

# Remodelling the Social Market Economy from an ethical standpoint

Embedding the market economy  
in a social and cultural context

Ensuring the ecological and social  
sustainability of competition

Strengthening the primacy of politics  
in a global context

## Imprint

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Download [www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink 257

Production and design

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# M BACKGROUND MATERIAL

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## INTRODUCTION BY THE CHURCH PRESIDENT

'Globalisation must serve people and be in harmony with our Earth.' This is what churches of the South have claimed ever since the term 'globalisation' came into existence, i.e. since the mid-1990s. For a long time their voices were hardly ever heard. It was only with the current financial and economic crisis, alongside climate change, that social awareness started to change.

There is not doubt *that* a reorientation is required. *How* exactly to shape just and sustainable development needs to be discussed:

How can regulatory frameworks be created at a national and international level in order to prevent the economy from being an end in itself? How can competition in a market economy be oriented so as to be ecologically and socially sustainable in the light of the climate crisis and the global widening of the gap between rich and poor? How can the primacy of politics be globally strengthened so as to ensure that control mechanisms actually take effect?

The German model of a Social Market Economy is currently seeing a renaissance. However, it cannot be continued unmodified. Rather, its ethical foundations need to be emphasized.

*The earth is the Lord's, and everything in it,  
and all who live in it.  
(Psalm 24:1)*

This biblical promise places human beings in a community with all other creatures and obliges people to face the world in a spirit of awe, shape it so as to turn it into an inhabitable place and maintain it as such a place (Genesis 2:15). The biblical statements on people being made in God's image (Genesis 1: 26f) create human dignity and are based on an understanding of people as representatives of God's working in creation. The vision of sustainable development meets this fundamental element of biblical theology. Human dignity and the common good, love of one's neighbour and justice, freedom and solidarity are all coordinates of Christian social ethics for sustainable development.

An abstract economy interested solely in monetary market relationships, however, fails to do justice to Christian social ethics or sustainable development. In an 'autistic society'<sup>1</sup>, new social forms and communication channels need to be developed.

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<sup>1</sup> Helmut Simon, former judge at the Federal Constitutional Court and President of the German Protestant Kirchentag.

Solidarity with the poor, weak and deprived, both at a local level and worldwide, is an obligation. Whoever loses their job in our country, whoever depends on public support systems must be able to rely on obtaining support; whoever already sees their very existence threatened in Africa or South East Asia needs to have perspectives for survival.

If the Social Market Economy is remodelled from an ethical standpoint, the market economy will need to be embedded at the societal, global, ecological, social and cultural levels.

‘A market economy oriented toward social, ecological and global priorities is morally much more demanding than is generally thought. If left alone, self-interest, a strong structural element of a market economy, may degenerate into destructive self-seeking. The task of shaping self-interest in a way compatible with the common good is not only political and economic, but also cultural. The balance between personal well-being and social and ecological responsibility concerns everyone. It is ultimately a question of lifestyle.’<sup>2</sup>

With the present study, the Evangelical Church of Westphalia stimulates social debate in our country as well as worldwide ecumenical discussion.

Alfred Buß

A handwritten signature in black ink that reads "Alfred Buß". The script is cursive and fluid, with a small dot at the end of the last letter.

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<sup>2</sup> *Like a high wall, cracked and bulging. Statement by the Council of the Evangelical Church in Germany on the global financial and economic crisis (EKD, Crack), June 2009, p. 6.*

# Hypotheses

1. *The Social Market Economy is a model of society.* An up-to-date ethic of the Social Market Economy claims to restore the primacy of politics and redesign the relationship between society and the economy. The economy has to be perceived in its social, political and – internationally seen – cultural contexts.
2. *Society does not live from competition, performance and profit orientation alone.* As a church, we are analysing the fundamental values characterising the way people live together. This study on the Social Market Economy aims to help create an understanding of the ethical basis and ease tension arising from the relationship between the economy and society. Shaping the relationship between the economy and society will require fresh stimuli.
3. *Sound regulatory policy is the best social policy.* The liberalisation and deregulation of the international financial markets was a central economic trigger of the current wave of globalisation. The current global economic crisis manifests the repercussions of deregulation on an unprecedented scale. New, gigantic financial compensation attempts, funded by the taxpayer, to save distressed banks and stabilise the economy ('rescue shields') are emerging. It is also necessary to redesign the overall framework for the financial and commodity markets on the basis of an international approach.
4. *A new awareness is growing.* An economic doctrine of salvation and mindset solely trusting market forces and individual benefit must be overcome. 'Isn't there any well-founded criticism of Political Economy, whose textbooks, after all, are the scripts for the current crisis? This discipline pretends it is based on the laws of nature; this approach, in fact, must be fundamentally questioned.' (Frankfurter Allgemeine Zeitung, 6 April 2009).
5. *We are experiencing a historical watershed, requiring regulatory measures.* Following the acceptance crisis of economic liberalism, we are now experiencing its real functional crisis on a global scale. In order to facilitate an economy in the service of life, ethical standards have to be incorporated into the economic rationale at the various levels of action (starting from individual responsibility all the way to creating new transnational regulatory structures). The crucial foundation in this regard is to design the regulatory level (regulatory framework) on an ethical and economic basis.
6. *The Social Market Economy has substantially contributed to solving social questions by programmatically balancing 'justice' and 'freedom'.* The 20th century, in particular the last third, was determined by ecological questions, the limits



to growth. In order for an economic system to be sustainable, it has to be able to appropriately respond to this challenge. Accordingly, *integrating sustainability in the system of the market economy is the crucial condition for a renewal of the Social Market Economy.*

7. *'Public before private' or 'private before public' are false societal alternatives.* Both strategies are tools used to achieve higher societal goals. Opting for either of these variants will depend on the goals and the social, ecological or cultural dimensions they are to serve. Climate protection, social justice and common economic good are directly interrelated. This interrelationship can only be reshaped if the values take account of the social and ecological components.
8. *Today, new coordinates for the building blocks of the Social Market Economy have to be taken into account:* the economy is becoming more international; the gap between rich and poor, globally and within societies, is widening; climate change is a global threat. In order to cope with these challenges from a regulatory point of view, state action, multi-state regulation systems and supranational governance structures will have to be harmonised. A strong and frequently internationally networked civil society and non-governmental organisations (NGOs) must be involved. Assuming their share of regulatory responsibility also means that companies will have to learn to think in *political* terms.
9. *A Social Market Economy means shaping regulatory policies* rather than only 'repairing' the welfare state. The Social Market Economy serves as a political tool to achieve economic but in particular also social, ecological and cultural goals. The Social Market Economy may be flexibly shaped and is sensitive to different contexts. It may thus constitute an alternative model to a self-regulating market economy, beyond Germany and other European states. The Social Market Economy includes programmatic intervention based on a large variety of instruments of economic policy. *The key test for the Social Market Economy in times of globalisation is whether it can render a relevant contribution to a global structural policy also involving the developing countries.*
10. *The church itself is an economic agent. It must live out its message with its system and practice.* It has to implement ethical criteria through its investment and sourcing behaviour, e.g. ethical investment or climate protection strategies. A demanding regulatory area of tension is corporate diaconal policy, in which the church and its social service ministries have to implement their mission while at the same time defending their competitive position as business agents.

*We list regulatory methods and economic tools promoting the concerns of the Social Market Economy in the background materials to the study.*

# 1 Only those with clear values beyond purely economic matters are able to shape globalisation

## 1.1 Economy in the service of life – freedom – justice

Under globalisation conditions, economic developments have an ever increasing influence on everyday life. In the current situation, characterised by a global economic and financial crisis, the foundation of economic action is again asked for. The German model of the Social Market Economy is experiencing a renaissance. A social debate about the objectives and design potential of economic action is required at the global level, beyond short-term mechanisms to cope with the crisis.

The far-reaching global financial and economic crisis which became apparent in the autumn of 2008 has impressively shown that the challenges of modern times can no longer be solved by trusting the self-healing powers of the market economy. The most urgent challenges include climate protection, restricted access to natural and social resources for an ever larger number of people, the growing divide of global society into rich and poor, the increasing pressure of financial markets on real economy and the constantly increasing risks related to basic supplies of food, water, energy and other vital resources.

Although the constraints caused by globalisation are frequently referred to, market mechanisms are not laws of nature. Markets are social phenomena, which can be shaped. Markets are tools used to achieve goals transcending the economy. They are not good as such, nor are they bad as such. The comment made by former federal German president Johannes Rau as early as in the mid-90s continues to apply:

*'Only those with clear values beyond purely economic matters are able to shape globalisation. Just as freedom in general, economic freedom hinges on certain prerequisites and lives on interdependencies. It will quickly come to an end wherever there is no order or where this order cannot be implemented. Creating a framework for the market and organising fair competition is one of humankind's major cultural achievements. The market, too, depends on prerequisites it is unable to create on its own. In that case, politics have to ensure that the freedom of the global market may not restrict the freedom of people.'*

(Johannes Rau)

In this situation, we consider it as one of the churches' essential tasks to emphasize the ethical bases of the Social Market Economy and meet the new challenges in the light of the biblical understanding of the world and humanity.

## 1.2 Church co-responsibility for social coexistence

With its statements on social challenges, the church participates in general debates and contributes its own special background, primarily by referring to the biblical understanding of humanity and corresponding interpretations of reality. From a church perspective, this includes referring to certain criteria manifesting what is in keeping with human nature as the basis for the search for more just ways of shaping society. These criteria have to exhibit their 'specifically Christian character'. However, to the extent to which 'Christian existence solely aims to be genuinely human existence, they have to legitimise themselves as truly human criteria, as criteria for genuine humanity as such.' (Arthur Rich)

In a biblical perspective, people are faced with tension. On the one hand, they are the image of God, and this determines their community with God and their neighbours. On the other hand, they fail to live up to what human beings were meant to be as they are sinners focussing on themselves and their own interests. They are made in the image of God: this forms the basis for human dignity and freedom. They are sinners: this requires social regulatory structures preventing, where possible, the law of the jungle. Securing freedom and searching for ever more just regulatory structures thus form the bases for church statements on questions related to public life.

