

# *Christianity and the Social Market Economy in Britain, Germany and Northern Ireland*

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## **Introduction**

In the early 1990s the phrase 'social market economy' gained some currency in UK political discussion. The idea was first introduced by the Conservative Keith Joseph in 1975, then revived in the early 1980s by the Social Democrat David Owen, and was then used by Chris Patten, the chairman of the Conservative Party.<sup>1</sup> Elements of social market thinking are also implicit in the new look Labour Party. John Smith, when Shadow Chancellor, claimed Labour offered a modern mixed economy together with the welfare provision of the European Community Social Charter, in short, something close to the model of the West German economy.<sup>2</sup>

All political slogans require careful decoding to ascertain the underlying assumptions on which they are based and value judgments which they contain and it is especially important for Christians to do this. The concept of the social market economy is of peculiar interest given its links to Christian thinking in terms of both its origins and evolution and this article will attempt to ascertain how far it represents a Christian way of looking at the problem of economic policy making.

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1. Keith Joseph, *Why Britain needs a Social Market Economy* (London: Centre for Policy Studies, 1975); David Owen, *A Future that will Work* (Harmondsworth: Penguin, 1984); and Chris Patten "The Power to Change", *Marxism Today*, pp. 20-23.

2. "Labour Closer to German Economic Model, says Smith", *Financial Times* (June 20, 1991).

## **German origins**

Some of the German social market theorists viewed the collapse of German democracy during 1918-33 as being caused by the failure of public attitudes and values to maintain the moral basis of a free market and a free society. In other words, they thought that a successful post-war economy would require a spiritual as well as a material change. Thus for Ludwig Erhard,<sup>3</sup> who was the Federal Republic's Minister for the Economy throughout the 1950s, and some economists like W. Ropke, the social market idea was a practical expression of their Christian faith; an attempt to develop an economic policy which was both right and workable.

The social market economy was conceived in part as an antidote to the failure of *laissez faire* capitalism (i.e. a free market economy with minimal government regulation) in Germany during the 1870s-1920s. It was also intended to be an alternative to the totalitarian economy which developed under the Nazis from 1933 onwards. The early proponents of the social market economy saw the post-1945 Soviet client regime of East Germany as continuing the horrors and evils of Hitler's central planning under a different ideological name. In reaching the conclusion that neither free market capitalism nor centrally planned socialism are socially desirable, the original proponents of the social market adopted a position similar to that taken by some Christian observers of economics within the English-speaking world.<sup>4</sup>

## **The German social market economy in practice**

When the social market idea was implemented in early postwar west Germany stress was placed on two key elements; the use of government regulation to promote competition and, secondly, the restraint of inflation. While these features have a certain resonance with parts of Mrs Thatcher's agenda in Britain during the 1980s, the Germans had their own peculiar historical reasons for this emphasis (a desire to avoid such past mistakes as the monopolisation of industry during the late nineteenth century and the hyperinflation of 1922-23). It should also be noted that the

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3. A collection of Erhard's speeches *Wohlstand für Alle* is published in English as *Prosperity Through Competition* (London: Thames & Hudson, 1958).

4. For example: J.P. Wogaman, *Christians and the Great Economic Debate* (London: SCM, 1977); and D. Hay, *Economics Today: A Christian Critique* (Leicester: Apollos, 1989).

avoidance of large monopolies and inflation are policy imperatives which could be endorsed by Christians.<sup>5</sup>

In fact the German social market economy idea differs substantially from the pro-market and generally right-wing political and economic viewpoint which was to become so important in America and Britain in the 1980s. For one thing, the German authorities have had a more consistent success in controlling inflation (it is much less clear whether the anti-monopoly policy retained its teeth). Moreover, there was greater recognition in Germany that an unregulated market economy does not necessarily achieve socially desirable outcomes; "Like pure democracy, undiluted capitalism is intolerable".<sup>6</sup> There was a recognition in Germany in the 1950s that we must go "beyond supply and demand"<sup>7</sup> and approach the economy as a means to an end rather than the end itself. Rustow hoped that the social market economy would be a "servant of humanity and of transeconomic values" and Muller-Armack envisaged an "irenic order".<sup>8</sup>

