

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

Study

'Ethical dimensions of the Social Market Economy'

Published by the Regional Church Office of the
Evangelical Church of Westphalia
Altstädter Kirchplatz 5, D-33602 Bielefeld

Produced by Evangelischer Presseverband für Westfalen und Lippe e.V.
Cansteinstr. 1, D-33647 Bielefeld
www.evangelisches-medienhaus-bielefeld.de

The background documentation may also be downloaded at
www.evangelisch-in-westfalen.de, quicklink no. 258

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M1 The Social Market Economy as guidance for the economic and social policies of political parties in Germany

In their new party platform of December 2007 'Principles for Germany'¹, the **Christian Democratic Party (CDU)** extensively deals with the Social Market Economy: 'The economic and social order of freedom in responsibility is our model for an international regulatory policy. Globalisation requires a new dimension of the Social Market Economy and offers the opportunity of setting global social and ecological standards' (p. 4).

The section on 'Renewal of the Social Market Economy in a globalised world' reads:

A humane and just world order has to ensure that the economic freedom gained serves people. The CDU rejects collectivist approaches just as liberalism solely relying on the market. The Social Market Economy is a competitive order. Policy within a Social Market Economy is regulatory policy. The Social Market Economy opens up leeway promoting performance to companies and creates a comprehensive range of goods and services for the population. It enables everybody to autonomously operate in the market. It requires the state to be capable of acting and secure a level playing field. This includes freedom of trade, freedom of contract, protection against market barriers, protection against market abuse by companies dominating the market and market transparency. The protection of property within the Social Market Economy is a prerequisite for benefiting the general public and thus meeting its social accountability.

The Social Market Economy is premised on the individual human being as God's creature,

whose dignity is inviolable. It is an order in which freedom, solidarity and justice have a symbiotic relationship—reacting to and complementing each other. The Social Market Economy is more than an economic system. It is a model of society. It provides a framework within which the creative spirit of the individuals can develop. The Social Market Economy is thus a socio-economic order of liberal democracy. It has the same impetus as the constitutional state:

1 Christian Democratic Union (CDU), 'Principles for Germany'—Party Platform, Hanover 2007.

its concern is the protection of human dignity and freedom against state interference and the arbitrariness of fellow human beings. It contributes essentially to the internal stability of the community. The Social Market Economy obtains its strength from freedom and responsibility, and competition and solidarity, which form one entity and promote each other mutually. It is the inextricable link between the liberal economic order and social order through solidarity. The Social Market Economy has a social dimension. This is because it enables people to live according to their own definition of independence and to cater for themselves and their dependents. It makes individuals combine their strength to collaborate communally. Through it, the solidarity upon which our public systems of social security are based becomes economically viable. The Social Market Economy provides prosperity and security for all. Social Market Economy means participation even for those who are not in a position to achieve a decent standard of living by their own efforts. In this way it brings about social justice.

The Social Market Economy unites individual willingness to work and solidarity. Solidarity-based facilities should not cripple the individuals' readiness to make an effort. Performance is an essential tenet of prosperity, which can safeguard social peace.

Social Market Economy in a globalised world

It is only through more freedom and competition and not through protectionism and stiff regulatory measures that we can maintain the Social Market Economy. We in Germany are more expensive by international comparison, so we must also be better. In a dynamic world we need an inquisitive, innovative and creative Germany. Economic success depends more these days than ever on technology, talent and tolerance. Only an open and diverse society provides the creative environment in which ideas can be brought forth and prosperity guaranteed through innovation. In evolving its globalisation strategies, the CDU as a people's party takes into account the interests of entrepreneurs and employees, service providers and service beneficiaries, and urban and rural areas. In conformity with our Christian principles we would like to provide better perspectives for those people living in less developed areas of the world, even if this will mean more economic competition for us in Germany. Our aim is to achieve equal opportunities, be it at the national or international level. We want to make use of our influence in the world. We consider the increasing interconnectedness of international trade and opening of markets to be a driving force in the fight against poverty, hunger, epidemics, illiteracy, corruption, human rights violations, discrimination and armed conflict.

The Social Democratic Party (SPD) publishes similar comments in its Party Platform of the Social Democratic Party of Germany, adopted at the Hamburg party convention in October 2007². For the SPD, too, the Social Market Economy is a key point of reference:

Social Market Economy in the 21st century

In the 20th century the Social Market Economy has become our outstanding model for success. It combines economic strength with wealth for broad strata of society. Social Market Economy, predominantly shaped by social democrats and trade unions, turned participation and codetermination of workers into a productive force promoting social peace. However, global finance and capital markets without borders are challenging the tested structure. Orientating exclusively towards short term and excessive profits blindly jeopardises social cohesion and economic necessities. At the same time it undermines long-term economic success of our corporations and our national economy.

Markets need to be shaped by politics, in the era of globalisation and beyond national borders. Our guideline is to have as much competition as possible and as much regulation by the state as necessary. Joint action in the European Union is of crucial importance for the future of the Social Market Economy.

Economic democracy is indispensable to fill the postulate of our Basic Law with life: 'Property commits. Its use shall also serve the general well-being.' Co-determination at the shopfloor and in corporations, freedom of collective bargaining and the right to strike are basic elements of Social Market Economy. Shopfloor democracy means participating by having a say. It promotes entrepreneurial success. We are professing parity co-determination in supervisory boards of large corporations. In an increasingly Europeanised economy our aim is to increase workers' rights and co-determination at European level. In our understanding strong trade unions are indispensable. When shaping working conditions we abide by the tested division of tasks between legislator, parties to collective labour agreements as well as works and personnel councils. Freedom of collective bargaining applies without any restriction. We want to strengthen industry-wide collective agreements. We are safeguarding workers' rights including protection against unlawful dismissal.

² Social Democratic Party of Germany (SPD), Party Platform of the Social Democratic Party of Germany, Hamburg 2007.

There is no fair distribution of income and property in Germany. The Social Democrats' tax policy shall limit imbalances and promote equal opportunities. We are supporting wage increases oriented towards productivity growth and inflation. We want to put more capital into the hands of the workforce. Participation of workers in corporative capital as an additional source of income grants fairer participation of the workforce in their company's success. It also promotes innovation and productivity. Conferring entrepreneurial risk to the workforce can be prevented by establishing inter-company funds. Additional jobs are mainly created where creative people realise their ideas and take them to the market. We are improving conditions for new business establishments as well as for small and medium-sized enterprises, crafts and self-employed people. Strong small- and medium-sized business establishments strengthen value added. Non-profit companies and cooperatives are crucial parts of Social Market Economy. In our understanding entrepreneurial freedom and social responsibility are two sides of the same coin. Social democratic policy promotes responsible entrepreneurship by means of fair competition. We want a culture of self-employment in Germany. We want to create more social security for low income free-lance, crafts and trades people.

The Liberal Democratic Party (FDP) also strongly promotes the Social Market Economy and, along with the Initiative on the New Social Market Economy (INSM) advocates the performance and competition-oriented components, claiming economic expertise.³

“The Liberal Democratic Party is the party of the Social Market Economy. It follows the tradition of Ludwig Erhardt. We want to promote a return to the virtues of the classical Social Market Economy in order to secure jobs and wealth for all: via a new culture of self-employment, via a viable middle class, via more freedom and less government, via lower taxes and charges. In the federal elections in 2002 the FDP secured approval in the electorate in particular because of its clear positioning in fiscal policies. In the current parliamentary term, too, we will continue on our path of performance equity in economic and fiscal policies. This will be through performance incentives in a transparent tax system with low tax rates, so that new jobs can be created. In the light of the increasing tax burden w will include the topic of taxes and charges in the debate on taxation. The government programme of the Red/

3 Liberal Democratic Party of Germany (FDP), *Party Platform Germany 2005*, Berlin 2005.

Green government coalition shows: neither the Social Democrats nor the Green Party exhibit economic or fiscal competency. At the same time, the process of globalisation changes the foundation of international economic policy. Globalisation is primarily discussed as a risk for Germany. The economic opportunities of globalisation are underestimated, as are the opportunities of using globalisation to enforce the rule of law and human rights worldwide. The debate in Germany is insufficient and superficial.”

The political party Alliance 90/The Greens extends the conceptual framework⁴. The party platform adopted in Berlin in 2002 incorporates the ecological dimension in the market economy. Unlike other political parties, it emphasises the obsolete nature of the traditional dichotomy between competition and state regulation. The regulatory position of Alliance 90/The Greens also newly discusses individual fundamental economic categories such as the concept of work, wealth or the gender relationship.

Moving into an ecological and Social Market Economy

The key challenge for modern economic policy is the transition to a sustainable, ecologically viable and socially just economy. We intend to develop our economic system into an ecological and Social Market Economy and thus secure the quality of life both today and tomorrow. A market economy that balances environmental protection, social security and economic momentum is sustainable. It releases people's creativeness as it facilitates equal participation of everybody in economic, social and political life. And it respects the finiteness of earth, an ecosystem, as a framework for economic action.

An ecological and Social Market Economy no longer takes gross national product as the benchmark of wealth. (...) A more comprehensive definition of social wealth is required. Gross national product has to be extended to form an ecological national product also including ecological follow-up costs. Wealth includes factors that cannot be expressed in euros and dollars. We also judge the economy by its contribution to increasing wealth in terms of cultural and social relationships among people, the possibility of living as free equals without discrimination on account of class, social stratum, gender, eth-

⁴ Alliance 90/The Greens, *Moving into an ecological and social market economy. Party platform, Berlin 2002.*

nic origin or lifestyle. We stand for a differentiated concept of work. Work is gainful employment, but work also encompasses housework, domestic and care work and community work. Having no income is not synonymous with unemployment.

An ecological and Social Market Economy of the future has to recognise and upgrade all forms of work and distribute them fairly among the genders. (...) It is very harmful for the economy if there is asymmetry in gender relationships, a disregard for non-market-oriented economic conditions and undue acknowledgement of work on human resources. The lopsided attribution of unpaid care economy activities to women is unproductive and constitutes a crucial obstacle to growth for the economy and society. By contrast, we stand for equal opportunities for women and men as an independent criterion in shaping the economy and a quality feature of a Social Market Economy. Gender mainstreaming has to include, in particular, all financial and economic policies. Gender budgeting needs to be introduced for governmental fiscal policies.

Fundamental orientation of our economic policy

Prosperity for all requires justice, self-determination, ecology and democracy. These fundamental values also determine our economic policy. Regarding economics and ecology, we stand for an ecological modernisation of the economy. Ecology opens up a key area for growth. It implies more than merely ecological and technological innovation. We want our society to agree long-term objectives for an economic policy that fixes a clear ecological framework for the market. (...)

In a Social Market Economy, economic freedom is linked up with a social and ecological regulatory framework. Free market access, legal certainty and observance of contracts, comprehensive transparency and the prevention and removal of monopolies are prerequisites for the functioning of markets; they have to be guaranteed by the state. Monopolies and oligopolies will only be prevented or removed if regional markets, national markets and the Single European Market are subject to strong merger control and anti-trust supervision and an effective demerger legislation.

The schematic either-or of competition and state intervention has long since become obsolete. Competition needs a state framework, in particular if it is to create socially and ecologically compatible results. At the same time, state in-

tervention has to take care to retain the functioning and in particular innovative capacity of the market. On this basis, what instruments are best suited to solve an economic problem have to be determined in every individual case. We want a state that shapes policies while relying on and promoting the commitment of citizens.”

The political party **The Left** does not explicitly refer to the Social Market Economy but is committed to stronger political control of the market economy.

M2 Building blocks for a Social Market Economy in the context of globalisation

2.1 Ethics and regulatory policy—church memoranda

Just as Alfred Müller-Armack, the Joint Statement of the Churches ‘For a future in solidarity and justice—Joint Statement of the Council of the EKD and the German Bishops’ Conference on the Economic and Social Situation in Germany’ (1997) calls for a ‘deliberately socially managed Social Market Economy’⁵. The market process is to be controlled in line with ethical models promoting the social dimension, i.e. serving life.

The ordo-liberals of the Freiburg School are aware of the deficits of the market economy and therefore expect a strong state to secure competition and monetary stability. However, the viability of the market is to be secured and must not be impaired by the social compensation function the state is expected to perform. By contrast, the *liberal economic approach* already considers a market economy to be social if it features functioning competition and breaks the predominance of one supplier. Competition will then by itself create the social dimension. That is why political intervention governing developments are not just superfluous but even harmful.

The understanding of a *Social Market Economy* defended by the churches in their Joint Statement on the Economic and Social Situation hinges on a welfare state which should not be regarded “*as an appendage of the market economy, to be made “leaner” according to the dictates of expediency*” (para 133). The Social Market Economy is not just an efficient form of economy. It is based “*on preconditions that it cannot create or guarantee itself*” (para 91), i.e. ethical and anthropological prejudgements. Accordingly, the economy is nurtured by an ethical substance that it is unable to produce itself. The market does not inherently legitimise itself. It is only through the interplay of material security, political and social rights that legitimise a western-type market economy. Social human rights thus form the basis for a concept of a market economy that is ethically anchored at a global level. The ethical basis also plays a crucial role for the economy: The churches do not attribute the economic efficiency of the market economy to the market alone but understand market efficiency to realise that “*economic success and social balance are*

⁵ *Evangelical Church in Germany (EKD) and German Bishops’ Conference (DBK), For a future in solidarity and justice—Joint Statement of the Council of the EKD and the German Bishops’ Conference on the Economic and Social Situation in Germany, Hannover/Bonn 1997, para 143*

goals of equal rank and that each has to be seen as the precondition for the other” (para 143).

In times of non-transparency and a search for orientation such as ours—reminiscent of Germany’s burgeoning industry in the 19th century—we have to strike the *right balance* between economic, political and ethical components in shaping the market economy. This challenge confronts both developed economies in Europe and America as well as emerging economies and nations aiming to achieve further economic growth.

The economy must be perceived in its social, cultural and political contexts. In its position paper ‘Globalisation. Economy in the Service of Life’, Synod 2004 of the Evangelical Church of Westphalia identified approaches and levels of change and co-design. It listed ethical and economic dimensions for the search for balance in between those poles. In a nutshell, Wilhelm Röpke worded this search process as follows:

“Economically ignorant moralism is as objectionable as morally callous economism.”

‘Moralism’ denotes the pure, ostentative application of ethical criteria in economic issues, as frequently encountered in church documents, while ‘economism’ represents thinking in terms of *economic* restraints and a technical separation of the economy and ethical considerations.

The modernised model of the Social Market Economy has developed new regulatory balances between those two dimensions. Justice today has to include natural resources and the threats posed by climate change, environmental destruction and other anthropogenic causes of ecological strains. It has therefore become necessary to use the term eco-Social Market Economy. Ecological justice is not just an ethical or political demand but also an expression of the Christian belief that the world is God’s creation.