In this way, the church may contribute to the proclamation of its teaching. In doing so, it respects the freedom of conscience of others and exercises its co-responsibility for the development of the political system by recalling 'God's kingdom, God's commandment and God's justice and thus the responsibility of rulers and the ruled' (Thesis V of the Barmen Theological Declaration). The church refers to the working of God, which is beyond human command, and thus contributes specifically to the social debate about values. The church has been mandated to 'bring the message of the free grace of God to all people' (Barmen VI). It has to publicly proclaim its message in such a way as to ensure that its meaning become clear to all people and all areas of life (Barmen II). This essentially includes participating in the debates about the objectives, tasks and crises of society. This 'public Christianity' is a fundamental trait of Christian faith. Such service for the world with its challenges and tasks is inseparably linked with the piety of individual Christians and church life in congregations and associations.

The public responsibility of Christian faith, based on biblical tradition, corresponds to the estimates and expectations of church members and the public at large. Social action and social ministries meet with strong acceptance within the population. Caring for the old, sick and people with disabilities and acting as advocates for people in situations of social hardship are expectations meeting with the highest levels of consent, just as orientation to official acts such as baptism, weddings, funerals or pastoral support. At the same time, social groups – political parties, trade unions, employer associations – and many individuals frequently expect and hope for church guidance on fundamental questions of social policy.

Christian faith particularly obliges Christians and churches to assume social responsibility. The Bible demonstrates this from the Old Testament's express demand for social security rights for the vulnerable and deprived to the New Testament's stories of Jesus Christ, who identifies with the poorest of the poor and lowest of the low (parable of the last judgment, Matthew 25:30ff.). The biblical message emphasizes that people live together on the basis of solidarity and justice. Piety and social action are therefore inextricably linked. Spirituality and commitment are the two sides of the coin of Christian faith. Whoever does not want to deal with and improve the living conditions of the poor and deprived in our society and worldwide, whoever does not strive to shape the world of work, the economy and society in a just manner, should not worship, according to the prophet Amos. At least, this worship would be rejected as unbearable 'noise' (Amos 5:23) by the God of Israel, the Father of Jesus Christ. For this reason, ethical economic questions pose a key challenge to the churches, since the shaping of the economy strongly determines the general living conditions of most people. This is the area of the present time that fundamentally determines the conditions of human life, the 'penultimate'. After all, service to the world, orientation within the 'penultimate' is also part of the church's comprehensive mission of proclamation, as is the message of justification of the sinner.

'For the sake of the ultimate, the penultimate must be preserved. Any arbitrary destruction of the penultimate will do serious injury to the ultimate. If, for example, a human life is deprived of the conditions which are proper to it, then the justification of such a life by grace and faith, if it is not rendered impossible, is at least seriously impeded.' (Dietrich Bonhoeffer)

Departing from and continuing the 2<sup>nd</sup> and 5<sup>th</sup> Thesis of the Barmen Theological Declaration, the Confessing Church (CC) already emphasized at a conference on 'Church and Economic Order' held in Dahlem in 1937 that *'the will of the Lord does not only apply to the individual but also applies to the content of the economic order.'* Economic action also has to be oriented to God's commands and be incorporated in a social system so as to protect human dignity and facilitate 'fight-

ing the power of sin'. The 'Freiburg Circle' – members of the CC from the Freiburg Church of Christ and University – deepened this perspective in close coordination with Carl Friedrich Goerdeler and other representatives of civilian resistance against national socialism and called for a reorientation of the economy after the war: on the one hand, it had to respect the dignity and freedom of individuals, while on the other hand meeting the concerns of workers.

With this in mind, the founders of the regulatory design of the Social Market Economy – members of the Freiburg Circle and a large number of other convinced Protestants –

'developed an economic order which is not 'Christian as such', as no social or economic system can ever be, but is 'filled with Christian spirit' and can be interpreted by Christians as an object of their responsibility.' (Alfred Müller-Armack).

Even though implementation of the Social Market Economy after World War II has not fully matched the model its theoretical founders had in mind, this economic system has stood the test of time, according to the EKD 1991 economic memorandum 'Common Good and Self-Interest'. It facilitates successful, efficient economic action while at the same time stabilising and expanding the fundamental systems of social security. It has thus contributed essentially to social peace. The criterion of social justice, emphatically called for by Müller-Armack as early as in 1960, by contrast, has been realised only insufficiently and will have to be an integral part of the economic system in the further development of the Social Market Economy towards an eco-Social Market Economy. However, the contents of the Social Market Economy are perceived and interpreted in many different ways today. Many people believe that social concerns can only be taken into account once the economy is running well, whereas others believe that exactly the opposite is true.

In the light of the challenges of globalisation, the recent financial and economic crisis and the even more far-reaching crisis related to climate change, the Social Market Economy is again faced with a major challenge.

The Social Market Economy is a model of society based on ethical and economic responsibility and integrating economic efficiency, freedom, social justice and sustainability. That is why the specifically German experiences now have to be analysed in terms of their strengths and weaknesses. The question is: Can the Social Market Economy be developed into a global regulatory model? After all, it will only be a 'successful model' if it now stands the test of time both globally and regionally in different contexts – in terms of social ethics, ecology, and economics. This is the

current challenge, in particular since the 'globalisability' of this model has been doubted time and again in ecumenical circles. After all, it might be the model of an 'export champion' merely externalising the social and ecological costs.

This economisation of almost all realms of life has impacted on the good life 'beyond supply and demand' (W. Röpke). What is currently required is to tame the unbridled economy and re-embed it in human life, not least in order to prevent devastating instabilities of capitalism such as those that we are currently experiencing and that have far more dramatic effects in many parts of the world.

It is one of the fundamentals of the Social Market Economy that the market economy system requires clearly defined areas and clear regulatory conditions to function in such a way as to preserve the freedom of all economic agents, facilitate successful economic action and create a social balance. These prerequisites are based on state action, which has to create and guarantee a framework of the market economy system. In this sense, a 'strong and neutral state' (A. Rüstow) is a necessary prerequisite of the Social Market Economy. The attributes 'strong' and 'neutral' designate the requirements for state action to set a framework for economic action in a sovereign manner, without advocating certain particular interests, and to intervene in the economy under certain conditions. This understanding of the state is unmistakably also driven by the conviction, embedded in particular in Protestant traditions, that the state represents the common good and therefore is above the individual stakeholder groups. It can thus enforce a system for the benefit of all. However, it is also true to say that institutional frameworks do not simply exist or enforce common good per se, but usually constitute compromises arising upon the confrontation of individual interests. The idea that the primacy of politics will always create a framework benefiting everyone is an idealist simplification giving political action a good share of trust. However, political action always has to be legitimised and be questionable. The regulatory model of a Social Market Economy thus depends on the sustainability of shaping politics which, in turn, needs to be legitimised by democratic processes and be accountable within the debates of civil societies. At the same time, political institutions have to discuss ethical responsibility against this background.

### **1.3 Profile of economic ethics: the problem of balancing theology, ethics and economics**

Time and again, two different and frequently opposing experiences and ways of thinking manifest themselves when theology and the economics, church and the world of business meet. This applies both to academic exchange and encounters between the different working worlds and experiences.

However, this has not always been the case and need not be the case. The Social Market Economy was originally based on a different approach. Undoubtedly, many common experiences, roots or origins have got lost by now. Mutual access is sometimes impeded by language alone. Are we talking about the volatility of financial markets, return on investment (ROI) indicators or marginal rates of tax, the doctrine of the two kingdoms, eschatology or theodicy? In some instances, the moral standards are supposedly unambiguous and apodictically stated or indignantly defended. The classical theological approach is then to develop and confront others with ethical criteria. This does not always go down particularly well with others, or is perceived as social romanticism or going beyond the economic matter at stake. The antithesis occasionally voiced is that ethics also has to make economic sense and provide economic benefits.

Every economic logic entails a normative dimension. Economic action is not value-free. Public argument about these normative bases is required. The church contributes its special perspective to the public debate. The Social Market Economy is a shining example demonstrating this interrelationship. It can only be developed into a 'Social Market Economy' deserving its name from ethical viewpoints if it is based on critical reconstruction.

Reconnecting what belongs together—this is what the present study aims to achieve: the economy as a part of society and everyday culture, economy in the service of life, embedded in ecological, social and cultural dimensions of people living together. As churches we emphasize the serving function of the economy.

## 2. Ethical bases of the Social Market Economy

### 2.1 The economic philosophy of the Social Market Economy: the market as an instrument

*The Social Market Economy is a model of society. An up-to-date ethic of the Social Market Economy claims to restore the primacy of politics and redesign the relationship between society and the economy. The economy has to be perceived in its social, political and – internationally seen – cultural contexts.*  
(Hypothesis 1)

The concept of the Social Market Economy, originally developed in the Federal Republic of Germany in the 1950s and 60s, is a model shaping the relationship between society, the state and the economy. Just as other European economic models, it is characterised by regulating the relationship between the economy and society, the market and the state, in a *structural* manner. The Social Market Economy includes a well-balanced relationship between the life, social and economic systems.

This regulatory model historically saw itself as an attempt to balance liberal economic approaches and the notions of justice held by the Christian churches and the labour movement. Economic success and social reconciliation are considered equal objectives mutually conditioning each other.<sup>3</sup> The adverse effects or social questions which the market economy was unable to solve were planned to be tackled by introducing unemployment, sickness and pension insurance schemes. These included a catalogue of instruments of social and distribution-oriented policy such as the promotion of equal education opportunities, wealth formation by workers or the promotion of large families with many children.

*What matters today is to discuss the new ethical framework, knowing that the founders of the Social Market Economy expressly formulated ethical standards as the basis of their thinking and action in terms of economic policies. The statement made by the former court at the German Constitutional Court (1983–1996) Wolfgang Böckenförde that ‘The liberal, secularised state lives on conditions it is unable to guarantee itself’ may also be transferred to the market economy. This was something the founders of the Social Market Economy took for granted:*

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<sup>3</sup> Evangelical Church of Westphalia (EkvW): *Globalisation – Economy in the Service of Life. Opinion by the EkvW on the Soesterberg Letter. Materialien für den kirchlichen Dienst 1/2005 (EkvW, globalisation).* Bielefeld 2005, p. 20. [www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink no. 249.



