carried out (perhaps) only later on, after the child has fallen into the river; but more effectively, the child ought to be protected from falling into the water in the first place.

Social Market Economy in the real and full sense establishes economic competition and provides those presuppositions and conditions needed from the very beginning - as the often mentioned Oswald von Nell-Breuning emphasised - for "a human economic process and its positive social results".¹⁰⁵ Wilhelm Röpke, one of the fathers of Social Market Economy, described the essential difference to capitalism as follows: according to this "concept,

¹⁰² Was ist Soziale Marktwirtschaft? 7 (see note 21).

¹⁰³ Ludwig Erhard, Das Problem der freien Marktwirtschaft. in: Vierteljahreshefte zur Wirtschaftsordnung, 1949, 71-87. 78.

¹⁰⁴ Alexander Rüstow, Paläoliberalismus, Kommunismus, Neoliberalismus, in: Das christliche Gewissen und die Soziale Marktwirtschaft, Offprint from *Junge Wirtschaft*. No. 2 / February 1960, 3-7. 5 f.

¹⁰⁵ See note 16.

competition was a natural plant" growing by itself: according to our "conviction, it is a cultivated plant"¹⁰⁶ that must be tended, pruned and nursed.

3.8 Framework and individual moral commitment

"The framework is the main place where morality in the market economy is to be situated".¹⁰⁷ This insight does not make individual moral commitment unnecessary and superfluous, as the framework is sometimes accused of doing. On the contrary, individual economic participants have to observe the rules of the framework that have been enacted to regulate their economic activities - their "moves in the economic as well as to regulate the economy as a whole. and must in no way avoid or trick them. This may often demand great moral strength.

On the other hand, being citizens, both employees and employers have the political and ethical responsibility to be involved in and to contribute to shaping this framework as well as to contribute their political and moral convictions - for instance, by the election of members to parliament. Democracy "means that the people themselves must take charge of ethics"; and in a democratic society the majority decides on the content of the framework and determines its details. Therefore, "as many as possible" should make their "consciences heard" and their "voting power felt on matters of basic principle".¹⁰⁸ Finally, in spite of competition, within the framework the individual market participants can make additional efforts for social, ecological or - in general terms - moral purposes. As long as fellow competitors do not exploit such efforts, which are connected with expenses and costs, but perhaps take them on and continue them, higher moral standards will emerge.

If we consider human nature realistically, we recognise that moral appeals to the conscience of single individuals, expect too much from these individuals and overtax them whenever they are economically punished for their moral behaviour - by higher expenses or renunciation of economic advantages. The great importance of the framework must therefore not be overlooked. Moral appeals work best in one-to-one relationships, as in a family or circle of friends. The thesis of the framework as the main place of morality in market economy emphasises that "the conscience of the individual person is not able to compensate for the failings of the institution".¹⁰⁹ In the 19th century, Christian Social Teaching and the (German) Catholic Social Movement oriented themselves - maybe unconsciously - to this fact when they demanded both a "reform of the way of thinking" as well as a "reform of conditions", to solve the social questions of their time.¹¹⁰

CONCLUSION

Market and morality, competition and social justice seem to exclude each other because economic efforts for moral, social or whatever purposes are connected with expenses and can be exploited by fellow competitors who do not have to bear those additional costs. Can this

¹⁰⁶ Quoted according to Oswald von Neil-Breuning, *Trennendes und Gemeinsames in den Hauptrichtungen der Wirtschaftswissenschaft und Wirtschaftspolitik*, in: *Grundfragen der Wirtschaftsordnung*, Berlin 1954, 215-231. 218.

¹⁰⁷ See note 2.

¹⁰⁸ Martin Prozesky, *Morality of the people, by the people and for the people*, in: *Sunday Times*, 11 July 1999.

¹⁰⁹ Hermann Krings, *Norm und Praxis. Zum Problem der Vermittlung moralischer Gebote*, in: *Herder-Korrespondenz* 45 (1991) 228-233. 230.

¹¹⁰ See Franz Josef Stegmann, *Sozialer Katholizismus und kirchliches Lehramt: Von der Sozialreform zur Gesellschaftspolitik*. in: *Theologia et Jus Canonicum*. ed. by Heinrich J.F. Reinhardt, Essen 1996, 581-598.

dilemma be solved? The approach of "the framework as the main place of morality in market economy" attempts to do so.

While individual economic participants rightfully intend to make a profit, the aim of what we call national economy is the best possible provision for all. Historical experience and modern economics have taught us that the economic activities of individuals do not, however, automatically realise this aim. This can only be done within an adequate framework. The framework has to make individual market participants act according to the welfare of all; it is the main place where morality is to be situated.

Within the framework, the ability, economic efforts and skills of the individuals are challenged and competition works. In this way and at the same time, economic competition and social justice come - on different levels - into effect: market economy and morality are therefore, and in this context, complementary. Emphasis on the framework as the main place of morality does not make individual moral commitment obsolete. Individuals have to observe the rules set to their economic activities: it is their duty to contribute to the shaping of the framework by contributing their (economic, political and) moral convictions. They might make additional efforts for moral purposes as long as fellow competitors do not exploit such efforts, but perhaps take them on. However, the key role of the framework remains most important and must not be overlooked.

As a result, economic ethics in the mass society of our time, as well as Christian Social Teaching, are fundamentally an ethics of institutions and structures. And the shaping of the framework in alignment with the common good and conscious observance of its rules by the individual market participants ensure that economic competition and social justice. market economy and morality come — on different levels — into effect and complement each other. At the same time, they are an essential contribution to the success of Social Market Economy.

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