There are substantial considerations fundamentally and critically questioning the paradigm of a globalised economy subject to ethical influence. In the EKD memorandum ‘Common good and Self Interest’, published in 1991, the market economy is acknowledged to be a successful model, on the one hand, whereupon it immediately states:

“However, at the same time there is a growing appreciation that the earth, ecologically speaking, does not have the carrying capacity to cope with an expansion of the living conditions of industrialised countries to the rest of the world. On a global scale, neither the consumption of energy and resources nor the emissions produced by industrialised countries are compatible with creation. In the light of the inequality of current living conditions, the question of social justice is particularly urgent.”

(EKD, Common Good and Self Interest, p. 25).

This highly charged text of the EKD memorandum clearly states: there must be no universalisation/globalisation of the market economy in its current form because otherwise this expansion of industrialised life would create an ecological collapse. Specifically: even if only one country such as China with its population of more than one billion wanted to achieve the standard of living of western industrialised countries, this would inevitably cause an ecological disaster. What consequences do we draw from this finding—that the current form of economic action must not be universalised/globalised—with regard to the extent to which the global economy can be shaped?

Almost all answers to this question available to date accept globalisation as an irreversible fact of life but call for political rules on how to “shape” it. The rules called for include a “re-regulation of the world economy”, stronger control and better transparency of financial markets, measures to stabilise exchange rates, a democratisation of international financial institutions and debt relief for heavily indebted developing countries. As early as in 1985, the Joint Declaration of the Council of the EKD and the German Bishops’ Conference “Taking Responsibility for Creation”, which received little attention, called for an expansion of the concept of the Social Market Economy to include an ecological component. The Declaration⁶ reads:

“What is required is an economic system in which free competition is subject to incentives and conditions to obtain stimuli to benefit ecological goals and which sets an ecological framework clearly putting the economic process in place as regards the environment. (...) The notion of an environmentally com-

⁶ *Evangelical Church in Germany (EKD) and German Bishops’ Conference (DBK), Taking Responsibility for Creation. Joint Declaration of the Council of EKD and the German Bishops’ Conference, Gütersloh 1985.*

mitted Social Market Economy thus builds on the adaptability of the economic system as well as the insight and interest of entrepreneurs to tackle tasks that serve nature and the common good if corresponding incentives are offered.”

(para 81).

Structural intervention is called for so as to facilitate the ecological reconstruction of the Social Market Economy.

“Committing to environmental protection does not represent a cosmetic correction but rather a fundamental change of the existing economic order”

(para 83).

Unfortunately, however, this joint declaration does not discuss the structural causes of ecological damage as a result of an economy aiming at constant growth, although limiting growth was already considered in the early days of the Social Market Economy. Alfred Müller-Armack discussed the “Problems of abundance” back in 1948. At a time when large parts of Germany were still in ruins, he far-sightedly called for instruments to control the expected abundance. Wilhelm Röpke, too, was aware of the constitutive and immanent ecological sensitivity of the market economy when he pointed out that the urge to grow continuously promoted a fixation on productivity, material expansion and standard of living.

What matters today is to provide new stimuli for a new economy. The economy needs to be perceived in its different contexts. This will broaden the horizon of our understanding of the economy and facilitates ideas about embedding the economy in social processes. Thus far, the challenge on a definition of the “economic matter” has not yet been fully clarified in scientific methodology. On the one hand, there is the mathematical approach to economics that merely discusses the interrelationships between quantities and prices in a given data set (currencies, interest, gross national product, growth indicators, tax rates, national budgets, etc.). On the other hand, there has always been historical/ethical contextual economics that starts from isolated cases and looks at the way an economic transaction is embedded into its environment (budgetary economics, environmental economics, social-economics etc.). This doctrinal dispute has not been resolved. It has been revived by the discussion about an eco-Social Market Economy.

2.2 Regulatory policy in a Social Market Economy: embedded market economy

In terms of economic policy, three different levels of shaping a market economy are distinguished, each entailing different fields of action, institutions and persons:

- Policies pursued by nation states and international institutions and organisations shape the framework parameters for the development of the (world) economy. National domestic policies shape the relationship between the economy and society (regulatory policy). In the framework of the United Nations, the nation states agree universally applicable political, economic and social human rights standards and rules for the protection of natural resources. The nation states are responsible for complying with and implementing these standards and rules and ensuring that they are also observed by the international economic and financial institutions outside the UN system (World Bank, International Monetary Fund, World Trade Organisation).
- At an intermediate level, there are different players with a mandate and responsibility to implement and specifically shape generally formulated standards in various ways. They include internationally operating companies, non-governmental organisations (NGOs), churches and other religious groups. The latter bear a particular public responsibility for observing human rights standards and rules for the protection of natural resources. However, an aspect to be taken into consideration in the light of globalisation processes is that it would be unrealistic to assume the existence of a civil society developed with democratic forces to the same extent worldwide.
- Each and every individual bears responsibility in their function as citizens, electors and consumers. Through our purchasing and investment decisions we can contribute to ensuring that human rights standards and rules for the protection of natural resources will prevail.
- Regulatory policy mainly affects the top level. It presumes a strong and neutral state. In the Protestant tradition, the state is considered the guarantor of the common good. According to this view, the state fulfils a protective function—frequently also called the “preferential option for the poor”—while also defining the law, i.e. the rules of the game governing human coexistence.

The key characteristic of the Social Market Economy is regulatory policy, aimed at deliberately shaping the regulatory framework for the economy. The special feature characterising the Social Market Economy is that contemporaneous condi-

tions and the respective historical changes are taken into account in shaping the regulatory policy. The further development of the Social Market Economy is not based on differentiation at the level of the market economy, e.g. through differentiated competitive policy. The three-stage concept of regulatory policy according to Walter Eucken describes this relationship:

Interdependence of orders	State order, legal order, order of society, economic order, competition order, social order, order of life
Constituting principles of the economic order	Functional pricing system with full competition, monetary stabilisers, open markets, private property, freedom of contract, liability, consistency of economic policy
Regulating principles of the economic order	Monopoly control, redistribution, correction of external effects, cushioning anomalous supply reactions, e.g. in the labour market

The interdependence of the sub-orders of a market economy is perceived at the top political level. The current problem is that the Social Market Economy in Germany and the market economy worldwide in its liberal shape aim to refine the economic dimension in terms of performance and competitiveness. The conditions of the other sub-orders have been largely ignored in the process; they are predominantly considered economically negligible components. Liberal economic philosophy regards the economy as a separate order alongside society.

The categories listed below show the fundamental issues distinguishing a “pure” market economy from an embedded economy in the spirit of a Social Market Economy. The comparison shows the fundamental ethical categories on which the models are built.

Economic reality is always complex and is simplified in models. The purity of the model does not match reality. However, the simplification may illustrate key backgrounds. The comparison also shows what perception of social, political and cultural contexts may be used to develop the liberal economic model further.

Category	Liberal market economy	Social, embedded market economy
Value		
<i>Freedom</i>	Freedom from arbitrariness; freedom to own property; dialectics of freedom and individual responsibility	Concept of freedom to be ethically, socially and contextually qualified; dialectics of freedom and (social) order
<i>Justice</i>	Fair procedures and rules, competition Social justice is an inherent contradiction; the sum total of individual interests and individual performance is the common good; unwarranted assumption of knowledge (F.A. v. Hayek); the state promoting poor performers	Creating social balance; defining rules such that they control the serving function of markets; facilitating state action by means of fiscal policies; social justice as a criterion for market control
<i>Sustainability</i>	Sustainability as long as possible in the light of competition; business case	Cultural and political sustainability; recognizing and politically enforcing the limits to growth
<i>Common good</i>	Competition as a harmonisation tool; individual freedom and performance	Reestablishing a link between the market economy and the real world; facilitating the primacy of politics

Category	Liberal market economy	Social, embedded market economy
Structural feature		
<i>Overall system</i>	'Pure' market economy; constant; has to secure a functioning price system and competition	Interdependency of systems (governmental, legal, economic, societal and social systems etc.).
<i>State, community</i>	Deregulation, privatisation, liberalisation, avoiding selective intervention Reducing levies and tax rate	Creating prerequisites for market and competition; limiting competition; social tasks; strengthening the social system; re-regulation
<i>Social indicators</i>	Economic, e.g. gross domestic product, economic growth rate, unemployment rates	Same indicators, but additionally crisis manifestations in external effects, social costs/ prerequisites, social contexts, analysing questions of meaning; Human Development Index (HDI) etc.
<i>Ecological indicators</i>	Human-induced climate change; consumption of resources; the cost of environmental protection	Same indicators, but additionally questions concerning one's lifestyle, health effects, the ecological orientation of economic policies etc.

Social Market Economy: Economic and 'embedded' (contextual) perception

Processes of economic target definition

Institutions (meso-level) Companies and regulatory co-responsibility, other interest groups at a meso level (ecology, consumers, workers, regions etc.), self-regulation



Ethics of structures (macro-level) Framework parameters of the market economy, regulatory policy as social policy, globalisation, economic policy

2.3 Dimensions and instruments of gender mainstreaming

The invisible heart—care and the global economy:

“Studies of globalization and its impact on people focus on incomes, employment, education and other opportunities. Less visible, and often neglected, is the impact on care and caring labour—the task of providing for dependants, for children, the sick, the elderly and (do not forget) all the rest of us, exhausted from the demands of daily life. Human development is nourished not only by expanding incomes, schooling, health, empowerment and a clean environment but also by care. And the essence of care is in the human bonds that it creates and supplies. Care, sometimes referred to as social reproduction, is also essential for economic sustainability.”

(Human Development Report 1999 of the United Nations Development Programme UNDP)

The tension and conflict relationship between a profit-driven and a care economy is closely associated with the gender relationships. Due to its *function in the service of life*, care is a category that needs to be included in a realignment of the Social Market Economy, alongside the categories of sustainability, justice, solidarity and common good, and reflected in the regulatory considerations, outlining of a value system and concrete specifications at action levels. What a care economy and the Social Market Economy have in common is that the prerequisites and consequences of an economic process are integrated in the process. At the economic level, this is reflected by full-cost accounting which also takes account of “external ef-

fects” and “internal prerequisites”. Gender mainstreaming supports and promotes an understanding of the embedded economy.

Gender mainstreaming means that the different life situations and interests of women and men are to be taken into account from the outset on a regular basis for all social projects since there is no gender-neutral reality. There is no gender-neutral way of life, social or economic order. Each of the individual ethical terms which the Social Market Economy is built upon: freedom, justice, sustainability, solidarity, responsibility, common good, participation, also has to be considered with regard to its impact on gender mainstreaming. Thus, somewhat schematically speaking, responsibility is still considered in terms of separate genders: while men assume responsibility for domestic policies, women bear responsibility for managing the household (family relationships, care, education, welfare).

What would change if the caring economy and gender relationships were to form the point of departure in thinking about a just and sustainable future Social Market Economy based on solidarity? How can gender mainstreaming be used in order to also better comply with other ethical yardsticks for a sustainable Social Market Economy?

We are faced with a controversial result: The nineties saw the proclamation of the end of the work society and the beginning of an activity society, showing a more comprehensive understanding of work beyond the fixation on profit orientation and considering the political goal of full employment to be obsolete. Today, we are witnessing an increase in demand for qualified, permanent but flexible labour, including many women due to their solid educational achievements. However, the economic and social prerequisites for reconciling gainful employment and family needs have not been adjusted. In many regards, pressure on care, education, family life resulting from the performance requirements of at the workplace has even grown. There is a divide between the profit-driven and the care economy. While the former defines the economic rhythm, the latter seems to lose its rhythm, and has to adjust without the former having to legitimise itself or show substantial consideration.

In spite of some recent positive developments concerning work-life balance, the Social Market Economy continues to show elements of an overall structure discriminating against women:⁷

⁷ WSI *FrauenDatenReport 2005. Handbuch zur wirtschaftlichen und sozialen Situation von Frauen*, by Silke Bothfeld, Ute Klammer, Christina Klenner, Simone Leiber, Anke Thiel, Astrid Ziegler, Berlin 2nd ed. 2006.

- Female employees continue to generate a substantially lower income than men, and the divide increases from “22 % to 33 %” with higher income categories (WSI, 2005, p. 241 ff).
- Unemployed women are worse off than men since their rights to unemployment benefits are lower due to their predominantly lower net income (wage structure/ tax bracket). Long-term unemployed females lose substantial rights to benefits and eligibility to aid due to the way income is calculated by households—with an adverse impact on their expected pensions. The tightening of rules on adequacy of jobs offered to long-term unemployed and the creation in Germany of one-euro jobs in the care economy further socially denigrate long-term unemployed females and confine unemployed women to this sector.
- Due to their more irregular occupational careers and lower rates of pay, women get a significantly lower pension from their own work than men—in western Germany, around half (€ 483), in eastern Germany around two thirds of average pensions paid to men (€ 665) (WSI, 348ff.).
- Single parents, 84 % of who are women (WSI, p. 48), are disproportionately affected by poverty and dependent on social benefits (in 2003 more than 22.5 % on average; more than 50 % of single mothers with three or more children were poor as at that date (WSI, p. 367/375).
- Women spend more time than men on care in their families, regardless of whether men are gainfully employed or not. A consideration of the total work volume of women and men rather than only paid work also shows the gender-specific discrepancy between work performed and income generated. Despite their higher total work volume, women earn less than men.
- The factors mentioned above give rise to clear material disadvantages for women, as can be seen from their income from their own paid work or their old-age pension: in 2005 it was € 1,864 gross for women and € 3,067 gross for men (Allmendinger et al, 2008, 23).⁸

From a gender perspective, the federal German welfare state model is a “modified breadwinner model” (WSI FrauenDatenReport 2005), which continues to promote traditional patterns of distribution of labour and wealth although these patterns no longer meet the ideas on patterns of life of the majority of the population. Despite the trend towards a stronger participation of women in the labour market, ob-

⁸ Allmendinger, Jutta et al., *50 Jahre Geschlechtergerechtigkeit und Arbeitsmarkt*, in: *Aus Politik und Zeitgeschichte*, 24–25/2008, p. 18–25, p. 23.

served throughout Europe and politically desired, the structures of a welfare state and the achievements of companies do not keep up in implementing the goal of a more equitable division of labour between the genders.

Approaches to reforms

Taking account of the care dimension and gender mainstreaming in the context of the Social Market Economy, we define some cornerstones of reform policies:

1. State/market/welfare have to be seen as sub-orders but also interacting structures of the social benefit system and system of values. This overall picture is required if we want to understand the actual national “social and gender system” with its normative models, strengths and weaknesses and approaches to gender mainstreaming.
2. Social security has to be replaced more strongly by gainful employment (elements of a universal service), and welfare work must be incorporated in the pension system more sustainably (stopping redistribution processes at the expense of families/parents).
3. Working hours and work volumes in gainful employment have to be more strongly oriented to welfare needs (volume desired by women: 30 hours—approx. 27 hours in western Germany, approx. 34 hours in eastern Germany, WSI, 190), substantially greater account needs to be taken of parental leave/phases of life so as to ensure that welfare and gainful employment are compatible and can be shaped in a humane manner.
4. There are many different ways of life, a phenomenon that needs to be perceived and accepted; people should be free to plan their lives, and this should be promoted through an individualisation of social security systems (uncoupling social benefits from marriage as a normative way of life).
5. Many areas of policy should focus more strongly on children. We promote, inter alia, appropriate and comprehensive childcare based on qualitative standards (rather than quantitative growth).
6. There must be a reversal of family and welfare policies that tend to promote the withdrawal of women from gainful employment rather than appropriately balance autonomy and relationship, care givers and receivers (carers’ allowance, child-raising allowance, joint tax declaration scheme for married couples).