*'The market requires solidarity but does not create solidarity.'*

(Wilhelm Röpke, 1899–1966,  
Economist, one of the intellectual fathers of the Social Market Economy)

For economist Alexander Rüstow (1885–1963, chairman of the Action Group on the Social Market Economy in the 1950s and 60s), the ethical framework of a market economy includes 'a large number of things that represent human values': culture, education, moral and social principles, the principles of solidarity and subsidiarity, a Christian world view as such, family, community, state, the religious, ethical, aesthetic, the human, the cultural as such. Some representatives of the Social Market Economy expressly provide Christian justifications for the role of the economy:

*The measure of the economy is humankind.*

*The measure of humankind is their relationship to God.*

(Wilhelm Röpke)

Based on this ethical foundation, regulatory and economic instruments were developed in order to manage the economy such as to enable it to serve these non-economic goals. On the one hand, the productivity and efficiency of a market economy system was taken for granted, but on the other hand it was oriented towards '*vital politics*' (Alexander Rüstow; recent equivalent: '...in the service of life'). The spirit underlying many church documents emphasizing the role of the economy as an economy in the service of life, e.g. the Westphalian report (Regional EKvW Synod 2004 'Economy in the service of life') shows the way forward in a similar manner.

Economist Walter Eucken (1892–1950) is considered one of the main representatives of the Freiburg school of 'ordoliberalism'. According to this concept of a market economy, a strong state fixes a regulatory framework to ensure economic competition and the freedom of citizens. According to Eucken, there are not only economic interdependencies but also an 'interdependency of systems', i.e. the economic system with all other systems of life: the state system, the legal system, the social system and societal system overall. Alfred Müller-Armack<sup>4</sup> also understood the concept of a Social Market Economy as combining economic and social systems:

<sup>4</sup> Alfred Müller-Armack: 1901–1978, from 1958–1965 undersecretary of state under federal economy minister Ludwig Erhard, university lecturer and name-giver of the model

*It is my concern to show that the Social Market Economy has not only been a successful buzzword right from the beginning but that it is an elaborate and well-conceived theory of the overall social system. I would have wished for this thought to also have met with a more thorough spiritual discussion in larger circles. All too frequently, people have referred to the political weight of this concept without being prepared to develop it further intellectually. (...)*  
*The Social Market Economy is an economic and social lifestyle.*

(Alfred Müller-Armack)

According to such an understanding – which has again become up-to-date today – the market economy is not left to economic laws but is determined by a single regulatory fundamental decision for the market economy. The relationship between the economic and social systems is never static, it always has to be recalibrated. This is also expressed by Ludwig Erhard:

*There are a thousand instruments of trade, customs, fiscal or financial policies to steer the economy such that it can fulfil its serving function.*

(Ludwig Erhard, 1957)

According to Ludwig Erhard, the economy does not feature ‘eternal laws’. He thought that ‘in the distant future’, a modernisation and redesign of the relationship between the economy and society would be required.

## 2.2 New ethical dimensions of the Social Market Economy in times of economic globalisation

*Society does not live from competition, performance and profit orientation alone. As a church, we are analysing the fundamental values characterising the way people live together. This study on the Social Market Economy aims to help create an understanding of the ethical basis and ease tension arising from the relationship between the economy and society. Shaping the relationship between the economy and society will require fresh stimuli.*  
*(Hypothesis 2)*

The model of the Social Market Economy is currently unconditionally accepted as a guiding principle in Germany but is frequently only perceived in terms of the ethics of performance and competition with regard to its ethical dimension and

regulatory scope. The ‘Initiative on a New Social Market Economy’ (INSM) – run in the framework of the German Economic Institute and funded by corporate foundations – advocates a new social market economy promoting the guiding principles of ‘initiative’, ‘commitment’ and ‘entrepreneurial spirit’. The INSM thus emphasizes the liberal component of the Social Market Economy. It also refers to Ludwig Erhard in criticising the ‘escalation’ of the social component: *‘I am concerned to see how overwhelming the call for collective social security was voiced. If this addiction keeps spreading, we will be careering into a social system in which everybody puts their hands in somebody else’s pockets’* (Ludwig Erhard, 1958). Emphasizing the liberal components, which show reservations against stronger state intervention, is widely spread among the large trade association, the industry associations and economic research institutes in Germany. This position forms the main strand of the currently prevailing public opinion. The ‘Initiative for a New Social Market Economy’ tries to build on the positive image of the Social Market Economy and advocates a liberal interpretation of the Social Market Economy in an extensive marketing campaign, reinterpreting the original statements and positions of the Social Market Economy as their exact opposites.

We are thus experiencing a dispute about the central idea underlying the Social Market Economy. As the Evangelical Church of Westphalia, we seek to get involved in the social debate about how the social market economy has to be interpreted today.

All parties involve refer to the Social Market Economy; however, in many instances, the ethical dimensions are fully or partly ignored.<sup>5</sup> The political parties use the Social Market Economy as the basis of their regulatory and economic orientation. However, they do not systematically and unambiguously determine the role of the social dimension for state action. The aspirations show parallels with church positions. As regards the actual implementation in terms of economic policies, however, the positions remain vague or are interpreted as promoting competition and market economy tools in other areas. The party platforms of the political parties reveal a strong association with the term ‘Social Market Economy’ but hardly ever entail a systematic relationship with its ethical dimensions. The regulatory spectrum shown here is typical of the state of current debates, even outside Germany.

The debate about the Social Market Economy concerns the core regulatory question also affecting formerly centrally planned economies and economies in newly industrialised and developing countries. This is the question about the appropriate relationship between state and market, politics and competition, public and private tasks – the question about the social and cultural conditions and repercus-

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<sup>5</sup> For more comprehensive information, see Material M1 Die Soziale Marktwirtschaft: wirtschafts- und sozialpolitischer Orientierungspunkt der deutschen Parteien. ([www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink no. 252)

sions of economic activity in the context of a market economy. Many economies are in a similar situation insofar as they have to newly define the relationship between state and market following phases of worldwide economic liberalisation, deregulation and privatisation. This requires clear ethical guidance, to be defined on the basis of a social consensus.

What are today's ethical challenges? The 'Social Market Economy' itself is highly regarded by many people and is considered to be the ethical formula legitimising economic and social policies. What needs to be newly interpreted are the ethical points of reference in a narrower sense, i.e. the individual ethical concepts which the Social Market Economy is built upon: freedom, performance, justice, sustainability, solidarity, responsibility, the common good, participation. Although these terms constitute strong ethical pillars, it is not clear what their meaning and quality is derived from in a specific case.

- *What is the relationship between freedom and responsibility, freedom and justice, freedom and social peace?*
- *Is freedom sufficiently covered by the freedom to own property and invest?*
- *Is social justice identical with the principle of just distribution?*
- *What are the limits to solidarity?*
- *Do these fundamental values differ in the light of the North South perspective or the gender perspective?*

The discussion about top level salaries and minimum wages in Germany, France and Switzerland may be interpreted as a symptom for the latent question: Has justice been overridden by freedom? In the biblical tradition, freedom relates to communities. Self-determination and responsibility for the common good are not mutually exclusive but complement each other.

Raising ethical questions frequently means today starting to search for the right dimension. The fundamental ethical situation is that we typically have to assume a pluralism of values. Fundamental values are specific embodiments of justice of equal rank, underlining different dimensions of humanity. Freedom and justice, however, must not be overemphasized individually but rather live from their interrelationship and interdependency. Together they form value systems. A new balance between values has to be struck time and again. Thus, an expansion of free trade by means of opening borders and markets will only serve life if it goes hand in hand with more justice and just access to life opportunities. In a dictatorship, freedom has to be called for, whereas in a laissez-fair or competitive society, a social or political framework has to be shaped so as to determine the serving role of the market economy (economy in the service of life).

### 3. The Social Market Economy in the current global economic crisis

#### 3.1 The financial market crisis as a symptom

*Sound regulatory policy is the best social policy. The liberalisation and deregulation of the international financial markets (IFM) were a central economic trigger of the current wave of globalisation. The current global economic crisis manifests the repercussions of deregulation on an unprecedented scale. New, gigantic financial compensation attempts are emerging, funded by the taxpayer, to save distressed banks and stabilise the economy ('rescue shields'). It is also necessary to redesign the overall framework for financial and commodity markets on the basis of an international approach.*  
(Hypothesis 3)

The causes of the global financial and economic crisis include the excessive return expectations concerning financial products, a fast money mentality, the curtailment of state intervention, the invention of risky financial products, irresponsible risk management and the incentive systems based on bonus payments. These factors are outlined by the Council of the Evangelical Church in Germany in its statement 'Like a high wall, cracked and bulging'.<sup>6</sup> From an ethical viewpoint, the levels of responsibility are particularly relevant.

Irresponsibility in the area of risk management spread on four levels:

- at the political level: governmental action to supervise the financial markets, regulation of financial products, hardly any resistance against the curtailment of state influence,
- at the level of financial enterprises: banks, insurance companies and related service providers one-sidedly focusing on capital interests and rapid, high profits; managers thinking that risks can be calculated and benefiting from incentives to generate possibly short-term high returns on investment,
- at an individual ethical level: freedom used solely for the realization of individual interests without linking activities up with superior values,
- a fast-money mentality, which also reached consumers: expecting high short-term returns without risks, greed as the driving force of a vice not confined to managers.

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<sup>6</sup> EKD, *Crack*, p. 14

The financial crisis has to be seen in the light of prior regulatory policies. The development of the financial markets was characterised by an economic policy of liberalisation and market deregulation in a particularly 'pure' form. This entailed a quantitative dimension in the form of the emergence of gigantic new market volumes, but also a qualitative dimension with regard to the political and ethical approach. The freedom of the financial markets was emphasised, financial markets were even designated as the 'fifth power'.<sup>7</sup> The financial markets operated in isolation from the real economy and thus the ethical, social, ecological or political dimensions of economic activity; this is the regulatory problem to be newly addressed.

Financial markets and the financial crisis are the perfect embodiment of the economic concept of a 'pure' market economy oriented to 'technical laws'. The financial markets and financial crisis are *symptoms*; only to a lesser extent do they constitute manifestations of *causes* of the current economic crisis. That is why the relationship between the financial crisis, economic crisis and ethical and political standards of economic action will have to be considered and communicated more fundamentally.

