

Order Policy and Market Economy: The Neglected Role of the Entrepreneur

Factor of Localization "Social Market Economy"

by Andre Habisch

(Translated from German by Mrs. A. Elmendorff-Pfeifer, Düsseldorf)

The film "Inside Job" realized 2010 by the producer Charles Ferguson is a shocking document of the decline of a form of economy. Arranged thoroughly as an amazing documentary film on the financial crisis important epochal witnesses are coming here to speak: consumers advocates who over decades engaged fruitlessly vis-à-vis the chiefs of central banks Greenspan and Bernanke in favor of the regulation of certificates; advisors, professors and experts of capital markets like George Soros who had observed the development of the financial crisis over years; but also professors who over years had defended the deregulation and who now must remain very speechless.

Prepared over decades by an ideology of deregulation having discredited generally any kind of regulation by the state could be established here under the symbol of a free market economy a system of self-enrichment without barriers and of organized fraud which is still undermined with the term "Casino-capitalism": in the casino the games, at least after the idea, are operated according to transparent rules.

Until the decline of this system continental Europe was considered as a region at least in arrears and arrested in Middle Age residuals, as "old Europe" whose salaries and social performances be too high, the employees are too lazy and the products are too expensive. I remember a convention of the German-British Society at the Free University Berlin following this tenor. Today the interest in the business localization and its social market economy is greater than ever before. I attended in January 2012 a conference in India and my discussion partners there were electrified when I reported on the specific structural components of the German economic location:

- A corporate business constitution with subsidiary self-steering of high professional committees on the side of employers and employees.
- A nearly one hundred years old cooperative culture in tariff policy, social security, labour administrations, labour justice and professional education.
- Regional capital markets with saving-banks and co-operative banks which give more than 50 % of the credits to middle-class enterprises.
- A dual system of professional education which guaranties by an education near to practice and of co-operative character internationally low quotas of unemployment of young people.

- A net of regional technical universities which are of highest importance for the research and development of the middle-class. Here too in our countries the impressive tradition of the public-private partnership plays an important role.
- Middle-class enterprises capable of international competition which in decentralized locations with low cost of land create employment and therefore discharge regions of agglomeration. In this context Hermann Simon refers to the "Hidden Champions" - thus highly specialized family enterprises which sell their products globally and thus belong to the leading entrepreneurs of the world in specialized partial markets.
- Finally particular important for the moralist of enterprises: Family entrepreneurs who conceive themselves not as capitalist selfmademen, but as conservator of their "patrimony". They have inherited their enterprise form the parent generation and like to transfer it in good form to their sons or nephews or nieces. They therefore do not accept "hit-and-run" strategies which capitalize at short term the reputation capital of their enterprises.

Many Asian countries are searching alternatives do the US-American model which scarcely corresponds to their cultural and institutional framework conditions. The singular history of the USA as polyethnic immigration country where the state formed subsequently to a self-steering civil community - causes also its singularity and its limited transferability. We Europeans are much more similar to the Asian countries, because here and there civil freedom could only develop during centuries. Both are forming market economies only in hesitating and on the background of their culture oriented more strongly towards control.

But our European business models are scarcely known in Asia, given the American domination of scientific literature. In the 20th century much injustice had its source in Germany. But the unchangeable social and economic traditions which for some part had their origin already after the First World War could not be rooted out by the criminal totalitarianism of the national-socialist dictatorship. Once again the social market economy has proved in the recent economic crisis more robust than other economic orders when it is important to react on quickly changing framework conditions and challenges associated thereto.

Proof in the Crisis

Let us look back: When 2008 pursuant to the financial crisis the world markets declined many middle class enterprises were suddenly lacking a quarter, half or even more of half of their turnover. The power of the economy strong in exports - its orientation towards the world markets - had suddenly become a factor of crisis due to the global decline of the economy.

That what followed was thoroughly improbability: Instead of sending thousands or millions of staff members to unemployment, many entrepreneurs literally hold breath. They were aware that their qualified staff after their release in the case of reanimation of the world conjuncture could scarcely be replaced - the more as this become more and more difficult for middle class enterprises, given the demographic crisis. Therefore the family entrepreneurs emptied accounts of working time, introduced programs of education and continued education, opened new operating areas. With the works councils it was possible to agree on fair and situation appropriate conditions of further employment. A generous short-time work regulation by the labour administration gave to the enterprises additional margin; but finally it were the reserves of proprietor's capital including the willingness to use them really in the crisis which offered the enterprises acting margins.