The question of an *embedded economy* is of particularly *vital importance* when taking account of the care dimension and gender perspective in an international context, particularly in *developing countries and emerging economies*.

70 to 80 per cent of the agricultural and food supply work performed in southern Africa is carried out by women; in South and South East Asia this percentage is 60 per cent, in Latin America approx. 40 per cent. However, women only own two per cent of agricultural land but produce up to 60 or 80 per cent of foodstuffs. World-wide, women constitute more than half the population, the heads of one third of all households, account for half the world's food production, receive 1/10 of total income and own 1/100 of world assets. Only 13 per cent of all members of parliament are women. Women account for less than five per cent of leadership positions in the private sector, politics and administration. On a worldwide average, one out of three women has experienced violence in her personal social environment.

Economic calculations are based on market prices for the factors production, employment, consumption or trading. Traditionally, it is mostly men that are employed in "productive work". This formal economy is based on the principle of paying for the work performed and governing employment through state rules and supporting measures. Reproductive work plays a central role for the activities of human life, survival and the standard of living. This work is also called *care economy*, i.e. the economy of daily care. It focuses on fulfilling the basic needs of the members of a household such as food, education, health, agricultural work for food production, etc. Community work consists of time-consuming social services as well as cultural and religious manifestations. Both reproductive work and community work tend to be regarded as falling into women's sphere of responsibility. These are areas of unpaid work as part of the informal economy. Women are the backbone of the care economy.

The care economy does not constitute an economic factor calculated in monetary terms. However, the responsibilities awarded to women in reproductive and care work also represent major obstacles if women want to work in the 'productive' sector. Men tend to find it a lot easier to get access to arable land, agro-technological support and credit facilities as well as educational institutions and decision-makers; women, by contrast, tend not to have access to resources or the power to control them due to their traditional role. Women have weak ownership and leasehold rights and have to overcome enormous obstacles in order to win access to credits and capital, education, training and technology as well as more intensive cultivation methods and seed development. They frequently lack marketing knowhow and resources such as fuel wood and other sources of energy. They often lack drinking water.

Since only limited resources are earmarked for reproductive work and consumption in the productive areas, women find themselves in the role of Sisyphus, unable to ever finish his task. This perpetual fight against the hill affects women's ability to carry out their reproductive tasks in two ways. Firstly, it directly affects food security in a household, the amount and quality of foodstuffs and other basic

needs required to support a family. Secondly, the time factor plays a major role: women are under pressure of time to complete all their tasks (long working hours and heavy work, major health risks, etc.), so that their ability to care for their families in social and material terms is impaired in the long run. In many instances, schooling for girls is impossible since girls frequently constitute the only material resource available to women. Moreover, the quality of the foodstuffs produced and of exports is impaired and the environment is polluted. These disparities lead to the following conclusions: the role of women in the division of labour and the contribution made by women to business life remain invisible and are hardly reflected in the statistics. Women get into poverty situations precisely because they do not have access to productive resources or control over such resources. If this were not the case, women would be able to actively participate in economic development, take competitive products to market and engage in trading.

However, female labour forms the backbone of the embedded care economy, otherwise economic activities would hardly be sustainable and human development and existence would continue to be jeopardised. Liberalising trade does not automatically secure human development, and an expansion of trade does not always positively influence human development. Growth-oriented trade guarantees neither direct economic growth, nor long-term economic or human development.

Internal and external institutional and social conditions play a crucial role in determining whether and to what extent a country or a group of people can benefit from trade. Traditionally, trade policies focus on the macroeconomic level and key commodities, sold in national or international markets. They tend to neglect or hamper the economic and social development capability in markets and production sites of relevance to women and men in the poor population sector. The bulk of female labour does not result in any tradable products that can be sold in the conventional markets. Female labour is thus excluded from the econometric model of a country and therefore not regulated or sponsored by the state either.

From a *church perspective*, ecumenical dialogue offers orientation on the sustainability of an ethically oriented economy. Concerning work, care and gender mainstreaming, the church associations WCC, LWF, WAPS_RC have repeatedly taken a position in their documents on globalisation, human rights and combating violence against women. The 5th *Family Report* of the German federal government, prepared under the aegis of home economist Prof. Rosemarie v. Schweitzer, emphasises the merits of families in developing “social human assets” and calls for removing the “structural lack of consideration” for families of society, the labour market and the systems of social security. This analysis was reconfirmed in the 7th *Family Report* of the federal government (2006), prepared under the aegis of Prof. Hans Bertram who discusses family policy from the angle of “sustainability”.

All of these studies emphasise the fact that both a market economy philosophy detached from its social and ethical embedding and the concept of the Social Market Economy based on moral convictions have to be expanded to include the dimension of the *care economy*. To date, neither of these two approaches to market economy philosophy has paid a great deal of attention to economic activity outside—or, more precisely, before—activities in the labour market. As a result, fundamental human needs and activities in the fields of nursing care, education and basic provision have been disregarded. Although these activities represent an indispensable basis for the labour market, the practical exercise of these activities, their contribution to economic development, social cohesion and democratic culture have either been ignored or considered as natural private tasks, without “remunerating” them or socially acknowledging them in some other way. However, this also places the gender relationship, more specifically the division of labour between the genders and the associated advances/losses in prosperity for the overall population on the agenda. After all, both types of care work—paid and unpaid work—is predominantly performed by women.

With its *life-serving function*, care is a category to be included in a realignment of the Social Market Economy with the categories of sustainability, justice, solidarity and common good. It has to be incorporated in regulatory considerations, in outlining a value system of sub-orders and in specific embodiments at the various levels of action. Only if the needs-oriented care dimension is taken into account will it be possible to find socially and democratically compatible solutions for challenges such as the rise in poverty, education crisis, the future of employment, social acceptance of the political system, etc. In order to meet the *primacy of sustainable politics*, it is important to ensure the participation of both genders in wealth and democratic rights in a modern society. Only those benefiting from full participation opportunities will also be able to contribute to shaping political developments.

A political and social *order* providing equal opportunities and offers for women and men would thus have to be matched by an ethically oriented market and social order facilitating non-discriminatory full integration into gainful employment for women and granting all people humane social security services regardless of their employment status (Friedhelm Hengsbach). A key step would thus be taken to implement the ethical leitmotif of *freedom* and remove real gender inequality. The assessment and practical organisation of “care for others” is an indicator of the degree to which a society has achieved justice and is able to orient its system to the criterion of sustainability. The reverse also applies: including the care dimension in the basic (ethical) framework of the Social Market Economy will enhance the understanding of justice and sustainability, freedom, solidarity and responsibility, anchor it more broadly in people’s lives and make it more sustainable within soci-

ety. In this spirit, the declaration of the church leadership of the Evangelical Church of Westphalia stated in 1994: “The goal of the reform is to achieve an ecological/Social Market Economy for men and women.”

M3 Implementation options and approaches in the context of economic policy

3.1 The national level

3.1.1 Strengthening public goods—managing privatisation

‘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)

What matters about public goods is to strike a balance between order and freedom, a balance between the principle of merit (which is good for the strong) and solidarity (which is good for the weak). The world needs a balance between the economy and ecology, and between the public and the private. The state as a guarantor of public interests and an advocate of the poor has to ensure that privatisation also serves public interests and the access of all to public goods. The state must lay down a clear regulatory framework for the discharging of public tasks by the private sector with binding targets, criteria and social as well as an ecological impact assessment. Participation by civil society, the priority of the regional economy and the subsidiarity principle—placing decisions as close as possible to the level of those affected and the agents involved—all serve to effectively strengthen public goods and managing privatisation for the benefit of the common good. In order for this to be successfully implemented, there needs to be an effective, transparent and democratically legitimised control of compliance with the corresponding criteria.

Since the 1990s, the services to secure basic provision for the population at large (water, health, education, energies and transportation) have increasingly been privatised, both in Germany and worldwide. Privatisation frequently does not take account of the required ecological and social framework parameters. As a result, social prerequisites for basic supplies are undermined. Privatisation is questionable in cases in which poor families no longer have affordable access to vital goods or services, e.g. in the Chilean system of education, in securing water supplies in Cochabamba/Bolivia, or in health care provision in Kazakhstan. Problematic examples also include the privatisation of the military in African states, as a result of which the protective function of the military will then only work for wealthy peo-

ple. The Mexican telephone system has been privatised—very successfully concerning modernisation and cuts in telephone rates. In Uruguay, the telephone system has not been privatised. It was made state-of-the-art and became cheaper at the same time as the Mexican system. Argentina, in turn, privatised its system at around the same point in time, but its system was a lot worse than the state-run system in Uruguay. There are also some positive examples of privatisation. Privatisation may strengthen access to goods. An example is water supply for the shantytowns of La Paz, in El Alto. A toughly negotiating city administration imposed conditions on private water suppliers which have clearly improved the situation of the poor strata of the population.⁹

Based on the rich empirical experience gained, *criteria* have been developed for successful and responsible privatisation. This has facilitated keeping a balance between public and private concerns. The state, being the advocate of public concerns and the disadvantaged groups, has to ensure that privatisation will not result in an erosion in public concerns and that the poorest families will not be harmed. The provision of public goods requires clear framework parameters and social as well as ecological impact assessment. It has to be ensured that each individual is able to use these vital services in a sufficient quality.

Privatisation in the water management sector has to ensure that *all* people will gain access to clean water through a democratic design of the system and orientation towards social and ecological criteria.

- All people have to get access to health care. Adequate medical care must not depend on one's own personal income, gender or status. Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family (Universal Declaration of Human Rights, Article 25). That is why research into tropical diseases, in particular, has to be increased and new drugs against such diseases must be developed.
- Gender mainstreaming is a set of instruments—also called for by the World Health Organisation WHO—to identify and remedy unequal care and prevention standards. Although many research reports have already indicated that men and women show different disease patterns and that treatment should therefore also be differentiated, this is hardly taken into account in the framework of health policies. The social dimension of every disease also needs to be analysed from a gender perspective.

⁹ For the examples listed, cf: Weizsäcker, E.-U. v., *Grenzen der Privatisierung. Wann ist des Guten zu viel? Bericht an den Club of Rome, Stuttgart 2006.*

Worldwide, 1,400 pregnant women die every day. Good and accessible medical care for all women during pregnancy and childbirth should be a priority in health systems worldwide.

- A *holistic education system* helps enable people to live an independent life. From a Christian understanding, education includes teaching knowledge that provides orientation rather than just factual knowledge and knowhow to be utilised or work. Education has to be accessible to every individual and must not depend on the financial wealth of one's parents or oneself. Everyone has the right to education (Universal Declaration of Human Rights, Article 26). In order to remove the proven correlation between social class and frequently substantial competence deficits, the promotion of education needs to be considerably enhanced with a view to offsetting social and regional disadvantages. For this reason, we need in particular corresponding socio-educational concepts for schools.

In each case, the privatisation of public tasks runs up against limits. The liberalisation process is particularly advanced in the energy supply sector, public transportation or postal services and telecommunications. In the light of climate change, it has become particularly obvious that economic interests frequently do not match ecological requirements. In order to be able to control economic interests to benefit some overriding common good interest, a regulatory framework is required to ensure an ecological orientation of markets through corresponding incentive systems (in line with market requirements!). The regulatory framework reflects the social criteria and thus the targets of economic action.

This applies both to the ecological and the social dimension of the market economy. In social questions, too, the criteria defined by society are crucial for the economic objectives and the associated instruments. Work and employment is a field of action in which the demands of the public concerning good ways of living and working are faced with key economic data and restraints. However, here too, regulatory policies define the criteria shaping this field in the interest of the Social Market Economy and an economy in the service of life.

3.1.2 Ensuring a comprehensive perception of gainful employment and employment policies

Gainful employment is an issue located in an area of tension between economic and social dimensions, which may mutually impair but also complement one another. Expanding the social horizon of gainful employment will result in new target coordinates for economic and employment policies, opening up new room for manoeuvre to the state and the qualitative assessment of gainful employment.

Gainful employment is the human area of life in which all economic structures related to the activity itself, the performance or result of the activity and the pay are brought together—but also individual motivation, satisfaction and personal meaning. Only in combination will these two sides jointly make work a success. The picture is not complete if only one part is perceived.

The formal economy lives on the services rendered in the framework of care (care or subsistence economy). This realisation also adds the gender relationship to the agenda of discussions about the perspectives of the Social Market Economy. The social gender relationship shows a justice gap, which is mainly kept open by the uneven power relations between the care economy and the formal economy. Care activities are an element of the overall workload within society that needs to be distributed and given due reward. The increasing fragility of social security systems based on solidarity is linked with the fact that these systems are related to paid work. As a result, the care givers, i.e. women, are at a material disadvantage. State/market/welfare have to be seen as sub-orders but also interacting structures of the social benefit system and system of values. This overall picture is required if we are to understand the present national “social and gender system” with its normative models, strengths and weaknesses and how to go about gender mainstreaming.

Expanding the concept of work and incorporating the *contexts* of economic policy broaden the definition of work. This is reflected in the work and employment policy field of action. The basic ethical questions concerning the nature and meaning of work define the scope of what is to be considered as relevant in this field:

- Sustainability processes and processes of full-cost accounting in a sustainable closed cycle, and
- The redefinition of self-interest as a blend of social and economic benefits (I&WE paradigm, “I and We view”, not perceiving a human person as an isolated individual, according to Martin Buber), e.g. in part-time work (rising motivation and productivity as well as personal satisfaction), and work-life balance are included in employment policies. This happens in many different places at a microeconomic level. What is increasingly becoming microeconomic reality has this far not been implemented at a macroeconomic level.

The criteria for the evaluation of paid work are also listed in the “Good work” index of the German Trade Union Federation (DGB).¹⁰ It names fifteen dimensions of

¹⁰ *Deutscher Gewerkschaftsbund (DGB), DGB-Index Gute Arbeit. Wie die Beschäftigten die Arbeitswelt in Deutschland beurteilen, Berlin 2008.*

work to measure the quality of work (DGB-Index Good Work, Berlin 2008). The relevant dimensions include income and security, qualification/development opportunities, creativity, promotion opportunities, but also meaningful work, relations with colleagues, emotional requirements or hours of work. Instruments aimed at achieving these employment goals would shift the existing priorities of classical instruments of economic policies or reverse them. These are e.g. higher tax progression rather than lower taxes on—allegedly—incomes giving rise to investment, increasing capital yield taxes and speculation taxes while reducing the burden on the labour factor (wage and ancillary wage costs), introduction of the Tobin tax, limiting opportunities for tax evasion into tax havens, introduction of a tax on investments in shares characterised by a shareholder value orientation. Many of these instruments are currently subjects of a public debate. They are crystallisation points of a more comprehensive value orientation in economic thinking, which has historically moved in a close circle and only taken the economic aspect of individual and social existence into account. The economy is a social process, comprised of or embedded in real-life, cultural, social, ecological, political and economic components.