### 3.2 Disillusionment and social reintegration of the economy

*A new awareness is growing: an economic doctrine of salvation and mindset solely trusting market forces and individual benefit must be overcome. 'Isn't there any well-founded criticism of Political Economy, whose textbooks, after all, are the scripts for the current crisis? This discipline pretends it is based on the laws of nature; this approach, in fact, must be fundamentally questioned.'* (Frankfurter Allgemeine Zeitung, 6 April 2009). (Hypothesis 4)

What has fundamentally gone awry cannot be remedied by means of superficial measures. Some economic factors that used to be taken for granted have been more severely shaken than ever before in the post-war period due to the crisis recently experienced. Where do we stand, and where are we aiming to be? Initially, it has only become obvious that a number of things have 'gone wild' (Peter Ulrich, economic ethicist, University of St. Gallen). Now virtually everybody complains about the *symptoms* of an economic doctrine that has lost its moral ground:

- investors' seemingly unlimited, virtually 'addictive' greed for maximum return on equity among investors, dominating their thinking and driving a corporate and economic policy based on 'constraints' and a 'we have no other choice' mentality;

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<sup>7</sup> Rolf E. Breuer, CEO 1997–2002, Supervisory Board chairman 2002–2006 of Deutsche Bank AG

- the shareholder value doctrine, in the framework of which dubious corporate governance standards for ‘good’ governance were established, which have proven to be one of the main causes for poor business management practice in large stock corporations in the current crisis;
- financial business models which can virtually only be described as the ‘greater fool theory’ of the market: obscuring, securitising and selling-on risk – buyers have no one to blame but themselves;
- manifestations of disintegration in the understanding of ‘those in positions of responsibility’ within the economy of their own role, many of whom have – increasingly, albeit not always – lost the sense for the fine difference between ‘earning decent money’ and ‘earning money decently’.

However, why have the business practices of this remarkable number of agents got out of control? They have done so through a lack of ‘control’ in the form of a feeling for sound limits to a self-interest and profit maximisation mentality that has become one-dimensional. And there also seems to be a lack of control in terms of the incorporation of the economic ‘rationale’ in interpersonal and social priorities.

Classical economics has to widen its horizon in order to develop criteria also including ethical justifications for shaping the market economy. The point would not be to oppose the market economy or oppose competition as such but to oppose its social service. The environment, for instance, may benefit from market economy-driven competition in the form of saving resources, the development of new technologies for drive systems and thus the creation of jobs.

### 3.3 Levels of regulatory action required: national, European and global contexts

*We are experiencing a historical watershed, requiring regulatory measures. Following the acceptance crisis of economic liberalism, we are now experiencing its real functional crisis on a global scale. In order to facilitate economic activity in the service of life, ethical standards have to be integrated in the economic rationale at the various levels of action (starting from individual responsibility all the way to creating new transnational regulatory structures). The crucial basis is an ethically and economically justified way of shaping the regulatory policy level (framework).*

*(Hypothesis 5)*

The ecological threats, the social polarisation, newly emerging risks to basic staples (food, water, energy), the pressure of financial markets on the real economy

and the economic repercussions of market failure are all manifestations of a functional crisis if you trust market mechanisms to solve this problem. Indicators of the crisis of the market economy, primarily caused by the expansion of economic thinking based on self-interest to cover almost all aspects of society, pose a challenge to determined, ethically responsible action.

The Social Market Economy requires a deliberate assumption of responsibility starting from the level of personal ethos. This applies to the activities of the individual as a manager, employee or consumer, but also the functionality of social structures facilitating performance, competition and economic success. From a Protestant perspective, they include in particular enjoying vitality and performance, freedom and creativity at the workplace. Moral awareness, sensitivity in interpersonal relationships and appreciation are properties which can only be perceived by human beings as persons. Orientation towards a Christian conception of humanity and spirituality are sources of power to promote this type of approach. It may be manifested, for instance, by people talking *to* people rather than *about* people. Christian faith can liberate people to engage in trustful cooperation. Dialogue with stakeholder groups associated with companies, e.g. trade unions, environmental groups or active, critical citizens, is often productive, personally enriching and conducive to solutions.<sup>8</sup>

What is also required is shaping the system and the rules of economic coexistence on the basis of human dignity and the common good so as to promote ethical behaviour and the common good and sanction unfair action or noncompliance with rules.<sup>9</sup> To this end, the concept of the Social Market Economy foresees a 'strong' and 'neutral' state able to establish a regulatory framework oriented towards the common good even when faced with powerful social groups. In the light of globalisation, the nation state, previous guarantor of this concept, will no longer be able to fully perform this task. That is why new political regulatory patterns will have to be devised at a transnational level. In this regard, the Social Market Economy is currently put to a new test. The examples of the financial and environmental crisis have shown in a particularly impressive manner that the nation state no longer constitutes a sufficient framework: the fundamental ideas and stimuli of the Social Market Economy must be implemented at the international level. Regional economic blocks, in particular the EU, form a key link between the regional and international levels. Their policies have to be further developed from a Social Market Economy viewpoint. As early as in 1989, the then under-secretary of state

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<sup>8</sup> For more comprehensive information, see Material M2.2 *Ordnungspolitik in der Sozialen Marktwirtschaft*. ([www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink no. 252)

<sup>9</sup> *Evangelical Church in Germany: Unternehmerisches Handeln in evangelischer Perspektive. Eine Denkschrift*. Gütersloh 2008 (EKD, *Unternehmerisches Handeln*), p. 32ff.



in the federal ministry of economics, Otto Schlecht, formulated a goal outlining that a renewal of the Social Market Economy could only be ‘renewal towards Europe’<sup>10</sup>. Ever since the formation of the European Economic Community on 1 January 1958, the European Union has been committed to democratic and social values, so that the EU may be considered

*‘the first formation of a post-national democracy’.*

(Jürgen Habermas)

However, the single European market primarily reproduces inequality. It has even resulted in an increasing social divide in Europe. That is why the key challenge is the question as to whether the EU is able to take and enforce decisions concerning market correction in the framework of a social policy. The future of European social policy hinges upon ‘whether Europe as a political system will be able to muster the necessary political resources to impose redistribution obligations on powerful market participants’.<sup>11</sup> It is imperative that previous, primarily economically oriented EU policy is supplemented by this social policy approach.

Since the creation of the European Economic Community in 1958 and above all the European internal market in 1992, a single, free market based on the principle of competition and free movement of workers has been institutionalised in Europe. The European single market led to the formation of a strong competitive system with sanction options. It comes very close to the idea of securing competition by means of regulatory policies held by the founding fathers of the Social Market Economy.

Apart from these market economy principles, the European Union has always also emphasized the social dimension of the European Economic Area. However, to date, the only noteworthy example principle reflected in actual practice is health and safety, and anti-discrimination legislation. A further relevant achievement is the EU’s coordinating social law. For decades it has governed old-age and surviving dependants’ pensions of people having spent their working lives in several EU members states, pensions drawn in some other EU country and reimbursement options for medical treatment. Since the year 2000, the Council of the European

<sup>10</sup> Schlecht, O.: *Die Genesis des Konzepts der Sozialen Marktwirtschaft*, in: Issing, O. (ed.), *Zukunftsprobleme der Sozialen Marktwirtschaft. Schriften des Vereins für Sozialpolitik, N.F., vol. 116*; Berlin 1981, p. 4.

<sup>11</sup> Wolfgang Streeck, *Vom Binnenmarkt zum Binnenstaat? Überlegungen zur politischen Ökonomie der europäischen Sozialpolitik*, in: Stephan Leibfried/Peter Peirson (eds), *Standort Europa. Europäische Sozialpolitik, Frankfurt/M. 1998, p. 391.*

Union has also been in charge of modernising the social systems. In this context, the long-term compatibility and sustainability of essential elements of social policies is reviewed. Whether these initiatives will lead to the development of an independent European social model is a controversial question difficult to foresee at the current point in time.

The question is not so much whether, but above all how this European social model will be shaped in concrete terms. What matters most is to develop an EU social policy based on precaution, compensation and redistribution, preserving and further developing the various national embodiments of European social models. This will be indispensable in order to incorporate the key stimuli of the Social Market Economy at the same time. It should be possible to achieve, since the social welfare state is a 'European achievement'<sup>12</sup> based on common Christian and Enlightenment roots.

The EU may thus be developed into a genuine regulatory model of a Social Market Economy. At a global level, by contrast, indispensable minimum standards will have to be developed and enforced in the social, legal, economic and ecological areas.

The rules and regulations of the International Labour Organisation (ILO) might serve as a model, although enforcement has been too weak thus far. Similarly, the International Monetary Fund (IMF), World Bank and World Trade Organisation (WTO) are currently reorganising to open up genuine participation opportunities to the emerging economies and the countries of the South so as to enhance procedural fairness. A key element to enforce these minimum standards is the development of a worldwide civil society in which churches can play a central role, in particular in global ecumenism. The free, public debates within civil society constitute the only way to prevent political or economic agents from using worldwide agreements to solely enforce their own interests. Rather, what is required is a participatory process in which democratically legitimised institutions participate substantially in the development and enforcement of worldwide standards.

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<sup>12</sup> Eberhard Eichenhofer, *Geschichte des Sozialstaates in Europa*, Munich 2007, p. 36.

## 4. Remodelling the Social Market Economy from an ethical standpoint: embedding the market economy in a social and cultural context

### 4.1 'Sustainability' as a prerequisite for a renewal of the Social Market Economy

*The Social Market Economy has substantially contributed to solving social questions by programmatically balancing 'justice' and 'freedom'. The 20<sup>th</sup> century, in particular the last third, was determined by ecological questions, the limits to growth. In order for an economic system to be sustainable, it has to be able to appropriately respond to this challenge. Accordingly, integrating sustainability in the system of the market economy is the crucial condition for a renewal of the Social Market Economy.*

*(Hypothesis 6)*

Economic policy thus far has been too focused on *quantitative* growth. What, actually, is economic growth in the first place? Monetary costs of food, vehicles, ecological damage, medical care or care for the elderly are all included in the gross national product. However, they do not necessarily constitute *qualitative* growth. Social and ecological costs, however, are not included in market prices without political intervention. This is even more severe when it comes to consumption of natural resources in a market economy.