The results of this strategy practiced thousand times by the middle class are motivated and qualified members of staff. As their productive know-how is furthermore available the export business could more quickly than others react on the massively recurring global demand. On many places the crisis has literally become a chance: It is just ghostly how our public discussions have forgotten the enormous performance and we have passed to the daily agenda; even how the Anglo-Saxon dominated financial enterprises once again succeed to describe Europe as a region of crisis whilst the US-crisis of debts does scarcely have equal consequences.

What is here proving as core of the social market economy? A policy which obliged to the thinking of Ludwig Erhard? A framework order which helps to realize moral of the market? Social policy which provides fair compensation? These are all necessary conditions but they do not suffice. Moreover once again the recent crisis has shown: In the centre of the market economy are standing entrepreneur personalities which also in difficult situations have the courage to follow their convictions of values and who finally stand upright with their personal assets for the decisions taken by them. At the change of year 2008/2009 nobody could know how long the crisis would last and if the enterprises would survive.

In the market economy the risk of the conjuncture prognostics is not borne by the institute of economic research, but by the entrepreneurs themselves. Their "practical intelligence" and - highly controlled - willingness to risk, but also their engagement for the improvement and the conservation of common framework conditions are decisive for the success. If nowadays the German politicians are disputing whether the agenda 2010 of the Schröder government or the black-yellow coalition of the subsequent period is responsible for the recent development than I wish for myself also on the public level, in schools and in newspapers more awareness for the fact that politics is not creating employment but that they are the entrepreneurs personalities - and this often under high personal risk.

Subsidiary Self-administration

In looking nearer, this is not only valuable for the individual enterprise but for the many times cited "framework conditions". In the order-policy literature the classic division of labour is conceived in such a way that the government is responsible for framework conditions, but that for the practice according to the framework conditions these are the enterprises. But why do exist in Germany somewhat on a broad level those work time accounts which in the crisis were so important? Why do regulations exist for short-time workers which - largely- are adapted to the needs of the enterprises? The subsidiary self-administration in chambers and labour administration makes it possible that the practical intelligence of entrepreneurs is also implemented when forming rules and framework conditions. The working time accounts do not have their source in the wisdom of an officer in the Ministry of Economy or Ministry of Labour. They rather have been negotiated and realized in the committees of the tariff parties. Also here it were far-sighted entrepreneurs, personalities and pragmatic trade-unionists who have formed the all-day practice of the social market economy - even if also intermediate institutes like industry and commercial chambers and associations have always played an important role.

The same applies to another important advantage of localization of the industry in the German speaking countries: the dual system of professional education. Without the honorary engagement of managers and entrepreneurs in the examination committees and other committees as well as in the local workshops "School-Economy" this column of the central European educational policy, which brings to our countries the lowest percentage of unemployment of young people, would collapse. Partnership's projects of schools and middle-

class enterprises in the educational area exceed often largely within the individual enterprise such projects.

A more precise regard therefore demonstrates: social market economy is functioning better because here not *only the gambling drawings but also many relevant gambling rules* are formed subsidiarily by entrepreneurs. It is not the voting fight oriented rationality of policy professionals but the value orient "practical intelligence" of the personality of the entrepreneur which operates successfully.

Here is shown the subsidiary structure of our economic order which finally goes back to corporatistic traditions but which has been re-established in the 20th century. As economist and Christian theologian and Christian social philosopher allow me the remark that finally engaged Christian politicians have anchored these traditions in several phases in our economic order. Thus it is for example Heinrich Brauns, Minister of Labour of the Republic from 1920 - 1928 under twelve Chancellors of the Republic to whom go back the system of works councils, the more-phase labour courts and the origins of the equally self-administered labour administration. Before his nomination as first Minister of Labour of the Republic (two beforehand contacted colleagues were not prepared to assume this function under the difficult chaotic time immediately after the First World War) Brauns acted as man of the civil community and catholic priest for many years as department chief in the People's Association for Catholic Germany.