Economic reality is always complex and simplified by using models. The purity of comparing different models, of course, does not reflect reality, either. The comparison relates to the bases of the Social Market Economy to develop it further in its current context. Simplification may serve to illustrate backgrounds characterising the Social Market Economy. A second goal is to illustrate the ethical horizon that may be used to further develop the liberal (neo-classical) model.

Level	Liberal, (neo-)classical Employment policy	Value-oriented, embedded Employment policy
<i>Regional policy</i>	Market coordination in globalised competition: business location policy, competition policy	Regional economic activity with regulatory processes, stakeholder involvement, Local Agenda 21
<i>Economic policy</i>	Increasingly sectoral economic policy	New overall approaches, alternatives to economic liberalisation
<i>Financial policy</i>	Restrictive, reducing the share of GDP attributable to public expenditure	Expansive (education/training, social services, infrastructure, environment etc.)

Level	Liberal, (neo-)classical Employment policy	Value-oriented, embedded Employment policy
<i>Regulatory policy</i>	Continuation of liberalisation, privatisation, deregulation	(Selective) re-regulation, limiting competition and other liberalisation tendencies; instruments to re-network system and life context
<i>Monetary policy (national/international)</i>	Interest-rate policy (low credit interest), fighting inflation/preserving assets, free movement of capital, deregulation	Closing tax havens, controlling capital movements, Tobin tax

Liberal (neo-classical) and contextual (embedded) employment policy

This model of employment policy extends the fundamental ethical categories of liberal employment policy and hence makes it possible to weight goals and priorities differently. It embraces an ethical perspective and shows how a normative expansion of the ethical approach can lead to new weightings and thus new priorities in economic policy. As a result, the criteria shaping work may go beyond marketable performance and efficiency aspects. Instead, the function of the state is to promote forms of work recognised as meaningful and important and ensure that they can be sustained through corresponding finance and fiscal policies. As a result, higher incomes are no longer subject to the assumption that they indirectly contribute to higher employment through investments but can directly contribute to state funding of work based on their ability to pay tax and correspondingly higher fiscal progressivity on income (or corporation) tax.

Students attending the secondary school in Lichtenau, Germany, have proposed the award of an “Ethical label for socially just work”.¹¹ This is a creative and productive idea. It could be further developed in order to evaluate fiscal measures, privatisation processes and public goods or free trade. In every conceivable example the point would be to evaluate economic processes not just on the basis of criteria related to monetary market economy but to include conditions facilitating good life, responsible action and living together in fairness, i.e. the social contexts.

¹¹ Realschule Lichtenau, letter to the Evangelical Church of Westphalia in response to the discussion paper 2008 “Shaping globalization”.

Taking part in working life has always been the key point in the fight against poverty.¹² Moreover, precarious working situations within and outside the church are one of the main causes of poverty, e.g. in the low-wage sector, gender pay gap, contract labour and specific cases of part-time and temporary work).

Minimum wages, basic protection and basic income

Minimum wages constitute one effective and important instrument of securing people's livelihood. This is the result of the work done by a joint working group and the social service agency (Diakonisches Werk) of the Evangelical Church of Westphalia, as outlined in its study on "Basic income and minimum wages—challenges for church and diaconia" presented in early 2009.¹³ According to the study, minimum wages should be "*fixed for specific sectors and, if necessary, regions unless they are to have problematic effects on employment*". The working group does not suggest a specific amount for a minimum wage.

The question as to whether the principle of *paid work securing people's livelihood* is to be maintained or whether a *basic income for every individual regardless of whether or not they have a job* is comprehensively discussed in the study but is ultimately left open. However, the study advocates a system of "*basic protection every individual is entitled to if they are not able to provide for themselves on their own means*". In this context, "*a means test has to be based on compliance of the principles of human dignity*" and "*the general suspicion of abuse has to be overcome*".

Minimum wages have to be complemented for instance by better, free access to education and training. Just participation in life has to be secured for people who are not integrated into the first labour market on a temporary or permanent basis, e.g. through the creation of a sufficient number of jobs in areas benefiting from tax incentives. People unable to engage in paid work must be guaranteed a minimum income securing their livelihood. Migrant workers are particularly strongly affected by precarious work situations.

12 Cf. Evangelical Church in Germany (EKD), *Just participation—empowerment for personal responsibility and solidarity. A memorandum of the Council of the Evangelical Church in Germany on poverty in Germany*, Gütersloh 2006.

13 Evangelical Church of Westphalia (EKvW), *Grundeinkommen und Mindestlöhne—Herausforderungen für Kirche und Diakonie, study of the joint working group of the social committee and Diakonisches Werk of the EKvW*, Bielefeld 2009. Downloadable at www.ekvw.de, quicklink 255.

3.1.3 Cushioning the social wealth divide by means of social and fiscal policies

A growing social rich poor divide is developing. It also affects the structure of small and medium sized enterprises. Without declines in real wealth among highincome individuals, the social divide can be mitigated or cushioned by means of fiscal policies.

No one would dispute that the poverty rate has continually grown in Germany for three decades, from 8.7 % in 1973 to 13.5 % in 2000 and now just under 17 % in 2006. Social inequality has risen to a similar extent: The Gini coefficient as an indicator of income distribution rose by around 10 % in the period from 1973 to 2003, indicating a substantial aggravation of inequality by more than one quarter. Outlining the flip side of the coin, wealth and related developments, is somewhat more difficult. Whether and to what extent wealth has risen in recent decades cannot be clearly established. Different statistical data sources, each with undefined error rates, suggest a slight increase or even a minor decline in the number of rich, whereas their income levels, above all their wealth, have grown. In 2005 the richest 20 % of society received 36 % of total income, while the bottom 20 % only held 9.4 % (Federal Statistical Office Wiesbaden, 2006).

What is missing in most social reports and church statements are deliberations on the situation of people in middle income brackets. The situation of this class, which continues to account for the largest population group, also seems to be significantly changing as social poles drift apart. It is evident that opportunities for social advancement are declining strongly; people hardly ever succeed in exiting poverty and reaching a middle class-oriented lifestyle. Advancement opportunities for the middle class seem to have become even rarer since the social elites are increasingly setting themselves apart. The middle classes thus less and less constitute a link between the poor and the rich: there are hardly any advancement options for them and they face an upper class virtually forming a “closed shop”, while, on the other hand, they are increasingly confronted with the risk of slipping into poverty. At the same time, the burden placed on the middle classes is increasing. While our tax legislation above all reduces the burden on the rich, for whom social security contributions are relatively easy to shoulder anyway due to the introduction of assessment ceilings, the middle classes—well paid employees, skilled workers, etc.—contribute a disproportionate amount to financing social systems and schemes based on the principle of solidarity, and, last but not least, the churches. Middle class people paying full social security contributions are the only ones to get more than half of the gross pay deducted. The situation of these classes remains crucial for the stability of society as a whole, both in economic and political terms. As the

final phase of the Weimar Republic has shown, abandoned middle classes can develop a disastrous political momentum. However, this is not the only reason why social debate should not only focus on poverty reduction but also deal more extensively with a policy for the middle classes, appreciating their performance and, above all, seeking to promote a comprehensive understanding of justice.

How to evaluate the challenge of an increasing social divide, how to tackle it? As a matter of principle, social injustices have to be legitimised unless injustice is considered “natural” and thus legitimised as such, as postulated by Hayek and Friedman. However, if you start from the notion of all people being fundamentally equal, as can be derived from the biblical assertion, for instance, that all people are created in the image of God, inequalities always have to be given legitimacy. Promoting the notion of equality with regard to human rights, John Rawls legitimises inequalities provided the higher positions are fundamentally accessible to all people and an increase in inequality improves the situation of the least well off. These two conditions are not, or hardly, met by social developments in Germany. In the light of growing inequality accompanied by aggravating poverty, deteriorating social perspectives for the middle classes and increasing isolation of the rich classes, growing inequalities are not legitimised. A different direction is required, not least due to biblical perspectives: the biblical ethic reflects the ideal of an egalitarian society, as indicated by periodic debt forgiveness and the restoration of ownership conditions. In the New Testament, the national, social and gender differences are immaterial, at least for the congregation (cf. Gal. 3:28 par.), and the congregations mutually support one another so that “there might be equality” (2 Cor. 8:14). Although it is neither possible nor intended to create equality in the strict sense of the term, equality is a leading motif not just applicable to the congregations but, by analogy, also to society.

Growing divide

Change in real net income 2000–2006

Richest tenth of the population

Poorest tenth of the population

Source: German Economic Research Institute

Politically, this is reflected by the goals of the classic concept of the Social Market Economy, which propagated “wealth for all” (Ludwig Erhardt, 1957) and at least got closer than present-day systems to achieving the perspective of a balanced middle-class society in the 1960s and early 1970s—as suggested by the then analyses of sociologist Helmut Schelsky. Accordingly, the problematic social developments of recent decades have to be publicly pointed out. The tax reforms by the Red-Green coalition in 2000–2005 created revenue losses of 40 billion per annum: the peak tax rates were reduced from 53 % to 42 %; the corporate tax rate in 2001

from 40 % or 45 %, respectively, to 25 %. The tax reform by the Black-Red coalition in 2008 caused a reduction in the corporate tax rate from 25 % to 15 % as of 1 January 2008, with revenue losses of 10 billion euros per annum. As of 1 January 2009, withholding tax is only 25 %.

Demands for fairer taxation, the perspective of minimum wages and disclosure and accountability for extremely high incomes have to be checked to see whether they can contribute to levelling people's living conditions and what relocation risks (and associated tax losses) they entail. Instead of real cuts, fiscal policies should pursue income tax progression (i.e. higher tax rates for higher incomes, e.g. as of gross income of 150,000 euros), an increase in capital yield tax but also the closure of tax havens.

The debate about minimum wages and top income entails a latent dimension of justice. Today, wealth and above-average incomes are not to be rejected as a matter of principle, in contrast to positions held by early Christian communities. However, wealth entails social obligations. The following recommendations concerning top wages take account of the internal pressure facing management in international competition, proportionality vis-à-vis political decision-makers and the lower wages brackets in the company affected. This may be achieved through government tax policies, negotiations between the two sides of industry—as for instance in Germany—or the development and international coordination of voluntary codes of self-restraint and sectoral codes of conduct for compensation policies (a more pragmatic approach if the parties involved muster the necessary will). In this regard, it would be important to include the top management and its bonus system (cf Recommendations 2–5). Moreover, the shareholders' right to consultation and involvement should be strengthened. Reference is made to work carried out by the OECD in this regard. According to the OECD, shareholders should be given the opportunity at the annual general meeting to make their “views known on the remuneration policy for board members and key executives. The equity component of compensation schemes for board members and employees should be subject to shareholder approval.” In addition, qualitative criteria—in particular social and ecological criteria and standards—should be taken into account more strongly in determining compensation (Recommendation 6).

The following six Recommendations summarize and pinpoint the concerns of the authors of the present study from a Christian ethics perspective. They address above all decision-makers in the business and political communities and need to be further differentiated and specified for specific areas of application.¹⁴

¹⁴ Based on *Federation of Swiss Protestant Churches (FSPC), Faire Spitzenlöhne? Für mehr Maßhaltung und Mitbestimmung, Arbeitsdokument, Bern 2007.*

Criteria for top incomes in joint stock corporations

1. *Transparency and co-determination*

The revised provisions of stock corporation and accounting law in the code of obligations for listed companies considerably enhances the disclosure obligation for top incomes.

2. *Voluntary self-restraint*

In order to strengthen responsibility and moderation concerning top incomes and reinforce social peace, the remuneration committees have to limit top management salaries and board compensation through voluntary self-restraint mechanisms since far-reaching bonus systems may pose a reputational risk today for companies vis-à-vis the public at large.

3. *Sectoral codes of conduct*

Sectoral codes of conduct for voluntary self-restraint in compensation policies have to be developed by industry associations and implemented based on dialogue with the corresponding companies. These codes of conduct may be derived from the OECD principles.

4. *Vertical measure: CEO-to-worker-pay ratio*

The “right measure” to be used in order to limit top salaries should not be an absolute upper limit but rather sectoral upper limits for the vertical wage gap (CEO-to-worker-pay ratio), mapping the respective pay ratio within a company.

5. *Horizontal measure: CEO-to-politician-pay ratio*

Apart from the vertical, i.e. internal company, wage gap, the horizontal wage gap—the CEO-to-politician-pay ratio—has to be used as a yardstick. By analogy with the CEO-to-worker-pay ratio, the aim is to create proportionality by establishing a relation. In order to promote social cohesion, compensation in private companies should be in proportion to compensation paid in political authorities—for CEOs of large companies, compensation should be in proportion to salaries for national governments or heads of international governmental organisations.

6. *Qualitative measure: CEO-CSR-performance ratio*

Apart from the business performance in the narrow sense of the term, the performance of a company can be measured in particular in terms of its sense of responsibility for social and ecological criteria.

The change processes mentioned always relate to people with their hopes and wishes, suffering and resignation or even denial of prospects in life. With this in mind, a goal to press for would be to prepare appropriate social reports describing

people's situations as accurately as possible in order to minimise social imbalance and promote social cohesion from a position of closeness to people.

3.2 The international level

3.2.1 "Global Europe"? Targeted use of competition

The Social Market Economy also opposes an exclusive orientation towards competitiveness at a European level. The regulatory framework of the European Union focuses on strengthening competition as a widespread economic vision. Competition alone results in cut-throat competition for regional products and economic activities in many developing countries.

In October 2006, European Union Trade Commissioner Peter Mandelson presented a new EU trade policy strategy entitled "Global Europe. Competing in the world. A contribution to the EU's Growth and Jobs Strategy".

The internal and external agenda formulated in this document is expected to bring Europe closer to achieving the goals of the Lisbon Growth and Jobs Strategy, enabling it to maintain its "opportunities of globalisation". A conclusive overall strategy should be developed to tackle the internal and global challenges. As before, a new generation of bilateral free trade and investment agreements between the EU and key economic partners is to strengthen the EU's "external competitiveness". The EU aims to achieve a comprehensive removal of all non-tariff trade barriers, free access to energy and raw materials, the enforcement of intellectual property rights of transnational companies, faster opening of services markets, liberalisation of public procurement markets and enforcement of unrestricted freedom of establishment, i.e. a liberalisation of investment regimes in third countries.

This also brings the Singapore issues (investments, competition, public procurement and trade facilitation) back to the agenda, which had failed at the WTO 2003 conference (except for the trade facilitation issue). The "Global Europe Strategy" is promoted, above all, by the EU Commission in Brussels. On the one hand, the Commission established new, far-reaching mandates for future negotiations with "key economies". They focused on the dynamically developing emerging economies and regions considered to be key markets for the future. The economic selection criteria applied were the economic potential of these countries, i.e. their size and growth rates, and the extent of existing trade barriers vis-à-vis the European Union. The approach underlying the economic and trade policy of the European Commission thus focuses less on promoting the European social welfare state model than on defining the maintenance and improvement of competitiveness as a goal.