To date, modern economic action has been characterised by historically unprecedented consumption of natural resources. This consumption continues to rise on a worldwide scale in the framework of globalisation, with ever more dramatic ecological hazards, as the public debate about climate change has shown in a particularly distinct way. This overexploitation of natural resources contradicts the needs of future generations<sup>13</sup> and thus the goal of sustainable economic growth formulated at the 1992 Earth Summit (UN Conference on Environment and Development) in Rio de Janeiro. The reasons for the overexploitation are related to the nature of the market economy: the need for economic growth on the one hand and the insufficient economic valuation of natural resources on the other.

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<sup>13</sup> Sustainability definition of the Brundtland Commission, according to which sustainability seeks to secure the needs of current and future generations. Cf. World Commission for Environment and Development (WCED), *Our Common Future*, 1987.

In simple terms, the need for economic growth can be described as follows. The dynamic structure of the capital utilisation process with innovative rationalisation drives aims at steady monetary economic growth. The need for this growth results from the income and capacity effects of investments. Investments create jobs and thus distribute more income and increase demand; however, at the same time production capacity also rises. In order to avoid crises, both effects should be more or less equal, i.e. demand has to be strong enough to absorb the higher supply at prices covering the costs. This will only be the case if investments rise steadily.

The investment rate, which rises constantly for this reason, is pre-financed, with profits desired to at least match the relevant interest rate level expected for the future since the invested funds are not to lose their value. An economically compelling quantitative growth process is initiated in this way. While this momentum has facilitated enormous prosperity gains, it has also led to an unprecedented over-exploitation of nature.

In the light of the ecological crises, this growth orientation of economic activity must be fundamentally questioned. A major objection is the question to what extent further economic growth makes sense from a welfare perspective if the 'achievable production gains do not or only just suffice to compensate for the additional damage done or avoid a further aggravation of the damage situation'<sup>14</sup>. The question thus arises whether the prosperity gains generated through economic growth will be reduced or even eaten up due to ecological or social follow-up costs.

Even more fundamental doubts about economic growth are caused by the steady consumption of finite, frequently non-renewable resources. Critics of conventional economic action interpret economic growth as a 'continuation of the war against nature'.<sup>15</sup>

Faced with this type of growth criticism, economists will reply that it is neither appropriate to equate economic growth with industrial production, nor to equate economic growth with increasing consumption of resources. In economic terms, growth is a process creating value added, in which less useful goods are converted into more useful goods. This process of value creation does not necessarily have to go hand in hand with the consumption of resources, they argue. A solution to

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<sup>14</sup> Christian Leipert, *Ökologische und soziale Folgekosten der Produktion. Zum Problem der zunehmenden Unwirtschaftlichkeit der industriegesellschaftlichen Produktionsweise*, in: *Aus Politik und Zeitgeschichte*, B 19/1984, p. 35. Cf. also Leipold, H.: *Wertewandel und Werteverzehr: Moralische Dimensionen der Sozialen Marktwirtschaft*, in: Dieter Cassel (ed.), *50 Jahre Soziale Marktwirtschaft. Ordnungstheoretische Grundlagen, Realisierungsprobleme und Zukunftsperspektiven einer wirtschaftspolitischen Konzeption*, Stuttgart 1998, pp. 153–175.

<sup>15</sup> Günter Altner, *Naturvergessenheit, Grundlagen einer umfassenden Bioethik*, 1984, p. 271.

the problem, preserving the momentum of the market economy, would be to technologically improve the economically necessary driving force for growth such that monetary economic growth does not necessarily entail consumption of resources. The economic growth path could be maintained without consuming ever larger quantities of natural resources, in particular non-renewable energy sources and raw materials. This strategy of decoupling economic growth and consumption of resources aims to shift from a purely quantitative, materially oriented growth to an approach of 'restricting growth by means of including more and more immaterial elements in the production process.'<sup>16</sup>

However, the current globalisation process only partly meets these requirements of *qualitative* growth. On the one hand, the increasing use of information technologies represents a certain shift away from a form of economic activity characterised by strong utilisation of resources and energy, and the growth of the services sector at the expense of the industrial sector or the increasing economic importance of research and culture can be considered key signs of a development towards a type of growth less strongly oriented towards the consumption of natural resources. However, on the other hand the globalisation process goes hand in hand with energy-intensive increases in mobility and we are faced with the traditional growth strategies in most emerging economies. The market economy model will, however, only be sustainable if the economic need for growth is strictly detached from the consumption of resources. An ecologically and socially sustainable economy requires a shift towards *qualitative* economic growth and a corresponding lifestyle. Such 'green growth' is the key challenge of current economic action. Economics has the task to support politics in formulating such guiding principles. A new horizon of political responsibility arises, seeking to examine, assess and implement appropriate implementation tools.

#### 4.2 From economic policy to structural policy: aligning economic policies in an ecological, social and cultural manner

*'Public before private' or 'private before public' are false social alternatives. Both strategies are tools used to achieve higher social goals. Opting for either of these variants will depend on the goals and the social, ecological or cultural dimensions they are to serve. Climate protection, social justice and common economic good are directly interrelated. This interrelationship can only be reshaped if the values take account of the social and ecological components.* (Hypothesis 7)

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<sup>16</sup> Cf. Hans Chr. Binswanger, *Qualitatives Wachstum – Strategie und Ausgestaltungsprobleme*, in: H. Müller-Witt (ed.), *Arbeitsplätze contra Umwelt? Freiburg 1980*, p. 63.

Any further development of the Social Market Economy will have to concern the relationship between the individual modules. In regulatory terms, raising the 'systemic question' for or against the market economy or abolishing the market economy as such does not matter. Developing the market economy further means refining its individual modules beyond liberal economic thinking.

This redefinition is carried out by expanding the key categories and placing them in a frame of reference. The key categories illustrate the differences between a 'pure' market economy and an embedded economy in the spirit of a Social Market Economy. The following comparison shows how the fundamental categories of economic activity are filled with contents.

- *Freedom* in a liberal market economy primarily denotes freedom from arbitrariness, freedom to own property and the dialectics of freedom and individual responsibility. The concept of the Social Market Economy has meant that freedom must be put in perspective ethically, socially and contextually, with the key dialectics relating to freedom vs. (social) order.
- *Justice* in a liberal market economy relates to fair procedures and rules. According to this approach, social justice is an inherent contradiction; the sum total of individual interests and individual performance is the common good; it is an 'unwarranted assumption of knowledge' (F.A. v. Hayek) to pretend that justice exists for all. The role of the state is to promote poor performers. In a Social Market Economy, the role of the state goes further. It has to create social balance and define rules such that they control the serving function of markets. Social justice is the criterion for market control.
- *Sustainability* exists in a liberal economic model as long as it is possible in the light of competition and as long as it pays off (business case). In a Social Market Economy, there is cultural and political sustainability, recognizing and politically enforcing limits to growth.
- *The common good* in a liberal market economy is achieved through competition as a harmonisation tool, through individual freedom and performance. A Social Market Economy can achieve the reestablishment of a link between the market economy and the real world as well as primacy of politics.
- The *overall system* in a 'pure' market economy is constant. It has to secure a functioning price system and competition. In a Social Market Economy there is an interdependency of systems (governmental, legal, economic, societal and social systems etc.).
- *State and community* in a liberal market economy are characterised by deregulation, privatisation and avoiding selective intervention. The focus is on reducing levies and the tax rate. In a Social Market Economy the state and community create the prerequisites for market and competition. They define public tasks, strengthen the social system and consider forms of regulation.

- *Social indicators* in a liberal market economy are economic, e.g. gross domestic product, economic growth rate, unemployment rates. In a Social Market Economy the same indicators also apply, but additional indicators are crisis manifestations in external effects, social costs or the Human Development Index (HDI) which also takes account of immaterial wealth indicators<sup>17</sup>.

What matters now is to define rules ensuring that the design, management and orientation of the worldwide market economy will serve life. The primacy of politics may be regained through the combination of highly varied economic and entrepreneurial tools oriented toward the notion of an embedded economy in the spirit of the Social Market Economy. This may be achieved in three stages:

- Expanding the methodological framework (embedded economy in the spirit of the Social Market Economy) and the fundamental terms/categories of economic thinking (freedom, justice, common good, state and community, overall framework, social indicators),
- Qualitative definition of goals (economy in the service of life; sustainability as an across-the-board dimension for steady and appropriate growth; high employment rate with highly skilled people; secondary goals: stable price levels, balance of payments breaking even)
- Selecting appropriate economic and entrepreneurial instruments (e.g. the state- or competition-driven shaping of public goods—education, health, safety, employment policy, tax policy, energy and environmental policy, financial market policy, international economic policy, etc.).

What is required is to re-establish the link between the analysis of the social situation, the definition of political goals and the instruments of economic policy. Depending on the interpretation of the situation and definition of goals, different instruments of economic policy will emerge as a result. The economy is perceived as an element of a social network. The economy becomes a socio-cultural phenomenon. Economics will be more than social mathematics, it will be a value-driven social and cultural discipline.

However, economic policy will continue to focus on the cyclical orientation of state action, trying to preserve employment by means of cyclical stimuli and economic growth. There is a lack of opportunities to control competition and integrate structural elements. In the automotive sector, a much stricter approach could be pursued, linking the granting of guarantees or structural aid or the reform of motor vehicle tax to ecological or transport policy requirements. From the point

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<sup>17</sup> See also the comparative table on the Social Market Economy ‚Economic and embedded (contextual) perception‘, Material M 2.2 Ordnungspolitik in der Sozialen Marktwirtschaft. ([www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink no. 252)

of view of the companies affected, this would have to be the price of saving their business operations.

### 4.3 Social culture, regulatory procedures and corporate co-responsibility

*Today, new coordinates for the building blocks of the Social Market Economy have to be taken into account: the economy is becoming more international; the gap between rich and poor, globally and within societies, is widening; climate change is a global threat. In order to cope with these challenges from a regulatory point of view, state action, multi-state regulation systems and supranational governance structures will have to be harmonised. A strong and frequently internationally networked civil society and non-governmental organisations (NGOs) must be involved. Assuming their share of regulatory responsibility also means that companies will have to learn to think in political terms. (Hypothesis 8)*

the history of the Social Market Economy since its introduction after World War II has seen a change in its overall framework. This change affects both the social role of the family in educating children and the church, trade unions or political parties. It also relates to new elements reinvigorating the public political debate: gender equality<sup>18</sup>, citizen initiatives, new social movements, welfare organisations, environmental associations and non-governmental organisations (NGOs) have triggered new ways of forming political will.