After the Second World War the catholic social teaching which after the words of the journalist Jan Ross can be qualified as the "secret state religion" of the young Federal Republic of Germany of the Adenauer-era" has impressed the federal structure of the state. Its human image impressed by personality, subsidiarity and solidarity has flown in our institutions in different ways - and lets them function still nowadays in an excellent manner as compared internationally. Today we still benefit from the opus leading Christian politicians, we benefit from the ethical conceptions by which they have been guided; but we do no longer know even the construction plans of the Christian social ethics which today is nowhere taught - even not by the theological faculties.

The Order-Political Function of the "Good Example" in the Era of Globalization

We have talked about the order-political function of enterprises in the context of associations, tariff partners etc. But the role of the entrepreneur for our economic order is very much larger. This is proved by an analysis of the *process character* of order-political innovations. New, better rules are not falling from the heaven - or from the office table of the politician. Democratic politics is rather oriented towards *models*. Political majorities for new rules can only be organized if the proposals made are not pure grey utopia but have already anywhere functioned as an example.

That was already valid at the time of Bismarck: Even the "Iron Chancellor" would scarcely had been in a position to succeed with the worldwide innovative German social security in his political environment 130 years ago if not decentralized a correspondent solidarity practice within the enterprises had existed and functioned. Here it were (in most cases Christian motivated) entrepreneurs who had established in their enterprises social funds for failed or retired workers - and who managed these funds (like for example: the textile entrepreneur Franz Brandts from Mönchengladbach) commonly with their workers. Pointing to that this in practice does not only function but does even contribute to the motivation of the workers, has

paved the political way to a sufficient coverage of correspondent governmental insurances. Entrepreneurs motivated by ethics thus become the political model to which those who set the rules may recur.

Under the conditions of global market of the 21st century the following is the more valuable: Without the entrepreneurial innovation of procedures (*good example*) any order-political modification of rules (*good law*) will not exist. In the enterprises is introduced, adapted, optimized as a specimen what later in all branches or for the entire business world is propagated and effected: This was and is valuable for systems of environment management (Example: Federal study community for fair ecological management B.A.U.M. which organizes collective learning procedures on ecological management). This applies also to the protection of human rights at production places in China and South Asia or to IT-assisted information systems in the area of consumer protection. As a factory inspection does not exist at their locations in China, India, Pakistan and Bangladesh and given the correspondent risks of reputation, today the enterprises there are taking the necessary steps themselves in order that self-established works and ecological standards are respected there. Internal control systems ("Compliance"), including formalized decision committees, written fixed exercise books of obligations and sanction procedures substitute the realization of governmental rules. This is more efficient because competitors know better of course than bureaucrats where it is necessary to look and how the dirty tricks are played.

- 1) The practice of branch-internal self-binding instead of governmental binding is also realized in many ways in Austria: In the centre is placed the perception of common interests of the competitors ("co-opetition"). The matter is the conservation of ethical evidence in the branch as cultural/spiritual capital, sensual potentials and intrinsic motivation.
- 2) The matter is the order-political co-responsibility for a common capable framework.
- 3) The matter is to remember that successful management is at long term only possible if public goods are available (social security, social pay-offices).
- 4) Finally the matter is the civil co-responsibility for the community which also remembers public principals of their responsibility.

Of course this is not a lasting situation. Internal regulations of enterprises must also in Asian countries at any time be transformed into national order right generally binding which is genuine task of the state: Agreements between branches can and will not replace permanently generally binding and with regard to procedures guaranteed governmental law, but are trying that the own order impulses are fixed there on "permanent functioning" (Karl Homan) in accordance with competition.

And yet: In the globalized world of the 21st century the enterprises become more and more order-political laboratories. Here is thought forward and practiced forward what tomorrow will become the "prototype" of collective decisions. Just therefore every leader of an enterprise bears also the responsibility for his actions - including its order-political implications. Here is opened a further dimension of the well-known slogan: "Without entrepreneur market economy does not exist. For that is not only true for innovations of products and procedures (drawings of games) but also for innovations of rules (projects for rules of game).

The Theory: Order without entrepreneurial Innovation?

So far the practice: But how does look theory? Here the "love to the institution" has had the result that the entrepreneurs and the enterprises are not represented as such in the scientific

economic and social great theories. This concerns the economic sciences as well as the political sciences or the constitutional law. If probably the German order theory has also therefore lost practice relevance and power of conviction because it has not reconstructed the order-political processes themselves in an adequate conceptional way?