Such a willingness to subject economic performance to judgment by moral values should meet with approval within a Christian perspective but this begs the question of how far the social market economy (whether Christian or not) actually worked? Certainly much of Germany's postwar performance can be attributed to simple factors like the reconstruction boom. Some observers have argued that the social market economy idea played little part in the so-called economic miracle whilst others have claimed it was only rhetoric used by politicians to disguise the operation of market forces under a cloak of social respectability.<sup>9</sup>

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5. There would probably be little dissent to the proposition that Christians should be wary of all concentrations of power whether economic or otherwise. B. Griffiths strongly argues that inflation is a moral evil which Christian must oppose (*Morality and the Market Place* [London: Hodder and Stoughton, 1982]) but Hay (*op cit.*) is more sceptical about this.

6. W. Ropke, *Jenseits von Angebot und Nachfrage* published in English as *A Humane Economy: The Social Framework of the Free Market* (London: Oswald Wolff, 1960).

7. This is the literal translation of the title of Ropke's book.

8. Rustow quoted in K. Zweig, *The Origins of the German Social Market Economy* (Adam Smith Institute). A. Müller-Armack, "The Principles of the Social Market Economy", *German Economic Review*, 3 (1965).

9. Significantly the critics have been found on both the Left (e.g. A. Gamble, "In Search of The Social Market Economy", *The Times* (July 21, 1987) and the Right (e.g. F. von Hayek, "What is 'Social'? What does it Mean?", *Studies in*

However, actual performance may still have been better than can be explained by the standard economic factors (e.g. investment or exports). In short, ideology and the idea of the social market economy did make a difference.

### **A Christian evaluation of the German social market economy**

This still leaves the question how far the social market succeeded as a distinctively Christian conception. The grounds for scepticism might include the fact that during the 1960s, 1970s and 1980s the conduct and objectives of West German macroeconomic policy became increasingly similar to those of policy in the USA and UK (though the German authorities were usually more successful).

A full evaluation of the social market economy must await the development of a Christian economic research agenda. This could be based upon the principles of economic ethics which have been derived from the Bible. Hay argues that eight major principles can be drawn from the New and Old Testament though he stresses that these are provisional and incomplete and must be susceptible to correction from Scripture itself.<sup>10</sup>

*Principle number 1:* people must use resources to provide for their existence but without waste or destruction.

*Principle number 2:* every person has a calling to use gifts and exercise stewardship.

*Principle number 3:* we are accountable to God for our stewardship.

*Principle number 4:* man has a right to work and an obligation to work.

*Principle number 5:* work is a means of exercising stewardship and everyone should have access to resources and control over them.

*Principle number 6:* work is a social activity involving cooperation.

*Principle number 7:* every person has a right to share in God's provision of basic needs.

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*Philosophy, Politics and Economics* (London: Routledge and Kegan Paul, 1967); and N. Stone, "A Word in Patten's ear about Political Humbug", *Sunday Times* (February 24, 1991).

10. Hay, *op cit.*

*Principle number 8:* personal stewardship does not imply the right to consume the entire output of the resources over which one exercises stewardship.<sup>11</sup>

These principles can be used to test whether the outcomes of the social market economy did realise part of the Christian vision of its founders. For example, the practice of co-determination was established whereby larger companies have worker representatives on their supervisory boards. This is closer to Christian ideals of stewardship and co-operative behaviour (Hay's Principles 2, 5 and 6) than the situation in Britain where both company law and economy theory regard the shareholder's interests as the sole legitimate concern of the company. Christian ideas of equity were reflected by use in the late 1940s and early 1950s of a general capital and property levy to redistribute resources to the millions of refugees who were then arriving from the east (Principle 7). It would be difficult to test whether in some general sense the fairness of postwar German society was greater than that of its British counterpart (Principles 4, 5, 7 and 8). There are problems in principle and practice in making comparisons of the extent of inequality of income in different countries. However, the available statistics do suggest that the total income of the poorest two-fifths of the West German population is a substantially higher proportion (52 per cent in 1978) of the total income of the richest one-fifth than is the case in the UK (40 per cent in 1986). Of course Christians might be more concerned to promote equality of opportunity rather than equality of outcome (Principles 2 and 5). The extent of equality of opportunity is even more difficult to measure but it does seem