In the early phase of the Social Market Economy, political discussion lines were largely characterised by the political parties and the two powerful sides of industry, the employers and trade unions. Today, large social organisations suffer from dwindling membership and have to face new challenges in the context of globalisation. The seedbed in which they developed has been increasingly depleted. Trade unions and works councillors work in an area of tension: on the one hand, they have to assume social responsibility and play a co-management role; on the other hand, they have to reorganise their historical role as a social counterforce under conditions of an internationalised economy.

In terms of the contents of their economic and regulatory policies, the large political parties do not differ much. In order to win elections, a large mainstream party has to prove its economic expertise. Ideological differences are faded out or are no longer discussed at the political level. Individual departments differ in impor-

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<sup>18</sup> For more comprehensive information, see Material M 2.3 Dimensionen des Gender Mainstreaming. [www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink no. 252.



tant questions of economic policy; however, there are hardly any regulatory requirements beyond supposedly technical laws providing guidance to ministries. Although responsibilities are governed by the rules of procedure of the federal government, there are certainly different approaches towards economic policy. This applies, for instance, to the introduction of a tax on financial transactions. This Tobin Tax is a monetary policy tool to tax foreign exchange revenues with the aim of increasing the price of short-term financial investments and thus making them less attractive while at the same time using the income generated in this way for development aid purposes. The competent departments naturally come to different assessments of the Tobin Tax: the federal ministry of finance (BMF), the federal ministry of economics (BMWi) and the federal ministry of economic cooperation and development (BMZ).

The process of globalisation has created new priorities and voids in national and international political decision-making processes. On the one hand, there is a discrepancy between the number of national and international regulations. What can still be politically determined at a national and European level meets with a void at the international level with regard to procedural standards. There is a regulatory vacuum. The process of globalisation has not kept pace with the requirements of democratic representation. Rights to information and rights of action of non-governmental organisation, asymmetries between executive level and parliaments (e.g. in terms of the information opportunities of the federal parliament concerning German foreign trade policies developed by the ministry), the limitations of direct democracy and referenda in international processes have not been further developed at the same pace as relationships between markets and companies.

Due to the acceleration of economic life, more general, fundamental questions are hardly ever considered. The competitive society faces questions concerning the meaning of life and goals for life and human coexistence. At the same time, it has to find methods to tackle these questions in an inviting, serious, creative and effective way. The momentum of global competition does not just require sorting out individual models of life but also the regulatory role of companies in a Social Market Economy in assuming co-responsibility in shaping the regulatory framework.<sup>19</sup> Representation of interests cannot only affect short-term business interests. A large number of medium-sized companies take the social co-responsibility of companies for granted and walk the talk under headings such as corporate social responsibility (CSR) or corporate citizenship (CC).

However, voluntary entrepreneurial action in social responsibility has its limits, while also entailing opportunities. These include the CSR initiatives, and in broader

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<sup>19</sup> EKD, *Unternehmerisches Handeln*, paragraph 48.

terms the social co-responsibility of companies. The then Secretary General of the United Nations, Kofi Annan, launched an initiative under the heading Global Compact in 2000, aiming to motivate global players to increasingly take account of issues related to environmental protection, social responsibility and the protection of human rights in their activities. The global balance of power between politics, private enterprise and civil society has changed. Non-governmental organisations and companies play a major role in such new global partnerships. Several German companies have already joined this Compact, including companies operating in the area of the Evangelical Church of Westphalia.

Given the strongly varying extent of commitment of the companies involved, such voluntary self-commitments cannot replace internationally binding legal frameworks. These endeavours have progressed to the most advanced level in the framework of the OECD Guidelines. The European Union published a white paper on corporate social responsibility in 2006, primarily relying on voluntary corporate commitment. Within the European Parliament, the British MEP Richard Hewitt, in particular, advocated more binding regulatory systems. The management boards of companies operating internationally frequently voice the argument that they would love to support social or ecological issues more strongly due to their inner conviction or public pressure but that they do not have a choice in the light of the constraints of international competition. For this reason, the power of constraints and other regulations of global competition need to be considered from the point of view of companies concerned. For many global players and their classical structure of industrial relations new challenges arise from international competition for the best locations. This competition does not just relate to competitors, but also arises within companies, beyond national borders.<sup>20</sup> The group strategy, the representation of interests of the workforce, economic interests and the criteria of a corporate policy sustainable in the long run today have to think beyond the classical structure of industrial relations.

In this context, regulatory co-responsibility means that companies, too, learn to think in *political* terms. A committed entrepreneur acting voluntarily and from conviction must not lose out in the end. Companies have to be involved in considering how to develop sustainable regulations taking account of the triad of economic, ecological and social interests. Such regulations do not just reinforce the social or ecological orientation of economic action, they also protect companies acting voluntarily from free riders. This search, which also involves economic interests and scope for action, can manifest the regulatory co-responsibility of com-

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<sup>20</sup> Such internal constellations have been comprehensively analysed in the framework of a project of the Opel works council in Bochum, the works council of Opel Gliwice/Poland and the Institute for Church and Society – Church Service in the World of Work. ([www.kircheundgesellschaft.de](http://www.kircheundgesellschaft.de))

panies. A new level of regulatory understanding is emerging here. Companies have to engage in normative management, i.e. the area transcending strategic and operational management where corporate goals and tasks are being defined. There are examples showing that companies can be far ahead of regional state regulations when investing in emerging economies or developing countries, but there are just as many counter examples. However, as a matter of principle, the state or market regulation does not a priori have to be superior in terms of ecological or social aspects.<sup>21</sup>

The classical form of economic policy strictly separates the various levels of activity: the state, industrial relations and the other parts of civil society. Given the interrelation of economic processes, a new form of permeability is required for economic policies, causing an expansion of previous forms of social partnership. As a result, new processes of involvement in economic processes emerge, aiming to take account of the new ecological or social dimensions.

To this end, dialogue with stakeholder groups, hitherto relating to discussions between non-governmental organisations, trade unions and companies on the basis of voluntary talks, will need to be expanded so as to include the political dimension. In order to establish a regulatory framework for a Social Market Economy, general conditions have to be defined by means of expanding broadly-based thinking in technical and interest-driven sectors.<sup>22</sup>

#### 4.4 Transferability of the concerns of the Social Market Economy

*A Social Market Economy means shaping regulatory policies rather than only 'repairing' the welfare state. The Social Market Economy serves as a political tool to achieve economic but in particular also social, ecological and cultural goals. The Social Market Economy may be flexibly shaped and is sensitive to different contexts. It may thus constitute an alternative model to a self-regulating market economy, beyond Germany and other European states. The Social Market Economy includes programmatic intervention based on a large variety of instruments of economic policy. The key test for the Social Market Economy in times of globalisation is whether it can render a relevant contribution to a global structural policy also involving the developing countries.* (Hypothesis 9)

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21 Discussed in the framework of the CSR fireside talk at the Evangelical Academy of Villigst in the Institute for Church and Society as part of the project in 2007-2009 of the Evangelical Academies in Germany (EAD) and the Hans-Böckler Foundation (HBS): 'SCR between sustainability reporting and shaping the political and democratic framework for action.' ([www.evangelische-akademie.de](http://www.evangelische-akademie.de))

22 These considerations on political processes are taken up in the final chapter to suggest the formation of an ecumenical panel.

The policy of liberalisation, deregulation and economic privatisation has given rise to similar questions in all countries, prompting different answers. In the South, the opening of markets has created new cost and competitive pressure, which generates new import and export opportunities but also means that production sectors lose their competitiveness, local markets are destroyed, state revenue falls, and public tasks can hardly be discharged, if at all. The imbalance within an open and deregulated global economy has negative effects, in particular for the weak. Unbridled price competition may open up new market opportunities but also destroy regional economies. This question is particularly obvious in the field of agricultural production. In this situation, agriculture deserves special attention, in particular because agriculture must not be reduced to its economic component. An economy will only be able to successfully hold its own within international price competition if it meets the prerequisites. A market economy without a social, administrative and political context can only manifest itself as Manchester capitalism characterised by cut-throat competition. Whether in Russia, China, Argentina, Afghanistan, Indonesia or Tanzania: the market economy needs a regulatory framework in order to be able to fulfil its function as an economy in the service of life. A worldwide analysis of the ethics of the Social Market Economy must not be based on an assumption of equality of the respective values and standards in an economic context. The issue at stake is thus to engage in a new debate about a pluralism of values in a global economic context. Human life and dignity are fundamental values overruling the Social Market Economy and anchored in Christianity. They represent inalienable human rights which must not be left to some economic alignment. What is the new balance that people and society need in global competition, in a liberalised market economy, in an economy without borders? How do the poles of speed and stability, acceleration and manageable units, abolishing borders and embedding relate to one another?

The ethics of a region or country are usually characterised by religious, philosophical and ethical factors characterising the thinking, life and culture of a society. Culture thus means the symbolic system of a culture. Culture is not to be understood in the narrower sense as literature, music, theatre or dance, but the sum total of the factors characterising the everyday life and policies of a country. How does Islam characterise its own ethics and economic ethics, differing from the economic ethics of the Christian/occidental thinking and the ethics of the scientific/technical world view? How do Confucianism in China or Buddhism and Hinduism in India influence ethics and economic ethics conveying a work ethic differing from the Central European ethic? How does a black African spiritual world view differ from a scientific/technical world view? Western individualistic thinking is not necessarily compatible with a conception of human beings first and foremost regarding people as part of a community. African communalism traditionally promotes communal property. However, from a western perspective private

property is one of the pillars in shaping a market economy. Similar differences can be observed when analysing the time concept of different cultures.

