

## Eco-Social Market Economy Instead of Liberal Minimal State

### – Pope Francis' Economic Ethics under Discussion

Joachim Wiemeyer

In his actions, gestures and speeches, Pope Francis emphasizes that social engagement indispensably belongs to being a Christian. Christendom's central commandment of one's love of neighbour is not merely of importance in the personal realm but also a structural dimension extending into the political arena. Though Benedict XVI (2009 in *Caritas in veritate*, No.7) had stressed the Christians' obligation to political love of neighbour, today's Pope's stronger prophetic– metaphorical speech and his arousingly bringing to a head attracts a larger attention, but also rejection and warding off. This particularly applies to his criticism of economic developments, especially so since it has become clear that his economic criticism is not merely kindled by economic phenomena in his Latin American region of origin with deficit democracies and constitutional states, widely spread corruption as well as stark differences between the poor and rich but also by Western market economies.

Critics of the Pope insinuate that he adheres to a pre-modern way of thinking of a society without growth in which somebody can win only at the expense of somebody else losing. In such a society, in which resources do not increase, the demand is at hand that the rich should share with the poor. The Pope does not know about the basic change to a dynamic market economy in which poverty is not alleviated by sharing but structurally by growth. Critics of the Pope like Opus Dei priest Martin Rhonheimer (in: *Herder Correspondence Journal* 10 (2016), *FAS* dated 19.02.2017) in various contributions draw above all on the ideas of the Nobel prize winner for Economics, Friedrich August von Hayek (1899 – 1992).

In his elaborations on the function of competition in the market economy as a communal but non-intended process of discovery governed by the price mechanism, Hayek has highlighted an important element of the market economic order. In this Hayek demands the same constitutional state rules to be valid for all participants of the competition. According to Hayek, the total yield arising from the markets arising from a multitude of individual (individually just) traditions must not be submitted later to appreciation by society in the sense of "social justice." Hayek expressively disapproves of this notion, central to the Church's social announcements and criticizes respective statements in papal documents. The idea of "social justice" is based on a primitive tribal morality of small groups but not on the notion of a large-group-society of modern times. To Hayek, "social" is portmanteau term which can be filled with any contents you like and, in his sceptical view, is suitable to be used for political sparring against representative democracy. To him, a social market economy is no market economy, a social constitutional state no constitutional state and a social democracy no democracy anymore. In political competition, the use of the term "social" leads to a steady increase of the state's share of the gross national product and with ever-increasing detailed regulations intervening (e.g. minimum wages, subsidies) in single markets instead of applying general rules. But this does not only constrain individual freedom but also the dynamics of competition, and, to the disadvantage to all, the poorest.

To Hayek, the sense of uneven distribution of income lies in wealthy groups of the population being able to afford much more than the poorer ones, but in a growing economy with stiff competition, rising incomes and dropping prices lead, within a short time, to goods which today are regarded as luxury (air travel, PCs) and are available to large segments of the population. Hayek intends a social aid system for the poorest.

Hayek's positions, here sketched, have been impressively unfolded in a multitude of famous books "Paths to Servitude" (1944), the "Constitution of Liberty" (1960), "Law, Legislation and Liberty" (3<sup>rd</sup> volume 1979). They fascinated opponents of the socialist system in the Eastern bloc, such as the Czech President Vaclav Klaus, the British Prime Minister Thatcher but also the theologians formerly critical of the market (e.g. FAS- business editor Rainer Hank) who – as many converts – now "converted" turn to extremely liberal positions.

The broad economic-ethical debate on Hayek's concept criticizes him on two central levels: Firstly, his concept is not logically consistent because if the market's yields must not be submitted to an appreciation by society under the perspective of social justice, then starvation of unsuccessful participants of the market should be accepted. Hayek's plea for a social aid system is an ad hoc addition which cannot be deduced systematically from his theoretical system.

The second problem lies in Hayek's systematically underestimating the achievement of markets through the extent of markets' failings because prices often do not furnish data to the participants of the market (e.g. external effects insufficiently integrated) and markets which, as shown in the financial crisis, saw high instability.

It has become apparent for modern economies, that a large share managed by the state with strong services by the state (infrastructure, legal system, administration, education), which are financed by a progressive income tax, fought against by Hayek, with a social insurance system run by the state can best keep up with global competition (e.g. Germany, the Scandinavian countries). Not only is the lack of a constitutional state but also a state with insufficient services offering too little infrastructure, education and social security, a central hindrance to a strong economy. Presently, this has been more and more acknowledged by the World Bank, IMF, OECD, and the Davos Economic Forum.

Therefore, an eco-social market economy is not only socio-ethically asked for but more efficient in economic terms. Hayek adherents face a dilemma: do they want to follow this methodology that more efficient institutions prevail in the competition; then they must give up many of his concrete economic-political recommendations of a minimal state and stand up for a social market economy. It is not possible to follow simultaneously this methodology and adhere to the concrete, economic and socio-political ideas of Hayek's,

Pope Francis is a decisive proponent of an eco-social market economy. In his Charlemagne Award Acceptance Speech, he expressively made mention of the social market economy. Contrary to the superficial critics of the Pope, who accuse him of "critique of Capitalism", he does not use this term as did a number of his predecessors, like John Paul II.

Even if he does criticize the economy of Western industrial nations, he does so because they are not anymore social market economies respectively not yet ecological market economies. This applies to the question of distribution which sees discrepancies between the salaries of

managers and the median income of the workforce becoming larger and larger. With the long-term employment contracts of the German industrial workers in the many global market players, it also depends on the co-workers identifying with their enterprise's achievement and e.g. as a skilled worker to think independently. But then the social as well as the salary distance between common skilled workers and employees and the company's top management must not become too big.

The Pope also hints at the process of the financial markets becoming more and more independent which are not sufficiently serving anymore the real economy but, as happened in the financial crisis, rather destabilize it. Furthermore, the Pope criticizes that politics do not prescribe a democratically legitimized framework of order – as is stated in the traditional concept of the social market economy – but that, instead, big transnational companies evade national legislature or influence through lobbyists' work the government's workings to curry favours. As an example, see the factual tax exemption for highly profitable companies.

In view of the threatening climate change, the loss of biodiversity, the erosion of soils as well as the pollution of the air &c it has become clear that the ecological constraints of the market economy are insufficient. This has been highlighted impressively by the Pope in his encyclical "Laudato Si". Somebody, who as a theologian refers to Hayek to criticize the Pope, differs from the important proponents of the Social Teaching of the Church in the German-speaking region that as former and present proponents of the Social Teaching of the Church he has not undergone the rigour of studies of economics in the tradition of Joseph Höffner and has not studied comprehensively theory and empiricism of economics but rather refers to an extreme fringe position.

Joachim Wiemeyer is professor of Christian Social Teaching at Ruhr University Bochum  
Translated from the German by York R. Buttler 5/2017