The model of the Social Market Economy is not reflected here insofar as the primacy of competitiveness comes first, and the social or political component is only considered second. Nevertheless, there are forces within the European Union that call for stronger balance between the economic, ecological and social dimensions. Social policy is the responsibility of the member states. To date, the EU has not had any major competences in this area. This means that social policy within the EU is always (only) a sub-aspect of other political areas falling within the EU's areas of competence, e.g. economic and employment policy or the implementation of the single market. At its Spring Summit 2000, the EU had set out to become "the most competitive, dynamic and knowledge-based economy in the world" within 10 years, "capable of sustainable economic growth with more and better jobs, greater social cohesion and respect for the environment". In 2000, this programme already met with broad-based support as it was based on three coherent pillars: sustainable economic development with more and better jobs, the environment, and social cohesion. For jobs, this meant in more concrete terms that the EU had to reach an employment rate of 70 % and increase the proportion of elderly workers to 50 % and that of women to 60 % of the workforce by 2010. The project was not successful. The Conference of European Churches and Eurodiaconia have committed to securing balanced sustainability and cushioning the deficits of social policies. However, this does not solve the area of tension between economic, social and environmental policy areas.

Apart from the officially revived WTO negotiations, looking at the competitive dimension in isolation also covers ongoing bilateral processes such as the Economic Partnership Agreements (EPAs). With regard to integration opportunities within a Social Market Economy, it can be stated that a binding and effective integration of measures to fight poverty, secure social standards, promote climate and environmental protection or achieve a culturally aligned form of development did not take place; instead, a course of economic and competitive alignment was charted. Bi- and multi-lateral investment rules and procedures for sustainable development, as suggested e.g. by the Canadian International Institute for Sustainable Development (IISD), were not taken into consideration. Concerning public procurement, ecologically and socially oriented procurement regulations for public contracts would be conceivable to achieve a sustainable, socially responsible public procurement system within the EU states. Trade policy should also list demands for greater transparency, democratic participation and the strengthening of regional economic areas in order to achieve food sovereignty, ecological and social farming and protection of the developing countries' (economic and) political leeway.

Background information: In a nutshell, EPAs are development agreements aimed to promote regional integration. The EU aims to establish six free trade zones (four in Africa, one in the Caribbean and one in the Pacific). On the other hand, trade liberalisation between the EU and these free trade zones is to support the develop-

ment of the regions. According to calculations by Christian Aid, the southern Sahara countries have lost 272 billion US dollars due to misguided liberalisation policies in the past 20 years—virtually matching the amount of development aid they received within the same period. This deficit is threatening to enlarge in the wake of further liberalisation.

However, it is precisely these opportunities that are restricted by contractual obligations on trade liberalisation. Ghana, for instance, has promised the International Monetary Fund (IMF) not to increase its customs duties. This is the practical consideration for national lending commitments. That is why Ghana now has to keep its promise to the IMF not to raise its import tariffs on chicken above the current rate of 20%. The country is thus not able to benefit from its tariff of 80% fixed with the WTO. The WTO would still give it some leeway, but the IMF obligation does not do so. In the framework of the ongoing WTO talks, however, this scope, too, is threatening to disappear. This means that even if Ghana had serviced all its debts to the IMF, it would be foreseeable that the scope for manoeuvre within the country's trade policy would diminish. New free trade agreements have been concluded between the EU and the ACP countries from Africa, the Caribbean and the Pacific region. These agreements seek to achieve a further liberalisation of trade, i.e. they may potentially further restrict Ghana's scope for manoeuvre in the field of trade policy. While Ghana dispensed with trade policy measures to protect its domestic chicken producers, neighbouring Cameroon decided not to grant any additional import licenses. It is doubtful whether this approach is compatible with WTO rules. Nevertheless, the persistent political pressure by civil society has thus far prevented the EU Commission from filing a WTO appeal. The liberalisation of world trade does not only relate to agricultural products. Germany is also pressing for better market access in free trade agreements with India or China in the field of industrial goods. The problem emerging in this regards is similar to the problem in agricultural trade: domestic producers in developing countries frequently find themselves unable to face up to foreign competition, companies have to close down, and many people lose their livelihoods.

A similar development takes place with regard to the global liberalisation of services markets. Customs tariffs clearly do not play a role for services such as telecommunications, financial services or utilities. The main liberalisation instrument in this area is to dismantle national regulation, above all admitting non-governmental suppliers, usually resulting in privatisation. Here, too, in most cases the poor have to pay the price. Examples include water privatisation in Bolivia or Manila, the Philippine capital. Higher prices were followed by deterioration in services when the cost of water became too expensive for the poor and this was incompatible with the investors' return targets. Civil society initiatives are fighting the privatisation of municipal utilities, not just in developing countries but also in

Germany, e.g. in Münster, Leipzig or Regensburg. Another example of the repercussions of privatisation is Kenya. Following pressure from the World Bank and the International Monetary Fund, the Kenyan government privatised its health sector in 1989. The aim was to make the system more effective, cheaper and more accessible and improve the health of Kenyans. The Kenyan government thus only imposed minor conditions on foreign investments. Hospitals run by foreign investors, for instance, are not obliged to treat poor, uninsured patients. These private hospitals are usually found in the cities, while eighty per cent of Kenyans live in rural areas. As a result, there is one physician per 1,700 city inhabitants, while there are 33,000 patients per doctor in rural areas. Whereas every Kenyan was entitled to treatment free of charge prior to 1989, medical treatment is now cancelled if the patient is unable to pay. A private health insurance scheme costs 190 to 3,400 US dollars per year—and is thus unaffordable for most Kenyans.

Before the launch of privatisation, the Kenyan health care system left much to be desired, and reform was overdue. However, it is evident that privatisation has not generated positive results for the large majority of people. This is a particularly delicate issue if such liberalisation has been laid down with binding effect in international agreements, e.g. with the WTO. If a WTO agreement has been concluded, this is virtually a point of no return, liberalisation has de facto been perpetuated. In practical terms it can only be undone against certain compensations, for instance by opening up other sectors or through some other form of compensation, e.g. monetary compensation. There is another area of international trade policies that does not fit into the liberalisation pattern: intellectual property rights. The corresponding WTO agreement, the agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), obliges all WTO members to introduce minimum standards for the protection of intellectual property rights such as patents, copyrights, trademarks, etc into their national legislation. The TRIPS Agreement basically served as a tool to secure investments. However, the existing tendency towards stricter standards also reinforces the effect of the poor having to pay the price in this area. This has already become apparent with regard to the question of access of the poor to vital medical drugs, e.g. for the treatment of AIDS. Many Africans living with AIDS are poor and cannot afford to buy the patented, expensive drugs. The pharmaceutical industry and governments in industrialised countries are trying to prevent the creation of a market for cost-efficient generic products. Due to patents on seeds, many farmers in developing countries are becoming dependent on multinational companies. The TRIPS Agreement also nullifies the rules of the Convention on Biological Diversity (CBD). The CBD provides for trade-offs between the users and providers of genetic resources and recognises the sovereignty of providers (and in this context also the sovereignty of indigenous people, subject to national legislation) over their genetic resources and their traditional knowledge. The global patent rules of the TRIPS Agreement ignore this mecha-

nism; they allow the patenting and thus monopolising of genetic resources and traditional knowledge without respecting the sovereignty of the providers and being ready to accept a balance of interests.

Bilateral, regional and multi-lateral trade policies have to be considered as an overall system. If this trade policy is to serve the Millennium Development Goals, the pattern of economic cooperation has to be changed. Trusting market mechanisms to fight poverty, and primarily considering the mindsets of companies and associations towards the concerns of civil society, is bound to lead to one-sidedness. Implementing economic, social and cultural human rights requires other criteria to evaluate trade. Instruments to be used in order to realise human rights are:

- restricting free trade if economic and social goals are not achieved
- reviewing the criteria used to evaluate free trade
- quantifying and evaluating the economic, social, ecological and cultural repercussions (external effects) of free trade
- involving the interests of the countries of the South and civil society more strongly
- creating greater transparency in decision-making processes.

3.2.2 Free trade and Economic Partnership Agreements (EPAs)

The WTO regulations forbid discrimination against products due to production methods. They do not allow different treatment because of different methods of production. That is why customs duties for a carpet produced using child labour must not differ from those for products free from child labour; treatment of coffee must not discriminate between fair trade coffee and conventionally produced coffee; green products must not obtain preferential market access. This regulation represents a certain degree of liberalisation of world trade, which bilateral and regional trade agreements must not fall short of. Thus, attempts to relate fair and just global trade serving the environment and people with the methods of production are threatening to fail since they do not conform to the WTO. In order, for instance, to reduce the VAT rate for fair trade coffee, the WTO rules would first need to be changed.

The developing countries celebrated this failure as a success. They had prevented the industrialised countries from tying them down further through the WTO so

that they would have lost political leeway in shaping their national investment regimes, their competition and public procurement policies in a way conducive to development. In this regard, the question concerning the extent to which the governments of developing countries actually meet their own requirements initially is of secondary importance. The EU's investment plans, for instance, would clearly have strengthened the investing companies and clearly curtailed the options available to the governments of the South. However, since the developing countries themselves do not have any companies that would be able to benefit from a globally liberalised investment laws, such a WTO agreement would basically have been a one-way street. And this was not in the interest of the governments of the developing countries, regardless of whether or not they were fundamentally in favour of liberalisation or not.

Immediately after the failure of the WTO Ministerial Conference at Cancún, the then EU Trade Commissioner (and current WTO General Secretary Pascal Lamy) announced, while still in Mexico, that the EU was going to increasingly seek to conclude bilateral and regional trade agreements in future if it was not going to be able to uphold its interests at the multilateral WTO level. Another three years passed before the EU presented its new foreign trade policy under the title "Global Europe. Competing in the World". It continues to identify the WTO as the centre-piece of the international trade system but states that bilateral and regional trade agreements are to complement this level in future. Speaking in Berlin on 18 September, EU Commissioner Peter Mandelson said: "We must keep the WTO as the fundamental platform on which to build global liberalisation. There will be no European retreat from multilateralism. But we should also go beyond the EU's existing liberal free trade agreements, by setting out the case for new free trade agreements designed to deliver more open markets and fairer trading conditions in new areas of growth, particularly in Asia."

It is no coincidence that negotiations with South Korea, India and the ASEAN states, and also the states around the Gulf and the Andean Pact countries, have meanwhile been initiated on the basis of Global Europe. In this context, the multilateral and the bilateral levels are to mutually complement one another. In actual fact, the developing countries do not have an option, as is occasionally suggested. The general regulatory and economic environment in third countries, in particular, is in the sights of the EU Commission. As Mandelson pointed out, the Commission will go beyond the traditional format of free trade agreements. It suggests, for instance, that European and international business should have a bigger say in internal EU legislation and that businesses should have access to dispute settlement procedures so that companies could take states to court if they believed that a law was incompatible with a free trade agreement and felt that this type of regulatory policy would impose undue restrictions upon them.

With these offerings to its trade partners, the EU is seeking to open the market for any trade in goods and services. Concerning goods, its goal is not primarily to reduce customs duties but above all to eliminate non-tariff trade barriers. It also aims to use bilateral trade agreements to enforce the liberalisation of investments, a liberal competition law, an opening of public procurement markets, stricter rules to protect intellectual property and better access to raw materials—in short: this reflects the entire WTO agenda, including the new topics rejected by the developing countries at the Ministerial Conference in Cancun. The start of the EPA negotiations, the EU's new bilateral free trade agreement with the African, Caribbean and Pacific states—the ACP states—coincided with the phase in which “Global Europe” was designed. What is to be achieved is thus free trade between very unequal partners, between one of the most powerful economic blocks and a region in which many countries are among the poorest in the world.

The formal starting point for the EPAs was the expiry of a WTO exemption as at the end of 2007. As a matter of principle, the WTO foresees reciprocity in market opening for bilateral and regional free trade agreements. The waiver granted by WTO members at the Ministerial Conference at Doha in 2001, however, allowed the unilateral opening of EU markets to exports by ACP states. But this argument merely supports liberalisation of trade in goods. And here, too, it is disputable whether the customs reductions demanded by the EU are really necessary to achieve WTO compatibility. In fact, the political pressure on the ACP states, the tight schedule and the broad agenda could lead to the conclusion that the EU intends to use the expiry of the waiver to impose its trade policy interests on the ACP states, if necessary.

After all, the EU demands that the ACP states open up their services markets, enforce stricter rules to protect intellectual property and liberalise the areas of investments, competition and public procurement including access to raw materials, although this would not be necessary to comply with WTO requirements. It is not by mere coincidence that this is the overall Global Europe agenda. As Brussels and Berlin keep insisting, this agenda primarily addresses the emerging economies. This may well be true; however, it is obvious that the EPA negotiations deal with the same topics as those outlined as the new EU foreign trade strategy in Global Europe. The argument whereby the ACP states do not constitute important markets for the EU does not stand an empirical review, either. Thus, EU exports of agricultural goods to the ACP states almost match those to the ASEAN countries, China, India and the Latin American Mercosur states. Analysing total exports, the ACP states are almost on a par with China; the volume of EU exports to these countries is more than twice the volume of exports to India. Resistance to the EPAs was particularly strong in Africa. Hence, commenting on the EPAs, Rev. Dr H. Mvume Dandala, General Secretary of the All African Council of Churches said: “Trade

first and foremost has to serve people. Any kind of economic relationship between Europe and Africa has to respect our African identity and open up genuine development perspectives to people in Africa.” This position is supported by numerous declarations of African churches. The EU threatened countries refusing to sign an EPA with increases in tariff rates. However, this threat only had a limited effect. While one single EPA came about in the Caribbean, other countries took up a last-minute offer by the EU: they signed so-called interim agreements merely relating to trade in goods. Others, in turn, were not even prepared to do so. Africa meanwhile resembles a patchwork rug; the goal of achieving regional integration through the formation of four free trade zones has clearly not been achieved.

3.2.3 Linking up the social and ecological dimensions

3.2.3.1 *Climate justice*

A social and ecological market economy integrates the eco-social costs representing “external effects” and not taken into account in a liberal market economy. Climate justice and economic justice are thus directly interrelated. This interrelationship can only be reshaped if the social and ecological dimensions are integrated into economic thinking as value dimensions.

Climate protection can only be achieved if society changes course. The transition from a “fossil” age of seemingly unlimited growth towards a low-carbon, ecologically and socially compatible world economy does not primarily consist of a technical revolution (Climate of Justice, Development Policy Platform of the churches, development and missionary agencies, 2008). Policies and development models must no longer exclusively rely on economic mechanisms.