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11. M. Schluter and R. Clements, "Jubilee Institutional Norms: A Middle Way between Creation Ethics and Kingdom Ethics as a Basis for Christian Political Action", *Jubilee Centre Paper* (Oxford, 1989), argue that Biblically-derived economic principles are usually too abstract to provide practical guidance when policy priorities are in conflict. It is better in their view to use the Old Testament Law as a model which can be applied across the years to contemporary society once norms for particular areas of social, political and economic life have been extracted from that model. They argue that the norms they have identified are held together by the unifying theme of God's concern for the "relationist" performance of society (i.e. quality of human relationships). Particular emphasis is therefore placed on maintaining and strengthening the extended family. Perhaps the principles of Hay and the norms Schluter and Clements are less competitive than they are complementary.

likely that German society was more often perceived to be fair by its members than was the case in the UK.<sup>12</sup>

None of these points is meant to exaggerate the extent to which postwar German policy can be said to be Christian nor to minimise the extent to which the German social market economy failed to deal with problems of urban, regional and ethnic<sup>13</sup> deprivation. Moreover, it remains to be seen whether the social market economy will pass what is now its greatest test; the challenge of fully integrating the 16 million citizens of the former East Germany into the political, social and economic life of a reunified Germany. On the positive side, western taxpayers have displayed generosity (albeit grudgingly) to the extent that more than half of the economic activity in the East is now funded by public money coming from the West.<sup>14</sup> On the debit side, it appears that while the westerners are supporting an increasing number of easterners on the dole, much less has been done to facilitate the exercise of stewardship in the East (Principles 2 and 4). The Western authorities have been criticised (by the OECD and the head of the German Cartel Office) for their policy of selling off the former Eastern state enterprises almost exclusively to West German companies. Inadequate opportunity has been given to the eastern managers and workers to operate employee-management buy-outs (Principles 5 and 6). It would be tragic if the east Germans found that not only does the centrally planned economy frustrate stewardship but so does a western market economy.

### **The contrast to Britain**

Whilst the German social market economy represents a very imperfect attempt to apply Christianity it is certainly superior to

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12. P. Lawrence, *Managers and Management in West Germany* (London: Croom Helm, 1980), claims that German workers were more likely than their British counterparts to view their society as meritocratic. S.J. Prais ("Vocational qualifications of the labour force in Britain and Germany" *National Institute Economic Review*, no. 98, pp. 47-59) argues that a widespread commitment to education amongst all sections of German society leads to that society having a much more 'middle class' character than is the case in Britain.

13. Though the excellent German system of post-16 industrial apprenticeships seems to be much better at integrating the immigrant population than its British counterpart which historically has had little to offer the low achiever and the non-academic.

14. "A nation unified and yet apart," *Financial Times* (July 1, 1991).

the thinking which has underpinned economic policy making in the UK. Since the mid-nineteenth century mainstream economic thought in the English-speaking world has viewed economic life as a process whereby individuals satisfy their wants (or “preferences”) for consumption goods, savings or leisure.<sup>15</sup> The success or otherwise of the economy in meeting these preferences is deemed the legitimate realm of economic analysis but any consideration of the moral justification of preferences or outcomes is viewed as lying outside the subject’s remit.

This indifference to moral and ethical concerns<sup>16</sup> has spread from the economic theoreticians to the attitudes and practices of British governments. Increasingly both the Conservative and Labour Parties have based their claims to power on their supposed competence as managers of the economy; the ability to deliver high and steady rates of economic growth. Thus, Right and Left have increasingly talked the language of individual self-satisfaction and neglected any appreciation of ideas of economic and social justice. The economy is thus treated as an end in itself rather than as a means to an end. That this position is at variance with Christianity is not surprising given that it represents the logical development of such nineteenth century ideas as utilitarianism which were conceived as replacements for traditional Christian social teaching.<sup>17</sup> For all its flaws the original German conception of the social market economy does have the great virtue of being free of many of these damaging secular assumptions.