Experience gained by the various world religions with regard to globalisation, liberalisation and deregulation as well as experience gained in living in other economic systems shows: The removal of the economic barriers resulting from policies solely aiming to achieve the isolated and fundamental ideal of free economic action has not created the desired result. A fundamental aspect of freedom is that freedom and justice do not act separately, they are complementary. Freedom cannot be real without justice, and justice cannot exist without freedom.<sup>23</sup>

Social balance and social justice are integral parts of the concept of the Social Market Economy. They can be achieved through various forms of effective redistribution. Examples include various forms of development aid and assistance for the countries of the South and various internal financial mechanisms by the EU. However, a system of redistribution is not the only way to achieve social justice. In order to achieve social justice, taking social policy measures does not suffice. Efforts to create *ex ante* justice (e.g. by means of access to means of production, equal opportunities for everybody, etc.) are at least as important and probably more effective. That implies acquiring the means to bring about social justice (CEC, Globalisation). This also means that society has to play an active role in building the structures aimed to help achieve justice. A just society is a participatory society empowering people to participate. Human life needs a lot more than markets can produce. The logic of the market must be questioned in particular where it is applied to supplies of fundamental social services and the distribution of common goods such as water and air. Christian faith has every reason to reiterate that there are certain social goods that must be distributed on the basis of a different logic. These social goods are (global) commons and are not commodities. This needs to be emphatically stressed with regard to the elementary rights and basic needs of the majority of the world population.

Poverty continues to be a global scandal. Despite four decades of development policy and cooperation, the world is increasingly falling apart in economic terms: 25 per cent of people earn around 75 per cent of world income, while 60 per cent of people live on just six per cent of world income. Almost half the world's population (2.8 billion people) lives on less than 2 USD a day, and 1.4 billion people live on less than 1.25 USD (purchasing power parity). This gap is widening, both between countries (by 20 per cent since 1980) and within the countries. Processes of impoverishment or enrichment frequently take place across national borders

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<sup>23</sup> Conference of European Churches (CEC): *European churches living their faith in the context of globalisation, Brussels 2005.*

and include the industrialised countries. The extent of extreme poverty has gone down in percentage terms since 1980; however, it has risen slightly in absolute terms. (...)

Poverty has many faces and is above all female – the poor include landless and slum dwellers, small peasants and informal merchants, migrant workers, AIDS orphans, working children. What they all have in common is insufficient access to the basic resources of land and energy, destitution and powerlessness and lack of access to education and health systems. (...) Poverty always implies economic, social and political marginalisation or exclusion. The poor are usually directly and strongly dependent on natural resources and particularly vulnerable to natural and other disasters. For poor population groups to liberate themselves from these shackles is an elementary component of life in dignity', and the effects of the climate change will make it difficult for many countries to fight the root causes of poverty.<sup>24</sup>

The *crucial international test for the Social Market Economy* in times of globalisation is whether it can render a relevant contribution to a just and sustainable global structural policy which also involves the developing countries.

The model of the Social Market Economy is open to regulatory detail. The interdependency of the systems entails the possibility of including these factors in shaping the economic system for a socio-cultural sensitive perception of the cultural realities. Economic liberalism, in contrast, assumes the universality of economic processes, the 'economic laws' and the market economy mechanisms. The Social Market Economy is thus called 'social' in this regulatory context because it facilitates social connectivity to the specific regional and cultural contexts of economic action.

Is the Social Market Economy a specifically German or also a specifically European model? There is no categorical answer to this question today. On the one hand, there is the European tradition of a strong welfare state, not just in Germany but also in the Scandinavian countries, France or Switzerland. As a rule, European countries are also characterised by a relatively strong civil society in which non-governmental organisations participate in the process of formation of political will. This does not only apply to questions of universal human rights, but also consumer behaviour, processes of direct democracy, participation in stakeholder dialogue with companies and associations. This form of civil society cannot always be taken for granted in countries of the Global South or in eastern Europe.

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<sup>24</sup> *Evangelical Church in Germany: Turning to life. Sustainable Development in the Context of Climate Change. A memorandum of the Council of the Evangelical Church in Germany, pp. 52–54, 2009*

However, the Social Market Economy can be used as a model sensitive to different cultures and contexts. It opens up the opportunity to embed the market economy in the social (cultural, social, ecological, political and religious) context of a region. This facilitates assessing and shaping the role of the economy in society in a balanced manner. What the challenges really have in common is the search for possibilities of regaining the primacy of politics over economic processes. In this respect, the countries of the North, East, South and West face similar challenges.

## 5. Possibilities for active church participation in shaping the Social Market Economy

*The church itself is an economic agent. It must live out its message with its system and practice. It has to implement ethical criteria through its investment and sourcing behaviour, e.g. ethical investment or climate protection strategies. A demanding regulatory area of tension is corporate diaconal policy, in which the church and its social service ministries have to implement their mission while at the same time defending their competitive position as business agents.* (Hypothesis 10)

Through the nature of its systems and areas of activity, the church ‘speaks’ as clearly as through its proclamation and pronouncements. The Barmen Theological Declaration (BTE) provides a stimulus to be referred to time and again in stating that the structure and order of the church must not contract the biblical message and that ideally even the frequently neglected so-called outer orders may constitute a ‘witness’.

Thesis III of the Barmen Theological Declaration reads:

*‘But speaking the truth in love, we must grow up in every way into him who is the head, into Christ, from whom the whole body is joined and knit together.’ (Eph 4:15–18)*

The Christian church is the community of brothers and sisters in which Jesus Christ is presently working as the Lord in word and sacrament through the Holy Spirit. It has to witness with its faith and obedience, with its message and order in the midst of this world of sin as the church of pardoned sinners that it is solely his property; the church lives and desires to live solely from his comfort and from his instruction in the expectance of his coming.

*We reject the false doctrine as though the church were permitted to abandon the form of its message and order to its own pleasure or to changes in prevailing ideological and political convictions.’*

This also applies to areas in which the church constitutes an ‘economic agent’. In the light of its finance, investment and consumer behaviour and also its employment contracts within the church and its social ministries, the church must be self-critical and examine to what extent its activities promote or hamper the biblical task of giving witness.



## 5.1 The church as an economic agent: investments

In many regards, the church itself is an economic agent: as an employer, as a consumer, as an investor. It can give witness through its own system. As a consumer, for instance, it may apply fair trade criteria in its sourcing policy – as an individual church congregation but also at the level of the economic community of churches responsible for procurement. The present study will focus solely on church investments by way of an example.

*‘All church assets serve to proclaim the word of God and diakonia and may only be used for the proper execution of the mission of the church.’*

(Administrative regulation of the Evangelical Church of Westphalia,  
section 2 (1))

For a long time, this sentence from the administrative regulation of our church, seemingly to be taken for granted, was understood to mean that church monies may only be spent on the construction and maintenance of churches or to pay the pastors and church staff in kindergartens and social ministries. With its Synod resolution adopted in 2005, the Evangelical Church of Westphalia has unambiguously committed to ensuring that its reserves and investments at all church levels also have to observe ethical criteria based on social, ecological and development policy criteria. In the meantime, the church-run Bank for Church and Diakonia (KD-Bank) has become a pioneer in ethical and sustainable investment issues. The question concerning the transparency of church investment with regard to ethically responsible investment has gained urgency in the light of the global financial crisis. Within the Protestant church and in ecumenical cooperation both in Germany and at a European level, through the Conference of European Churches, forward-looking cooperation schemes and networks are forming, enabling the churches to jointly develop market power and participate in shaping developments based on their own credibility, transparency and comparable standards. Apart from the church as a whole, the individual congregations and church districts also have to be supported in investing their funds in line with the word of God. The *Guide to sustainable church investment in church households*<sup>25</sup>, published by the church board of the Evangelical Church of Westphalia, offers useful guidance in this respect. Many church congregations, church districts and church institutions want to invest their assets in harmony with Christian values. They consider it important not to invest their monies in companies involved, for instance, in arms production or arms trade, thus worsening civil wars in developing countries, or con-

<sup>25</sup> Download from the EkvW homepage at [www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink no. 253

tributing to intolerable working conditions in developing countries. The guide highlights an alternative that is realisable even in view of declining church tax income and scarcer personal resources.

## 5.2 The church as an economic agent: limits to entrepreneurial diakonia

A demanding regulatory area of tension is social corporate policy, in which the church and its social ministries have to implement their mission while at the same time defending their competitive position as business agents. They are challenged to help shape framework parameters with regard to the quality of their offerings, and the financing and establishing of *social* standards.

Diakonia as an institutional form of church and constituted church increasingly have to act on the basis of business principles and shape their work as companies competing with others. Against the background of the question concerning the quality of a Social Market Economy, the focus must not only be on the question whether the individual institutions and agencies will be able to hold their own against their competition. Other key aspects are how to formulate regulatory rules and qualitative criteria of competition and how to finance implementation of such criteria<sup>26</sup>.

The joint Statement of the Evangelical Church in Germany and the German Bishops' Conference on the Economic and Social Situation in Germany formulated elements of a 'regulatory policy' in 1997. In particular in the social sector, in which the church and its social ministries are important actors, there is a lack of framework parameters securing the relationship between competition and church standards for the quality of work and compensation. Diaconal agencies increasingly have to work under cost pressure and respond to requirements of social and health policies. Due to the cost pressure, many church and diaconal agencies find it more and more difficult to secure their own quality standards with regard to the church and diaconal profile of their services as well as appropriate compensation. That is why we also take action, as a church and diaconal agency, to help shape a framework for social, health and education policies. The 1997 Statement of the Evangelical Church in Germany and the German Bishops' Conference on the Economic and Social Situation in Germany lists the following regulatory elements:<sup>27</sup>

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<sup>26</sup> EKD, *Unternehmerisches Handeln*, paragraph 120.

<sup>27</sup> *Common Statement. For a Future Founded on Solidarity and Justice. Statement on the Economic and Social Situation in Germany. Published by the Church Office of the Evangelical Church in Germany and the Secretariat of the German Bishops' Conference (Common Statement), 1997. Cf. paragraph 245.*

Together with their social welfare agencies the churches are large employers. In this role, they are – neither more nor less than other employers – called upon

- to draw up employment contracts to suit families (e.g. flexible working hours),
- to seek fair dealings with staff,
- to observe the equality of women and men, and to ensure the consistent enforcement of rules for staff representation and active participation in decision-making,
- to give attention to proposals aiming at moderate restrictions of the salaries of church staff in the middle and higher salary groups,
- to ensure that job-sharing takes priority over dismissals and reduction of positions.