An economy in the service of life requires the primacy of politics; climate protection takes precedence over free trade and growth interests; the preventive consideration of ecological follow-up costs will save economic costs in the medium term (Stern Report). A social and ecological market economy integrates eco-social costs representing “external effects” and not taken into account in a liberal market economy. Climate protection and climate justice and economic justice are thus directly interrelated. This interrelationship can only be reshaped if the social and ecological dimensions are integrated into economic thinking. Climate protection thus cannot be achieved without regulatory control within the meaning of a Social Market Economy. The market is as blind to the ecological cause as to the cause of justice (cf. Sustainable Germany in a Globalised World—Triggering Social Debate. A study by the Wuppertal Institute for Climate, the Environment, Energy, Frankfurt 2008 p. 27). The contradiction between limits to growth and the momentum of a market

economy can be mitigated through ecologically oriented incentive systems. This conflict can only be solved through regulatory control instruments. They require qualitative criteria based on social and ecological intentions. They may be statically oriented, integrated into the overall market framework (market economy stimuli, ordoliberal) or dynamically oriented (programmatic interventionism, Social Market Economy). In the 1960s, models of economic democracy, investment management or macroeconomic planning were debated. A differentiated programme of democratic control of a market economy to solve this field of tension has so far not yet been available but is urgently required—at a national, European and global level.

The greenhouse effect destroys natural resources, aggravates poverty, undermines development potential and reinforces injustice. While energy consumption in the industrialised countries and emerging economies remains at a high level or even increases rapidly in some cases, about 2.5 billion people on earth do not have access to modern sources of energy, e.g. electrical energy. This “energy poverty” goes hand in hand with material poverty and poor education and development opportunities. One fifth of humanity have to live on less than 1 US dollar per day. At the same time, the poor are those most strongly affected by climate change, i.e. energy consumption by industrialised countries and the “global consumer class”, including the emerging economies. At the same time, misguided climate protection strategies—such as the massive use of agro-energy to cover the high energy consumption—threatens the development of the countries of the South. The increasing prices for agricultural products make foodstuffs more expensive and jeopardize human nutrition. The cultivation of energy crops also takes up large areas in the developing countries. People are thus deprived of space to live and areas for food production, the pressure on natural ecosystems rises and biodiversity is reduced.

The atmosphere is a global public good available to all people for sustainable use. However, the atmosphere has always been abused by the politically influential and economically strong industrialised countries and emerging economies. In line with the “polluter pays” principle (responsibility) and their capacity, it is above all the industrialised countries that have to shoulder major climate protection efforts. They have to cut their emissions by 25–40 per cent by 2020 and by at least 80 % by 2050 (baseline year: 1990). However, emerging economies are also obliged to contribute to reducing greenhouse gases. Climate protection is not an end that justifies any means. In developing strategies to fight climate change, a differentiated impact assessment has to be effected, benefits have to be weighed up and the lesser evil has to be chosen. The protagonists of a global “renaissance of nuclear power” use climate protection as an argument to play down the unacceptable risks and repercussions of nuclear energy. In order to effectively reduce global emissions of carbon dioxide, a greenhouse gas, through nuclear power, several thousand reac-

tors would have to be built in the industrialised and developing countries in the next 40 years. This would only be possible through massive investments in the plutonium trade (breeder technology), would dramatically increase the risk of accidents and terrorism and would hardly be fundable.

Biofuels are increasingly produced on an industrial scale so that a more appropriate term would be “agro-energy”. According to a resolution by the federal government, biofuels are to account for a substantial portion of fuel consumption in Germany by 2020. In the light of the large amounts of biofuels required to this end, the only way to meet the demand will be to buy in additional volumes in the world market. This will result in an exacerbation of the competition for space between food, feed and fuel as well as rising prices for agricultural products. It is feared that the boom in agro-energy production will have a detrimental effect on food supplies in the developing countries, in particular for the poorer parts of the population. The same problem applies to natural resources and biodiversity. Primary forests are already deforested to set up biomass plantations, e.g. palm oil. As long as the lifestyle and economic system in the western world requires excessive energy consumption, substituting renewable resources for fossil fuels will be a blind alley. In terms of energy policy, there is cut-throat competition between 800 million car drivers and two billion people living below the poverty line on one or two US dollars. Agro-energy or biofuels do not have an “ecological green card”.

3.2.3.2 Energy and climate policy tools

In the light of large growth potentials and increasing demand, the repercussions of large-scale cultivation of energy crops need to be critically assessed. Food security and the integrity of creation are top priorities. Biofuels can be expanded in an environmentally and socially compatible manner but require clear limits (guard rails). The expansion has to go hand in hand with a radical reduction in primary energy consumption, energy savings and rational use of energy in the industrialised countries. Moreover, wasting food and high meat consumption in the affluent societies need to be brought down in the light of the growing risk of competition for space.

The following options for energy and climate action would be conducive to this concern:¹⁵

¹⁵ For the following comments we refer to: *Climate of Justice. A Platform for Climate and Development promoted by churches, mission agencies and development services. Eds: Evangelical Church of Westphalia (EKvW) et al. Bielefeld 2008/09. Available in English. Downloadable at www.ekvw.de, qicklink 254.*

Accelerating the transfer of technology

Worldwide reductions in carbon emissions to a sustainable level cannot be achieved in the industrialised countries alone. The developing countries and in particular the rapidly growing emerging economies with the large populations now have to take the key decisions for a decentralized climate-compatible energy policy that reduces poverty. To this end they need to have access to adjusted energy technologies. In order to guarantee that access, corresponding general parameters for technology transfer are required. Patents and intellectual property rights have to be designed such that innovative momentum is retained and new environmental technologies are spread at appropriate costs.

Emissions trading must serve climate protection and the fight against poverty

The Clean Development Mechanisms (CDM) provided by the Framework Convention on Climate Change is an emissions trading tool: Climate protection projects run by companies in industrialised countries with an obligation to reduce emissions are implemented in developing countries that are not subject to a reduction obligation. The certified emission reductions (carbon credits) are given to the respective industrialised countries. The CDM does not only aim to reduce emissions more cost-effectively but also ensure a transfer of technology to help emerging economies and developing countries establish a climate-friendly economy.

Climate protection must take account of gender

Due to poverty and their social role and function, women are particularly strongly affected by the impact of climate change. This applies e.g. to securing food/water supplies and the provision and use of energy (biomass). Women are hardly involved in decision-making processes on climate protection, the development and selection of adjustment/avoidance strategies. The gender aspect is not sufficiently taken into account. In line with their importance and role, women would have to be more strongly involved in the development and implementation of climate protection programmes and adjustment measures and gender mainstreaming would have to be practised. Churches and church organisations are called upon to empower and support women, to involve them in decision-making and implementation measures at all levels and engage in gender mainstreaming.

Strengthening land use in harmony with nature and local conditions

Rural development and a sustainable use of resources are key factors for climate protection in order to minimise deforestation and exert a positive influence on the microclimate through nature-friendly use of land (agro-forestry etc.). In this regard, activities may benefit from building on the long-standing experience gained in church development cooperation with regard to agriculture in harmony with nature and the local conditions. Due to the increasing number of extreme events and climate variability, capital-extensive and risk-minimising cultivation methods

that promote biodiversity have to be fostered. That is why transgenic agriculture is to be rejected.

The churches should engage in lobbying activities to promote the expansion of agriculture in harmony with nature and local conditions as a contribution to climate protection.

Supporting adaptation to climate change in developing countries

Adaptation may e.g. prevent climate-induced migration (rural exodus; migration to other regions increasingly getting under pressure from strong usage). Church development cooperation also has to increasingly take account of adjustment to climate change in project cooperation. This includes developing adaptation strategies and projects with partners in the South, strengthening south-south cooperation and networking with other agents and organisations to promote a transfer of know-how. Funding has to be provided to carry out research on the impact of and adjustment to climate change in the developing countries.

Climate policy advocacy work in the North

Lobbying and advocacy work to promote the interests of the developing countries and people affected to create climate justice are a primary task of churches and their aid agencies.

Key areas of action include:

- providing more funding by industrialised countries to finance adjustment measures
- reducing emissions in the industrialised countries
- taking account of social and ecological criteria in climate protection measures
- promoting renewable energies/energy efficiency
- supporting capacity building in developing countries for climate protection and renewable energies.

Members of partner churches must be given an opportunity to present their opinion listing their perspectives and demands to the relevant decision-makers (ministries) in the industrialised countries. The churches should publicly support the emissions target of 2 t CO₂/capita/annum. An internal church climate protection concept comprises the following components:

1. The savings targets have to comply with the targets for effective climate protection and cover all areas of church action. This specifically means reducing CO₂ emissions by 40 % by 2020, taking 1990 as the baseline.
2. The concept has to comprise indicator-based controlling measures and CO₂ off-setting projects certified by independent bodies.
3. The church environment management campaign “The Green Cock” and the “Buying–Future” initiative are to be developed from a project to a principle of church action. (resolution by EKvW Synod 2008)

3.2.4 Sustainability of free trade

The protagonists of free trade presume that free trade as such will have positive effects on the economy and society. Free trade within the context of a Social Market Economy means perceiving the preconditions and consequences of activities and basing an evaluation on these contexts. The listed examples show that free trade can also have destructive effects on local production methods. A Social Market Economy serving people may shape markets through instruments of foreign trade policy by regulating market access for foreign competition. An example of such state intervention would be regulating imports through customs duties. Increasing import customs duties would render products from Europe more expensive and restore the competitiveness of local products. The regulatory conditions of the Social Market Economy would shape the structure of foreign trade policy in this case.

The closure of the Nokia plant in Bochum which resulted in several thousand jobs being shed while a production site was opened up in Romania at the same time is an example of the destructive effects free trade and location policies may have on local production methods. This incident clearly illustrated the logic of a pure market economy. Shifting jobs to more cost-efficient locations even beyond the borders of the European Single Market is promoted by globalisation and the associated liberalisation of the world economy.

In the Nokia case some fundamental patterns become particularly clear: While politicians and trade unions (and last but not least those affected) lament the loss of—in some instances subsidised—jobs and thus emphasize a social dimension of the economy, the arguments put forward by Nokia relate to the challenges and restraint of globalised competition. The economic argument put forward is that production costs have to be cut if the company wants to remain competitive with its mobile phones. The Bochum plant was too expensive, that is why it had to be

closed down. 2,300 jobs were lost in Nokia alone, followed by many additional job losses in supplier companies.

The World Trade Organisation WTO is a central institution promoting global trade liberalisation. At its 4th Ministerial Conference in Doha, the capital of the Arab Emirate Qatar, in 2001, the WTO members agreed to launch a new round of negotiations aimed at further liberalisation. One of the goals was and remains to globally improve market access for agricultural goods. To this end, all countries are to reduce their import customs duties, with industrialised countries additionally to cut subsidies. The planned measures also include reductions in customs duties for industrial goods and comprehensive negotiations in order to open up services markets.

While Germany and the EU advocate strong cuts in customs duties for industrial goods in developing countries, aiming to improve their access in particular to markets in emerging economies, their response to the demand for an opening of their agricultural markets is far more reticent. This applies to customs duties but also subsidies. The EU seeks to shape subsidies such that they cannot be considered trade-distorting by the WTO so that subsidies of a virtually unlimited extent are possible. Germany and the EU insist on liberalisation in areas in which they are globally competitive and praise the benefits of liberalisation, while non-trade concerns are referred to in agriculture. The arguments used to justify protecting markets include care of the agricultural landscape in Germany and the risk of aridity of rural areas. These arguments cannot simply be dismissed. However, the question is why they should apply to German farmers but not to Ghanaian poultry farmers, Indian industrial workers and Caribbean restaurant owners. In other words, if the EU did not export its subsidised and therefore artificially cheap agricultural overproduction, the argument concerning the necessary protection of agricultural production and rural development would not be wrong. However, the EU does not manifest this type of considerateness in other countries. Rather, driven above all by Germany, it pursues a trade policy pushing for an opening of markets without taking account of the social and environmental circumstances in developing countries. This was particularly clearly shown by the conflict about the “new issues” at the Doha Conference, i.e. the question as to whether the WTO would launch negotiations (seeking to establish new agreements) to liberalise investment rules, public procurement and administrative procedures. The USA, South Korea, Japan and above all the EU were in favour, the developing countries took an increasingly united stance against this idea. A genuine agreement was not reached in Doha so that the problem was postponed to the follow-up conference held in Cancún in Mexico in 2003. At that conference, the EU and South Korea, in particular, fought for negotiations about the new issues; Germany was among those, alongside the UK, that refused to give in until the very end. This end was reached when after

negotiations continuing well into the small hours, Kenya declared on behalf of the Africa Group that they were not prepared to continue talking about the new issues, whereupon the Kenyan head of delegation got up and walked out of the room. This was when the Ministerial Conference in Cancún collapsed.

While the majority of those involved in development policy debates until the turn of the millennium believed that the main problem for the poorer countries was access to the markets of the industrialised countries, the perspective has changed in the meantime. The reasons for this change include, not least, a more accurate analysis of the conditions of catch-up development among the laggardly industrialised countries in Europe (such as Germany) but also Japan and South Korea. In all cases, a key factor in the policy mix was protection of a country's own industry from superior foreign competition. It was only when a certain degree of competitiveness had been achieved that the county integrated into international trade.

This observation goes hand in hand with the finding that for reasons of food security and rural development it is indispensable to protect non-competitive peasants in poor countries characterised by small farms from superior foreign competition. This also applies to small craft trades, for similar reasons. Hence, there are industrial and social reasons to promote protection mechanisms. In addition, there are environmental reasons why a liberalised world trade that restricts standards to a minimum and does not reward environmentally friendly production methods is not considered attractive. These considerations relate to the fundamental problem of the current world trade policy, which continues to promote further liberalisation so that governments have no scope for national economic policies aiming to promote the environment and development. And neither WTO agreements nor bilateral agreements foresee any back-peddalling. The nation states are depriving themselves of their political scope for action, with alarming consequences for democratic decision-making processes. This has certainly become particularly obvious with regard to the new EU foreign trade strategy Global Europe, which explicitly aims to formally involve companies (in particular also non-European companies) in European legislation processes.

However, a Social Market Economy serving people will have no choice but to take a look at individual fates and ensure social balance. A tool to be used to this end are government transfers, e.g. in social policy. Other tools available to the government relate to foreign trade, e.g. regulating market access for foreign competition. An example of such state intervention would for instance be import regulations based on customs. Increasing import duties on chicken pieces would result in higher prices for European products, for instance in Ghana, so that domestic products would again be competitive. In this case, the regulatory design of the Social Market Economy would prefer the second variant, structural foreign trade design:

Sound regulatory policy is the best social policy (Walter Eucken). Government transfer services, i.e. classical social policy, would at best cushion the problem but would not solve it. The solution lies in appropriate economic policies, including the preconditions and repercussions of trade policy in the overall horizon.

The rules of global trade are determined by international organisations, in which a few countries, including the Federal Republic of Germany, have a disproportionately high level of influence. The developing countries and emerging economies are underrepresented in terms of their degree of influence. They frequently lack the financial resources required to appropriately assert their concerns and interests. Campaigns resulting from church initiatives or strongly supported by the churches such as Jubilee 2000 or the Clean Clothes Campaign have advocated change to promote fair and just trade. This commitment has been necessary due to the effects of globalisation.