### **Recognition that the market needs morality**

Not only did the German social market theorists stress that the market must operate justly, and be seen to be just, but they also

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15. Adam Smith (1776) viewed consumption as “... the sole end and object of all economic activity...” J. M. Keynes (1936) did not disagree with this sentiment.

16. Until at least the mid-nineteenth century economics was still regarded as a *moral science*. Utilitarian theory of *how* people behave was also viewed as a prescription of the way they *should* behave (i.e. to promote the “greatest happiness of the greatest number”). Thereafter the movement to positivism began; i.e. the analysis of what ‘is’ was to be separated from what ‘should be’. Economics was to be concerned with means, not with the ends to which those means might be applied (L. Robbins, *An Essay on The Nature and Significance of Economic Science* [London: Macmillan, 1935]).

17. Some of the early utilitarians such Bentham and James Mill were hopeful that their theory would supercede Christianity.

recognised that certain moral attitudes and behaviour were required for the successful operation of a market economy. For example, Erhard claimed, "The social market economy cannot flourish if the spiritual attitude on which it is based—that is the readiness to assume the responsibility for one's fate and to participate in honest and free competition—is undermined".<sup>18</sup> He feared that in the long run the relentless pursuit of consumerism or materialism would undermine this spiritual attitude. Röpke detected a tendency for market capitalism to be soul-destroying and therefore destructive of its own moral foundations.<sup>19</sup> He was alarmed by the growth of big cities and large companies which he feared would reduce cultural and ethical standards to the lowest common denominator.

However, the German social market theorists were not simply prophets of doom. They had a positive policy agenda which stressed small and medium-sized social and community groups, most notably the family, as a means to mitigate the ill effects of the market economy. They saw the value of what the sociologists call the "mediating structures" which lie between the individual and agencies of the state.

By recognising the need for morality to underpin the market, the Germans contrasted with some of the political right in the UK who "... appear totally blind to the extent a free market needs to be buttressed and regularised by a set of moral values. Ironically these values are undermined by the very operation of the free market"<sup>20</sup>.

### **Britain needs a social market economy**

Christian social action and reform will always have a piecemeal character because we cannot expect perfection before the New Jerusalem (Revelation Chapters 21-22). However, to the extent that the social market is closer to some of the Biblical principles of economic ethics than either the mixed economy consensus of 1945-79 or the Thatcherism of 1979-90, there is a case for a discerning importation and adaptation of the German model.

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18. Quoted in N. Barry, "Overall view of the German liberal movement", in A Peacock and H. Willgerodt (eds), *German Neo-liberals and The Social Market Economy* (London: Macmillan, 1989).

19. Röpke, *op. cit.*

20. F. Field in *Reponses to Robert Skidelsky on the Social Market Economy*, Social Market Foundation Paper no. 2 (London: 1989).



For example in any “Christian social market economy” the commitment to wealth creation would go alongside one to social provision. It would be recognised that, provided it operates within certain moral limits, the “... free market [is] something mainly beneficial and even [is] something given by God, like the state and family”<sup>21</sup> (see also Hay’s Principle 1). Competition would be promoted in order to attain responsible wealth creation by ensuring large companies (especially among the privatised utilities) serve the customer.

Everyone including the unemployed and the young should be given the ability to exercise a greater degree of stewardship (Hay’s principles 2, 3, 4 and 5). For example, the proposal to give 16-18 years old credits to buy training would be extended and upgraded in value. The damaging impact of long-term unemployment could be reduced by adopting the American system of workfare, where benefit is made conditional on doing some piece of work for either central or local government.

In order to realise the Biblical goal that basic needs should be within reach of all the population (Hay’s principles 7 and 8) the NHS would continue to supply most health care services “free at the point of use”. However, there would still be room for a debate as to how far health care provision, funded predominantly out of general taxation, would be more fairly and efficiently supplied if greater use were made of competition and decentralised administration.