The Statement on the Economic and Social Situation in Germany calls this a question of the credibility of churches:

*‘Churches are employers, owners of financial assets and landed property, or economic actors when they build or operate institutions and centres. They cannot formulate and propound criteria for economic action without applying the same standards to themselves. This is rightly seen as a question of credibility.’<sup>28</sup>*

As a church and diaconal agency in the ‘social market’ we are aware of these challenges and try to implement our mission under these increasingly difficult conditions. To this end, we also chart new ground and try, for instance through new forms of education and training (foundation of the Institute of Diaconal Studies and Diaconal Management (IDM) at the Church University of Wuppertal-Bethel in April 2009), to differentiate these areas of tension on the basis of individual ethics, corporate ethics and regulatory ethics and to develop them further based on an interdisciplinary approach. In this way, we seek to help to ensure that church institutions show more self-confidence in contributing their central ideas, their faith and their tradition of loving one’s neighbour and charitable practice as a distinct profile and thus a competitive edge. At the same time, we aim to contribute, as a church, to the development of social standards devised with people in mind.

The issue at stake is shaping social tasks and public goods. As a church, we do not wish to avoid the area of tension between value orientation and cost pressure by withdrawing from social policy as a field of action. As a church, we aim to strive for decisions concerning social values facilitating or not facilitating refinancing. In the spirit of Social Market Economy, this is based on a political assessment of the extent to which cost competition or qualitative standards provide the reference framework.

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<sup>28</sup> Common Statement, paragraph 244.

### 5.3 Further developing the church input: regulatory processes and economic instruments

The church input to the public debate, provided in this study, gains profile in realising the specific role of the fundamental considerations for regulatory processes and economic instruments. On the basis of the general concern underlying any church contribution to the public debate of not making policies but facilitating policies, these considerations have a different role to play. That is why we put the following comments up for discussion in a separate annex.<sup>29</sup>

It lists economic instruments and regulatory processes furthering the concerns of a Social Market Economy in the context of globalisation. This includes first of all to transfer the ethics of the Social Market Economy to central modules, specify the methodological opening ('embedding') of the market economy and develop an ethics of competition, free trade or performance. In each instance, the focus is on re-embedding these mechanisms in their tasks in the service of life. Key economic categories displaying the intermediation problem are the guiding principles of 'competition' and 'free trade'. Competition and free trade are not good as such, nor are they bad as such. The liberalisation of trade policies may cause severe damage to developing countries. However, even the many permissible subsidies and aid schemes of industrialised countries for their (agricultural) products constitute problematic cases of state action. Compared with certain subsidies, free trade would represent progress in these instances.

The annex lists economic policy modules for a Social Market Economy in the context of globalisation. Economic policy options and implementation tools are outlined in greater detail. They clarify the levels of responsibility, integration, gender equality and mainstreaming, the changed political processes involving civil society and church positions on the Social Market Economy.

What is particularly relevant is climate justice as a field for action, since the ecological and social dimensions have to be integrated in regulatory policies in this area. Issues taken into account at the national level are: strengthening public goods, managing privatization, ensuring a comprehensive perception of gainful employment and employment policies, cushioning the social wealth divide by means of social and fiscal policies. Issues taken account at an international level are: 'Global Europe?', selectively using competition, free trade and Economic Partnership Agreements (EPAs), linking up the social and ecological dimensions, climate justice, energy and climate policy instruments, ensuring the sustainability of free trade, creating a regulatory framework for the financial markets, instruments of mone-

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<sup>29</sup> Download from the EkvW homepage at [www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink no. 252.

tary and financial policies: drying up tax shelters, regaining fiscal leeway, changing people's tax morale, freedom, globalisation, loss of solidarity, reshaping corporate ethics and the regulatory framework.

A Social Market Economy will be a successful model if it proves its ethical, cultural, social, ecological and economic worth in different contexts both regionally and globally. This litmus test is yet to come. However, it is not just a question of the concept to be devised. What is also required is a worldwide process based on dialogue with other traditions and models linking up efficiency and responsibility. Standing the test requires dialogue of the type that has proven to be productive in the tradition of ecumenical worldwide learning. Such a process could be supported by a *global ecumenical panel*, contributing its expertise, criticism of ideologies and participation, acting as an intermediary in the event of inquiries and making its voice heard if various camps were to claim a prerogative of interpretation. Similar initiatives have been launched in the German Chancellery 'Charter for sustainable development' and the proposal of the Stiglitz Commission<sup>30</sup> for a panel on economic and social questions, adopted by the United Nations.

By means of modernising the classical relationship between employers and trade unions, linking regulatory policies up with a Social Market Economy may offer an approach placing greater confidence in civil society and politics – at the national, regional and global levels. If markets generally have to be understood as unstable systems – as Alfred Müller-Armack, in particular, has emphasized – new cultures of cooperation and political control of markets need to be developed in this way at the same time.

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<sup>30</sup> UN expert commission for a new world economic and financial architecture, headed by the Nobel laureate Joseph Stiglitz.

## How the Study Came About

The study was commissioned by the executive of the Evangelical Church of Westphalia on 17 October 2007, acting on the 2006 Synod decision to continue work on the study adopted by Synod in 2004 on “Globalisation – Economy in the Service of Life” [www.evangelisch-in-westfalen.de](http://www.evangelisch-in-westfalen.de), quicklink 249. A steering group was responsible for developing, discussing and revising the study. It comprised:

*PD Dr Martin Büscher*, Protestant Academy Villigst/Institute for Church and Society, Schwerte, lecturer at St. Gallen University (academic responsibility)

*Authorised representative Alfred Drost*, member of the church executive board, Dortmund

*Prof. Dr Traugott Jähnichen*, Department of Christian Social Science, Bochum University

*Christa Kronshage*, member of the church executive board, Bielefeld

*Oberkirchenrat Dr Ulrich Möller*, Regional Church Office, member of the church executive board, (chair), Bielefeld

*Landeskirchenrat Friedhelm Wixforth*, Regional Church Office, Bielefeld

The following persons and organisations were involved in the process of developing the study:

### I. In the preparation phase

- *Prof. Dr Traugott Jähnichen*
- *Dr Dr Peter Pavlovic*, Church and Society Commission of the Conference of European Churches (CEC), Brussels
- *Prof. Dr Christoph Stückelberger*, Director, Globethics, Geneva; *Dr Hella Hoppe*, Federation of Swiss Protestant Churches (SEK), Bern
- *PD Dr Martin Büscher*
- *OKR Dr Ulrich Möller*

with the support and advice of *Dr Sabine Plonz*, researcher at the Protestant Theological Department of Münster University; *Michael Frein*, Church Development

Service (eed), Bonn; *Ulrich Bartscher*, Board member, Sparkasse Schwerte; *Prof. Dr Udo Krolzik*, Director, Institute for Diaconal Studies, Church University of Wuppertal/Bethel, and *Rev. Günter Barenhoff*, CEO, Church Service Agency Rhineland/Westphalia/Lippe.

The first draft was discussed by the Social Committee of the Evangelical Church of Westphalia.

External experts commenting on study drafts:

- *Prof. Dr Gerhard Wegner*, EKD Institute for Social Sciences, Hanover (2008)
- *Prof. Dr Franz Segbers*, Service Agency of the Evangelical Church of Hesse-Nassau, Frankfurt (2008)
- *Prof. Dr Michael Abländer*, Department for Business and Corporate Ethics, Kassel University (2008)
- *Dr Ursula Schäfer-Preuss*, Vice-President Asian Development Bank (ADB), Manila (2008)
- *Prof. Dr Konrad Raiser*, former General Secretary of the World Council of Churches, Berlin (2008)
- *Jörg Asmussen*, under-secretary of state at the Federal Ministry for Finance (BMF) and BMF staff, Berlin (2009)
- *Dr Wolfram Stierle*, deputy chair of the Department at the Federal Ministry for Economic Cooperation (BMZ) and the BMZ employees, Berlin (2009)

## II. Discussions with experts

In order to discuss the result of the first development phase in 2008, OKR *Dr Ulrich Möller* and *Dr Martin Büscher* held talks with the following persons:

- *Wolfram Kuschke*, member of the regional parliament, SPD, former head of the state chancellery of North Rhine Westphalia, European MP, Arnsberg/Unna District President
- *PD Dr Dirk Solte*, Vice-Chairman, Research Institute for Applied Knowledge Transfer (FAW), Ulm, Global Marshall Plan Initiative (GMPI)
- *Franz Peter Falke*, entrepreneur, Falke KGaA, Schmallenberg
- *Peter Wahl/Peter Fuchs*, World Economy, Ecology and Development, scientific advisory council ATTAC Germany, Berlin

- *PD Dr Norbert Reuter/Ralf Krämer*, Economic Policy Department, ver.di national executive board, Berlin
- *Max A. Höfer/Dieter Rath*, managing directors of the Initiative for a New Social Market Economy (INSM), *Dr Dominik H. Enste*, Department for Legal and Institutional Economy, Economic Ethics, Institute of German Economy, Cologne
- *Birgit Riess*, Director Programme for Corporate Social Responsibility (CSR), Bertelsmann Foundation, Gütersloh
- *Stefan Pfeifer*, head of Department for Economic and Structural Policy/Technology Policy, Confederation of German Trade Unions DGB – North Rhine Westphalia, Düsseldorf
- *Reiner Priggen*, member of regional parliament, economic policy spokesman for Alliance 90/the Green Party, Düsseldorf
- *Dr Bernhard Keller*, deputy managing director, Regional Federation of Employer Associations NRW (LAV), Düsseldorf
- *Lutz Lienenkämper*, member of regional parliament, economic policy spokesman of the CDU parliamentary group, Düsseldorf
- *Dr Harald Nadzeyka*, chairman of the technical committee on Economy and Work, FDP NRW, Düsseldorf

The results of these technical discussions were used as inputs in the further development of the study.

In the light of the current economic crisis, the study was once again fundamentally revised in 2009. Specialist journalist *Andreas Zumach* (Geneva) was involved in this work. Superintendent *Rüdiger Höcker*, Gelsenkirchen and Wattenscheid church district, and *Andreas Duderstedt*, press officer of the regional church office, reviewed the linguistic quality of the study.

The final version developed by the steering committee was discussed, finalised and adopted by the church executive board in October 2009.