The structures and working methods of the international organisations (ILO, International Monetary Fund, World Bank, World Trade Organisation) are to be characterised by a differentiated understanding of the interrelationship between just economic structures and the relationship between poverty and wealth. What matters are the criteria used to shape and reform international regulation systems and organisations. Reforms currently do not only relate to the economically particularly relevant systems but the entire UN system. The aim is to identify and name approaches for economic policy facilitating an economy in the service of life. Ways to achieve this goal include:

- integrating social and ecological criteria in the GATS negotiations on the liberalisation of trade and services in the area of general-interest services (water, health, education). Liberalisation is an economic tool. At the end of the day, a political decision taking account of social and ecological criteria is required to determine whether to apply this tool;
- restricting patent rights on medical drugs if millions of people will thus get access to life-saving drugs, e.g. in the case of HIV/AIDS. This might be achieved, for instance, by easing access to the compulsory licenses under the TRIPS agreement. We expressly welcome the fact that the compromise achieved in Cancún continues to apply to countries affected by AIDS that do not have their own pharmaceutical industry. This compromise facilitates imports of inexpensive generics if it is not possible to produce AIDS drugs in the country itself;
- excluding potential patents on living organisms from protection under the TRIPS agreement. Patents on crops entail the risk of agriculture becoming dependent on very few multinational corporations. Patent protection prevents the

free exchange of seeds, which secures the livelihood of small peasants. What is at stake is the freedom of farming, in particular peasant farming, to continue to use their traditional and site-adapted species without restrictions;

- excluding staple foods from the negotiations on the world trade agreement so that poor countries can secure staple foods for their population by means of subsidies, if necessary, and protect peasant farming from imports;
- supporting the efforts of the World Council of Churches in critical dialogue with the International Monetary Fund (IMF) and the World Bank. The aim is to persuade the international financial institutions to use their tools related to international control and shaping of the globalisation process in line with the vision of sustainable development. We consider the realisation of the “Millennium Goals” to halve world poverty, in particular, as a test to demonstrate the credibility of international financial institutions;
- reforming IMW and World Bank with regard to a democratisation of voting rights, transparency and accountability and reconsidering the relationship between the World Bank and the IMF with regard to an overall concept of sustainable global control of the globalisation process.

Since the international discussion (including the international church debates) about globalisation takes place along similar lines, a systematic observation of the ethical dimensions of a Social Market Economy will broaden people’s horizon and give rise to proposals for economic policies.

3.2.5 Regulatory framework for financial markets

3.2.5.1 The US mortgage market as a trigger of the world economic crisis

The strongly fragmented process in the US mortgage bank sector, based on a division of labour and starting from customers and credit intermediaries all the way to investors investing in structured securities, the structuring outside of bank balance sheets (under regulatory supervision), risk diversification processes and a large number of parties involved created an amount of factors that was no longer controllable in a self-reinforcing process. The German system of universal banks is less susceptible to such momentum but is getting its fair share of it.

In the US mortgage bank market, products that we hardly know in Germany are offered to creditors:

1. *Home buyers and mortgage credit borrowers*

The overall process starts with home buyers who (of course) need to borrow money, i.e. take out a mortgage, in order to be able to fulfil their wish to own and live in their own home. The desire to own residential property is driven to a considerable degree by the wish to reach the next rung on the social ladder within the US society—a milestone on the way from “rags to riches”. The combination of this strong desire as an intrinsic motivation coupled with social perception as an extrinsic motivation frequently cause people to underrate or even ignore risks and focus on the question as to whether they will be able to afford the investment and the overall debt.

2. *Credit intermediaries*

Unlike Germany, it is quite customary for private customers wishing to finance property in the US to turn to a credit intermediary rather than going directly to their bank. These intermediaries live on a commission they receive from the mortgage bank with which they ultimately arrange the loan agreement and the customer, forwarding relevant documents required for the decision. The direct interest of the commission-driven credit intermediary to earn a living virtually naturally pushes more far-reaching risk considerations to the background. Since the intermediaries only arrange the deal, they are not affected by any future solvency problems impacting the credit relationship, unlike the borrower or the financing bank. On the other hand, the mortgage banks are also interested in this intermediary business since it generates the primary business without entailing any direct costs for this intermediary mechanism in the form of salaries or personnel costs to be included in expenses. These costs therefore do not affect the bank's income statement. This idea is superficially considered as good since the bank's balance sheet is not affected by any fixed costs for the sales organisation, e.g. in the event of declining business activities, so that expenses for sales commissions are fully variable for the mortgage banks.

3. *The mortgage banks*

The heart of the business of mortgage banks is to grant mortgages to borrowers. The process outlined above has shown that direct contact between the mortgage bank as creditor and the property investors as debtor no longer exists when an intermediary is used. Personal contact and knowledge and hence a high level of commitment gets lost in this lending relationship. It is replaced by mutual trust between the mortgage bank and the credit intermediary which, however, is always vulnerable due to the one-sided interests of the intermediary. Since mortgage banks can only grant mortgages worth a certain multiple of their own equity, they package mortgages from time to time to sell them in the capital market as structured securities or asset-backed securities.

4. *State mortgage insurance agencies*

In order to provide state funding and support for the American dream of one's own home, state agencies were established in order to enable certain population groups to obtain these mortgages through state guarantees. Examples include the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Government National Mortgage Association (Ginnie Mae), the Veterans Administrations (VA), originally established for veterans from the Vietnam war, and the Federal Housing Administration (FHH).

5. *Investment banks*

Investment banks are the intermediaries for the next step in the overall process, since their task is to combine and pool the receivables to be sold by the mortgage banks, assess them on the basis of certain criteria including in particular a credit rating and the cash flows from the borrowers' interest and redemption payments. In doing so, the investment bank transfers these securities to special-purpose vehicles, virtually serving as a short-stay parking spaces. The interest of the investment bank is to generate commission income and arrangement fees for the compilation and structuring of these sales transactions. The investment bank does not keep these securities in its own portfolio, not least because it would not be able to shoulder such investments itself simply due to its size.

6. *Self-financing vehicles: Special purpose vehicles (SPVs), special investment vehicles (SIVs)*

These special purpose vehicles—not infrequently established in the legal form of a foundation—are set up without any equity. Their purpose is to buy the credit packages put together by the investment bank. These special purpose vehicles obtain the purchasing price for these loan receivables from investors, who in turn receive interest-bearing bonds. The special purpose vehicle passes the money invested by the investors on to the mortgage bank as the purchasing price for mortgages. The investment banks structure the packaged and purchased mortgage receivables, frequently setting out which financing organisation and thus which creditor will be the first to be paid from the mortgages of the special purpose vehicle. Investors in these special purpose vehicles are thus faced with a subordination system with different ranks so that investors most liable to get paid and thus with the safest investment earn the lowest interest because they bear the smallest risk whereas investors who will be the last to benefit from cash flows and thus carry the highest risk will also get the highest yield. The interest rate level thus expresses a risk fee. The bonds that will be served from the cash flows based on a cascade system of waterfall payments have different credit ratings granted by the rating agencies.

7. The rating agencies

In the overall process, the role of the rating agencies is to analyse the bonds issued by the special purpose vehicles and thus ultimately the credit rating of the mortgage creditors, the value of the pledged property and the structure of the investment bank and establish ratings for the investor. The rating agency is paid a fee for this service, regardless of the actual rating awarded. Rating agencies therefore have a particularly strong interest in having a large number and volume of transactions, regardless of whether these transactions or securities are good or poor. Rating agencies thus play a central role and virtually substitute for the trust the investors need because they do not know and are not able to assess the original borrower or the property. The rating agency is not liable for its rating and thus the quality of the credits or the securities based on these credits.

3.2.5.2 Monetary and financial instruments

The liberalisation and deregulation of the international financial markets (IFM) after the end of the Bretton Woods System were a central economic trigger of the current wave of globalisation. The current global economic crisis triggered by the mortgage crisis manifests the repercussions of liberalisation on an unprecedented scale. New, gigantic financial compensation attempts are emerging, but also a new awareness of the need to politically regulate unleashed market forces and to reform mentalities promoting misguided trust in the self-regulation of market forces.

Since mid-2007, earthquake-like shocks have undermined and shaken the very foundations of the global financial system. The epicentre of this earthquake was the US mortgage market, the largest financial segment in the world with a total volume of USD 10 trillion.

The root causes of the crisis include a US economy which had been booming for many years, creating high employment levels, secure consumer income and strong demand for residential property in the US. Driven by social values, the visible number one objective for every US citizen is and remains to own their own home. Within this overall framework, demand for property rose continually. This resulted in rising property prices which, combined with the favourable overall forecast for the future, gave rise to excessive lending of mortgages in the hype phase. Further problems included irresponsibly high loan-to-value ratios, short-term fixed interest periods for the mortgages—which made customers vulnerable for future rises in interest rates—, high property valuation in some cases based on anticipated future increases in value, insufficient examination of the mortgage bank customers' capacity to repay the borrowed capital.

The real economy ingredients and drivers of the problem were the stagnation of the US economy in combination with the mortgage customers' threatening inability to repay their mortgages, accompanied by extreme losses in the value of securities/property due to declining demand for real estate. The situation was additionally impacted by the financial problem factors. The strongly fragmented process in the US mortgage bank sector, based on a division of labour, starting from customers and credit intermediaries all the way to investors in structured securities, structuring outside of bank balance sheets (subject to regulatory supervision), risk diversification processes and a large number of parties involved were an uncontrollable mass of factors in a self-reinforcing process.

Interestingly, this process, in turn, was driven by the soft inter-personal factor of "trust", which constitutes the vital substrate left unsaid in the "hard world of the real economy and financial sector" that had been lost in the process. This loss of confidence created a situation in which market participants no longer trusted one another. Due to the lack of transparency of transactions and the lack of communication, this confidence has not yet been restored so that an end to the crisis is not in sight. Apart from the shock waves concentrically spread across the globe, it cannot be ruled out today that there will be further considerable aftershocks if the credit and capital markets are impacted by uncertain or non-repayable consumer credit receivables from credit cards or car loans. Triggered by the Great Depression at the end of the twenties and beginning of the thirties of the last century, the US decided to rebuild the collapsed banking system as a system separating commercial banking from investment banking. In 1933 the relevant laws were adopted with the Glass-Steagall Act and the Mac Fadden Act. The idea behind these acts was to secure a stronger division of labour in the banking sector to gain additional stability since individual banks were going to focus on a narrow range of products and activities. There was a division of labour between mortgage banks, securities brokers, securities issuing houses, advisory investment banks, securities depositories and banks with classical small-scale business.

The banking system that had developed and stood the test of time in Germany had also proven its stability based on strong differentiation. The essential difference concerning the characteristics is that the diversified process was not based on narrowly limited product groups and activity ranges for individual banks but on the large number of different banks, now reflected in the much quoted three-pillar model. This three-pillar model mainly consists of commercial banks on the one hand and savings banks and cooperative banks on the other. In addition—with special financing function—there are mortgage and bottomry bond banks. All three pillars are free to offer activities within the entire range of products and use them fully, depending on their size and competency, albeit at different levels of intensity. This differentiation is mentioned because it forms the basis of many of the

roots that nurtured and built the problems emerging later. The US mortgage market features products for borrowers that we hardly find in Germany.

All loan variants mentioned above are aimed at deactivating risk awareness and activating mortgage sales through the fiction of eternal growth in value or income. Looking at the rapid growth of, in particular, poorly collateralised loans with high loan-to-value ratios in the US in 2005 and 2006, there is a direct interrelationship between these tempting product variants for mortgage customers and the expansion of business.

The global economic crisis started off as a global financial crisis and was triggered by the mortgage crisis in the USA. The causes in the USA are the interplay of constantly rising property prices until 2007, low interest rate levels, the separation of American banks into commercial banks and investment banks, interbank transactions (derivatives) and strong speculative investment propensity in volatile financial markets. This was the strongest shock to the international financial system since the Great Depression of 1928/29.

The German universal banking system is relatively more stable than the American system of separation in the banking system. A stable international financial system is a public asset. Catharsis of economic globalisation: What is required now is real economy-based disillusionment, the implementation of new political criteria in shaping the overall framework and correction of a mentality fully trusting the free market and individual striving for success and placing little confidence in the state and social responsibility.

The liberalisation and deregulation of international financial markets (IFM) after the end of the Bretton Woods System were the economic trigger of the current wave of globalisation. Since then, the IFM have not only been the economic motor of the process but have dominated its momentum. A central element is the establishment of the function of an institutional investor, exercised by banks, insurance companies and investment funds. They engage in an institutionalisation and professionalization of the ownership function. The interest of institutional investors is one short-term yield maximisation for owners (shareholder orientation). Traditional corporate goals such as long-term competitiveness, technological innovation, sustainability, etc. lose importance. For the time being, this development culminated in the rise of private equity funds (also called “locusts”) and hedge funds. At the same time, the large companies have changed their financing. They no longer procure the funds from their corporate bank but in the financial markets. While the corporate bank is interested in a company flourishing in the long term, all that matters in the markets is the investors’ yield. The originally serving role of the financial sector vis-à-vis the real economy has been reversed. The financial markets were developing a life of their own.

The shareholder orientation is getting applied to the real economy. At the same time the business logic is getting applied to the macro-economy and the economy is getting transformed into a “*location*” that has to adjust to the requirements of the IFM. These are reflected in monetary policy (priority on monetary stability, policy of high interest rates, stability pact, etc.), fiscal policy (tax cuts for companies and owners of large assets, priority on indirect taxes, etc.) and social policy (transfer of social security systems to private capitalisation interests). All of this is presented as objective restraints. The IFM have been designated as the *fifth power*, that *disciplines* politics (Rolf E. Breuer). Their material interests in liberalisation, deregulation and privatisation are becoming central issues of economic and regulatory policy. A new mode of economic action has established (“*asset driven*” or “*wealth driven economy*”). The “Rhineland capitalism” project (*Social Market Economy*) has gone under. In the light of the problems emanating from the international financial markets, politics has to regain democratic control if globalisation is to be shaped so as to be sustainable. The IFM are the core of globalisation. Progress achieved in other areas can be ruined any time by the IFM. Environmental and social standards become worthless if, for instance, the exchange rate problem is not solved.

3.2.5.3 *Drying up tax shelters—Regaining fiscal leeway—Changing people’s tax morale*

Tax havens and lax checks on income millionaires cause immense damage, not just in Germany but worldwide. The countries of the South lose more than 50 billion US dollars annually because their own nationals hide their income away in foreign tax shelters, bypassing national financial authorities.