There would be a much greater recognition that a wide range of government policies (e.g. on taxation, regional development, divorce and Sunday trading) impact upon the health and cohesiveness of the nuclear and extended family. In particular measures would be taken to educate people about the use of credit and the perils of personal indebtedness (this could be financed by a levy on the profits of the financial institutions).<sup>22</sup>

At the international level the UK would seek to realise the United Nations international aid target of one per cent of total national income. It would also be recognised that trade may be as important to the less developed countries as aid. Thus the UK would attempt to remove those parts of the Common Agricultural

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21. D.L. Edwards “Towards an Understanding” in D.L. Edwards and M. Allison (eds), *Christianity and Conservatism* (London: Hodder and Stoughton, 1990).

22. A. Hartropp et al., “Families in Debt”, *Jubilee Centre Research Report no. 7* (London: 1988).

Policy and the Multi-Fibre Agreement which discriminate against products of Africa, Asia and Latin America.<sup>23</sup>

Overall, the social market economy would be "one embedded in social arrangements regarded as fair".<sup>24</sup>

### **Northern Ireland needs a social market economy**

The idea of the social market has very particular relevance to Northern Ireland.<sup>25</sup> On the one hand, the continued existence of rates of poverty and inequality greater than those in Great Britain points to the need for a *social* market economy. On the other hand, the expenditure over several decades of huge sums of public money as part of industrial and social development policies has failed to create those conditions which would enable the local economy to generate those rates of economic growth which are required to reduce the levels of poverty and unemployment. By implication, Northern Ireland needs a social *market* economy; an economy where the market or private sector is sufficiently competitive on international markets to generate the resources required to fund social spending in the Province.

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23. Unfortunately any removal of the protection afforded by the MFA would be especially painful to Northern Ireland industry given its dependence on clothing manufacture (particularly shirts). However, quite apart from the greater needs of the Asian exporters, it is not in the general interest of Northern Ireland society to use a mixture of subsidies (paid for by the taxpayer) and artificially high prices (paid by the customer) to prolong the existence of low skill and low wage jobs. A progressive industrial policy would aim to shift Northern Ireland's industrial structure towards those activities which are sufficiently advanced to avoid Third World competition (see note 25 below and the last section of the text).

24. R. Skidelsky, *The Social Market Economy*, Social Market Foundation Paper no. 1 (London, 1989).

25. On the present state of the Northern Ireland economy see R. I. D. Harris, C. W. Jefferson and J. E. Spencer (eds), *The Northern Ireland Economy* (London: Longman, 1990). The costs, achievements and limitations of government policy are described in N.I. Economic Council (1991), "Economic Strategy in Northern Ireland", *Report no. 88*. One of the strengths of the West German economy, a high level of productivity in manufacturing, is contrasted with a relatively poor Northern Ireland performance in D. M. W. N. Hitchens, K. Wagner and J. E. Birnie, *Closing the Productivity Gap* (Aldershot: Avebury, 1990). Significantly, they claim that the German firms had the key advantage of favourable labour attitudes to work effort and industrial relations. Despite the much-vaunted work ethic, comparatively obstructive attitudes were evidenced in the Northern Ireland firms. Such negative attitudes could be combated by a more widespread adoption of Biblical attitudes to work and wealth creation.

There has long been a strand in Reformed thinking which has justified the creation of wealth as part of the fulfilment of the so-called Creation Mandate to mankind to be “fruitful and multiply” (Genesis 1: 28; cf. Hay’s principle 1). In the Northern Ireland context the general Biblical warrant for wealth creation is reinforced by consideration of some of the practical results which flow from the failure to achieve such wealth creation. Failure to raise the productivity of the local economy and hence its competitiveness is likely to lead to unemployment and migration remaining at their present high levels and this would represent a social evil which should be condemned by Christians.<sup>26</sup> Secular analysis of the Northern Ireland economic predicament is usually pessimistic. As Christians we should certainly be realists. Yet we can also hope that improvements will occur if attitudes and thinking about the economy come to reflect Christian value judgment rather than secular ones (Deuteronomy 8:17-18) and perhaps the philosophy of the social market economy could be helpful in this respect.

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26. Both because unemployment frustrates the exercise of stewardship and migration weakens the extended family.