In Germany, tax evasion accounts for around 100 billion euros annually—more than triple the amount spent on unemployment benefits. The money that is urgently required for education, cultural and social work, is instead accumulated in the tax shelters. The rich are thus getting richer while the poor are getting poorer. And the countries lose political leeway due to the tax losses. Tax havens are states or territories charging no or particularly low taxes on income or assets and are therefore attractive for capital from countries with higher tax rates. There is a very liberal or virtually inexistent banking supervision, and every care is taken to ensure that matters are handled discreetly. Most tax havens are small countries showing a low level of economic activity in relation to the financial transactions and capital existing in these countries. Many of them are territories formerly depending on the UK. Tax shelters offer a host of possibilities of optimising one’s own tax burden. What they all have in common is to pursue the goal of not having to pay taxes on income generated in high-tax countries in these countries. Private individuals can shift their place of residence to evade tax payments. Relocated income

by private individuals in the US is estimated to account for around 10 % of total shifted income.

There are many ways in which companies can shift profits to other places:

- The company may establish a subsidiary for its foreign operations in a tax oasis to avoid having to pay taxes on repatriated profits.
- The company may finance investments in high-tax countries with loans granted by subsidiaries located in low-tax countries. As a result, no (or fewer) profits are generated in the high-tax country since interest has to be paid to the subsidiary.
- Services performed within a group of companies can be booked such that profits are withdrawn from high-tax countries. The right to use a patent may, for instance, be located in a tax shelter so that the domestic company pays royalties to its foreign subsidiary. This is a legal transaction as long as they are based on an arm's length principle; however, it is difficult to evaluate whether that is actually the case since there is no market for such transactions.

Tax shelters drive larger states into cut-throat competition for lower tax rates. While the latter maintain complex social systems and provide infrastructure, thus taking measures that are indispensable to ensure smooth operation of the economy to operate smoothly and thus the global economy, tax havens remain inactive in these areas but benefit from the functioning of the world economy. According to estimates by the international non-governmental organisation Tax Justice Network, these various opportunities to use tax shelters cause tax losses of around 255 billion US dollars for states across the globe.

Use of tax shelters is possible because applicable legislation in Germany and abroad virtually invites people to evade taxes. It has to be changed such that tax shelters will be closed for good. The measures required to this end are known and have been called for by ATTAC and other non-governmental organisations for many years:

Domestic policy measures in Germany

Fiscal banking secrecy has to be lifted to some extent so that capital transfers to tax shelters can systematically be examined even without requiring an initial suspicion. Companies operating an international network of subsidiaries will have to be obliged to publicly disclose their corporate structure including subsidiaries with reported profits and taxes paid. Germany might also learn from Australia, where credit card data from tax shelters are used to detect tax evaders. Tax evasion worth billions should also result in imprisonment, and the possibility of reporting oneself

so as to avoid punishment should be abandoned, except in petty cases. An increase in the portion of trade tax not related to profits might make it less attractive for companies to shift their profits to low-tax areas.

Foreign policy measures in Germany against tax shelters in the EU:

Within the EU, Germany should advocate common minimum tax rates and tax assessment bases and make this issue a key point for future EU negotiations. In the framework of the next budget deliberations in the EU, Germany would have to point out that it will no longer be available as the EU's largest net contributor as long as no progress is achieved with regard to tax harmonisation and the closure of tax shelters in the EU.

Foreign policy measures in Germany against tax shelters outside the European Union:

Germany should immediately agree an automatic exchange of tax information across national borders with as many countries as possible on a bi- and multilateral level. Sanctions should be imposed on countries refusing to do so. Transactions with these countries would have to be pre-registered, trade policy benefits for these countries would be lifted and capital transactions would be restricted. Measures of this kind would put an end to the tax shelters, since free movement of capital is the lifeblood of every tax shelter.

Under the pressure of the Organization for Economic Cooperation and Development (OECD), almost all existing tax shelters within the EU area and beyond have recognised the OECD standards on tax information exchange in the first half of 2009 and committed to translating these standards into legal regulations by the end of 2010 at the latest. Admittedly, this constitutes progress which, however, does not suffice to actually dry up the tax shelters. After all, the OECD standards only oblige countries to exchange tax information in specific individual cases. Moreover, in accordance with article 26 of the standards, a country may only demand information from the tax authorities of a third country about a person in a specific case of suspected tax evasion if it were "impossible to obtain this information in the person's home country in conventional ways". This information also has to be "important" for the tax evasion case and has to be treated confidentially. The information procurement rules are so strict that the regulations have hardly been applied in countries already subjecting themselves to the OECD standards prior to 2009. Switzerland, which gave up its resistance to article 26 of the OECD standards in the spring of 2009, just as Austria, Belgium, Luxembourg and Monaco, is convinced that it will be able to maintain its controversial banking secrecy as before. The Caiman Islands also maintain their banking secrecy, although they have recognised the OECD standards, and retain their tax system that does not foresee direct taxation for companies and individuals. That is why thousands of companies will continue to use the Caiman Islands as their tax

domicile. Many Anglo-Saxon hedge funds are also registered on the Caiman Islands. If the tax authorities do not know who, for instance, is the owner of the 300 billion euros of German assets in the tax shelter, exchanging information may not be very useful in individual cases.

The globalisation of the financial markets requires the introduction of an international automatic exchange of information in fiscal matters and international taxation. This is the only way to ensure that all states receive the taxes payable to them by their nationals under applicable national provisions and that the gap between poor and rich countries will at least cease to widen.

3.2.5.4 Freedom, globalisation, loss of solidarity:

Reshaping corporate ethics and the regulatory framework

Demands to control the momentum of the financial markets relate to two directions: Firstly shaping financial systems through financial policies, and secondly shaping corporate culture to help cushion the “ethical losses”.

The division of labour and the process of product innovation in the US mortgage market as the trigger of the global financial crisis have shown several weaknesses of particular relevance for ethical, regulatory economic approaches and thus regaining the primacy of politics. As financial experts say, it is “the vacuum as scope for regulation in economic ethics”.

Free movement of capital has meanwhile become unbridled, as a result of which e.g. enormous currency reserves of emerging economies (with rich raw material reserves) are looking for investment targets. These emerging economies—Brazil, Russia, India and China (BRIC states)—and the wealth of the oil-exporting countries in the Arab peninsula becomes available in other parts of the world, e.g. in the US. This strong availability of capital emerging there trickles all the way down to private customers through innovative and tempting products. Deliberately inactivating their risk awareness, these customers then take out loans they simply cannot afford. This free movement of capital with liquidity compensation and investment pressure is a result of globalisation. In the next globalisation step, banks including German regional banks, large banks and IKB take over these risks.

A further feature of this globalisation is the fact that market participants no longer know one another due to the enormous distances. Borrowers and lenders have never met. This process is based on the non-committal approach of institutions, which pushes mutually perceivable responsibility for one another completely into the background. The current debate aimed at apportioning blame or analysing the

causes shows an astonishing phenomenon: the internationally operating auditing companies completely deny that they are to blame since they have audited the balance sheets in a “purely formal” manner in the framework of the recommendations given by the accounting standards. Supervisory boards in regional banks and other financial institutions involved point out that many of the transactions were handled by off-balance-sheet special-purpose companies not directly subjected to their supervisory activities. Bank directors in charge explain that they have relied on the assessment of the rating agencies (unthinkingly believing in the system). The rating agencies point out that the calculation methods were formally correct but of course are not able to map total market failure in the context of a widespread confidence crisis. The German financial supervisory authority (BaFin) explains that it has definitely referred to risks in the framework of audits but that the supervisory boards and management boards would have been in charge of implementing these hints.

These observations are upsetting to many and show that the overall process based on division of labour results in a lack of solidarity among all those involved. The only possible explanation is a complete or major loss of any feeling of ethics for mutual responsibility, not to say “love of one’s neighbour”, in living together. None of the explanations mentioned above contains an ethical dimension; reference is only made to formal dimensions. Strangely, in fact, it has become clear that it is precisely this moral evacuation of the economic area, or ethical vacuum, that has led to the collapse of the system of mutual supply of liquidity based on necessary trust. The system with its interrelationship has thus provided best evidence of how important it would have been to fill this vacuum with ethical values to ensure the viability of the system.

Why was this ethical erosion of the system of a Social Market Economy not recognised earlier on by those feeling compelled to deal with and answer ethical questions? Is it correct to say that time has come to refer to these interrelationships, take command of ethical activities and prove the legitimacy of the churches own claim to opinion leadership in ethical questions? The economy is not generally known for being exclusively altruistic. Nevertheless, taking account of the interests of all those involved in business activities helps to build and maintain sustainable, stable and thus also profitable relationships. Illustrating and demonstrating this on the basis of the current problem from the perspective of a generally established moral instance may become a “business model” for the churches in terms of value-oriented management consultancy.

This type of consultancy may refer to the value dimension of internal business policies. The attitude of the “reputable merchant” certainly has an effect on the shape of and limits to entrepreneurial action. However, competition in the financial markets also has to be transparent and must be supported by enhanced supervision

and voluntary commitment of the market participants (EKD Memorandum 2008, 77f). It thus also comprises the regulatory dimension, in this case the regulatory framework for the financial markets.

A stable international financial system is a public asset. What is at stake now is the implementation of new political criteria in shaping not only the overall framework but also the Social Market Economy, and the mindset on which a Social Market Economy can build. As outlined above and presented as twin changes: it is also about an ethical correction and the correction of a mindset that places full trust in the free market and individual pursuit of success but lacks confidence in the state and social responsibility. The political consequences are new traffic rules (federal government with its stimulus package dated 13 October 2008). A guarantee fund worth 400 billion euros (guarantee) will be set up. It also foresees the possibility of acquiring government bonds in financial institutions, with conditions imposed by the state: the focus must be on promoting loans for SMEs, board remuneration has to be limited to a maximum of 500,000 euros per annum, and bonus and severance payments must be dispensed with. The aim is to design incentive systems such that speculation, arbitrage and short-term operations will be unattractive and yield orientation will be limited (to far less than 25 %). The banks are to provide more money (liquidity) for insolvency risks and keep 20 % of the credit risks on their own books; at the same time, stronger personal liability of the management boards of financial institutions is to be introduced (“speculator pays principle”).

General-interest services, above all pension and health insurance schemes, would no longer be financed through the capital markets but through public security systems. The aim would be to shape a new international financial architecture, expanding the serving function of the financial sector vis-à-vis the real economy so as to include social criteria (qualitative growth, public goods, strengthening the economic control system).

Apart from analysis and the design of the confidence factor, the Social Market Economy has to include other regulatory financial instruments. A number of measures can still be implemented on a bilateral level, while others require international cooperation. Regulatory measures are conceivable or required in particular in the following sectors:

For this reason, measures such as those listed below are expected to be taken (cf. EKD Synod 2008, Resolution on the regulation of global financial markets):

- Financial products must be presented in a transparent and comprehensible manner for consumers, and the risks have to be disclosed. Risks must not be placed outside the balance sheet. Capital adequacy has to be mandatory for the banks.

- An effective system of oversight over global financial markets has to be established. The powers of the national supervisory authorities, which have to be independent of the central banks, have to be strengthened. Risk provisioning agreements must be further developed and have to be enforced at an international level. Hedge funds have to be included.
- This regulatory system has to include all countries, above all offshore financial centres.
- Rating agencies must be placed under international supervision. The systems underlying their ratings must be transparent. Consultancy and rating activities in a narrower sense must be strictly separated.
- Banks receiving state aid must meet specific conditions; e.g. they have to limit management remuneration and suspend bonus payments. Should losses incur upon the termination of the financial market stabilisation fund in a few years' time, the banking sector will have to cover a part of these losses. State aid will not be available for free.
- International institutions have to have control and enforcement rights in order to be able to regulate international financial markets.

M4 Why has this study come about?—Resolutions

In 2006, the Synod of the Evangelical Church of Westphalia mandated the church board to commission a study on “Ethical dimensions of the Social Market Economy”, following up on the resolution adopted by Synod 2004 on “Globalisation—Economy in the Service of Life”. This Synod resolution reads:

“The visible effects of globalisation primarily result from increasingly liberalised economic action. The system of a globalised economy currently lacks a clear incorporation in politics. This would require a new moral basis going beyond vague ideas about social justice as generating justice and compensating for injustice. It would mean a paradigm shift the critical discussion of social ethical categories of freedom, justice and political solidarity. These fundamental ethical decisions determine the relationship of the economy, human beings and society. It is part of the Church’s calling to attempt to clarify this dimension of the way we understand human beings and society.”

Evangelical Church of Westphalia:
Globalisation—Economy in the Service of Life. 2004, p. 19.

In a broadly based ecumenical consultation process, the World Alliance of Reformed Churches (Accra Confession and Covenanting for Justice process) and the Lutheran World Federation, working with the World Council of Churches (WCC: AGAPE process; “Wealth—Poverty—Ecology” process) made in particular the voices of the victims of liberal economic globalisation heard and urged for profound changes in the financial markets and the global economic system. At the same time, the churches of the North were called upon to actively promote an economy in the service of life in line with their special responsibility and influence. From a European perspective, the Conference of European Churches (CEC) spoke out in favour of developing the Social Market Economy further along these lines (European Churches Living their Faith in the Context of Globalisation. Position paper, Brussels 2005). With its Synod Declaration “*Globalisation. Economy in the Service of Life*” (2004), the Synod of the Evangelical Church of Westphalia expressly built upon these stimuli by the WCC and WAPS_RC, deepening and substantiating it in relation to the church and social debate in Germany.

Against the backdrop of the global financial and economic crisis, these clear warnings were hardly heard. That is why the ecumenical debate focused on criticising the dominant economic approach worldwide in the light of the urgency of global economic injustice and the ecological crisis.

However, combined with climate change, the global financial and economic crisis has meanwhile resulted in more broadly based social change in people's awareness.

The recent EKD Statement "*Like a high wall, cracked and bulging*", Statement by the Council of the Evangelical Church in Germany on the global financial and economic crisis, of July 2009 refers to fundamental central ethical questions related to financial markets. The Memorandum by the Council of the EKD "*A Call to Repentance. Sustainable Development in the Context of Climate Change*", also published in July 2009, additionally covers the problem of "how to reconcile economic interests, the basic life necessities of a growing number of people and the preservation of natural resources for the current generation and for generations to come" (page 9). "*Climate of Justice*", the platform for climate and development of the churches, mission agencies and church development services, specifies this with regard to the churches' own activities and demands in the direction of policy-makers. What is becoming increasingly clear is that a fundamental turnaround is required to master the current crisis of civilisation. This is also causing the worldwide ecumenical debate to increasingly focus on the question *how* to initiate the necessary reversal into the direction of just and sustainable development worldwide.

This study aims to contribute to this worldwide ecumenical debate from a European/German perspective. Based on the conviction that the model of the Social Market Economy might serve as a model for this debate, our study focuses on this tradition and its regulatory potential. The study seeks to work on the deep regulatory structures based on the forms of engagement mentioned above and prove that the ecological, social and cultural dimensions of the economy can be brought together by means of clarifying the fundamental values and stimuli of an (economic and) ethical discussion. Economic *ethics* constitute the only way to reconcile the economy, ecology, social and cultural dimensions.

This study first and foremost aims to provide a church contribution to the social debate in Germany. At the same time, however, it also forms part of a worldwide ecumenical discussion process.

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