A dominating order model which declares that the creation of new rules is exclusively a performance of the state neglects in this way also the socio-political importance of the innovative activities of the entrepreneurs. Thus it neglected reality. Here the order-political process is defined solely by its coming from the end - e.g. the authoritative adoption of the law, freely after the British social philosopher Thomas Hobbes: *Auctoritas non veritas fecit legem*. The importance of exemplary social practice and of the correspondent innovation is in this context neglected under the conceptional aspect: Moral imagination seems to play not a role for the common welfare. It seems that value-added activities of the leading staff do no more count for the "autopoietic system".

Such a deficiency system of order politics neglects the order-political role of the entrepreneurs. Therewith it underestimates the importance of enterprises, personalities of entrepreneurs and of their "practical wisdom" for the "welfare of the nations".

Consequences of this fixing to formal rules were for example the reformatory concepts for the transformation countries in East and South: Not only Helmut Kohl but also many of his economic advisors have referred to "flourishing landscapes". If once a liberal market order with democratic separation of power would be effective, the regions would rapidly develop. I remember an address of a member of the scientific council in the federal ministry of economics 1990 at the free university Berlin with the purport the German reunification would cost the taxpayer not a penny, because of the "multiplication effect of Keynes"; an engineering scientific thinking which has underestimated cultural aspects.

The experience has set us right: Without the cultural capital of innovators and personalities of entrepreneurs in the largest sense a permanent development will not exist. The European development after the decline of the communism was also matter of a conference in 1991. Younger participants expected at that time a more rapid drawing of the middle and East European national economies. In the meantime dead older colleague from Vienna was less optimistic. He expressed laconically it be relatively simple to transform an aquarium into a fish soup, one has to place simply a fire there under. On the contrary it is much more difficult to transform again a fish soup into an aquarium. In practice this means: The self-assured innovative entrepreneur not steered by third parties does not simply appear if correspondent framework conditions such as the protection of the order of property or a stable currency are guaranteed. Families and personal experience margins in which a correspondent structure of personality and correspondent value specimens can develop play an important role here.

In this context the subject of the social entrepreneurs who with-their establishments pursue *expressis verbis* and above all social or ecological targets is important. In principle however it is valuable for the entrepreneur oriented towards profit: His innovative activity can be at the same degree be "social" like that of the social worker or of the environmentalist. Responsible entrepreneurship therefore must not be understood as "pure privacy/private pleasure", it must also in our great theories be made conscious more strongly in its relationship to common welfare.

Formation of Leading Staff

Perhaps much more complicated is the second consequence of the theoretical deficits: Future leading staff members are not prepared for an important dimension of their future activity, e.g. the taking-over of order-political co-responsibility. Here the victorious development of the order-ethic has left - at least in its perception - unintended traces: Who localizes morality only in the order framework, but the order framework in the political area, legitimates also an irresponsible pragmatism. Here the "Enrichissez-vous" of Louis Philippe is greeting. But this appeal has already not brought happiness to the French king of the civil community.

Against an academic allotment where things are dealt with by separating properly private and public it must be accentuated: entrepreneurial activity has enormous order-political importance and leading staff members bear the responsibility thereof. The future management elites must be prepared for a professional dealing with this responsibility without neglecting their other responsibilities. The EU-Commission has always underlined this aspect in its reports to CSR in Europe.

The work on order-political framework conditions is not only done in political committees, in councils and in administrations. These will have also in future only a limited force of attraction on entrepreneurial personalities. The entrepreneur can rather induce order impulses in his every day activity if he is sensitized for this dimension. Like his predecessors in the epoch of industrialization he may draw benefit from this engagement when he is acting with professional competence and creates in different ways a market value for his enterprise: This must however be thoroughly the objects of the professional education of managers and business elites.

Final Remarks: Beyond the "Corporate Social Responsibility"

Under the key-word "Corporate (Social) Responsibility" also in Austria politicians, universities and entrepreneurs have discussed the conception of the co-responsibility of entrepreneurs and enterprises. Amongst others it was demanded to introduce the social responsibility of enterprises more strongly in the object of research and teaching at the universities and technical professional schools. It is however striking that the CSR-discussion is hardly perceived by a larger public, as it was the case beforehand. In many parts of the middle class mistrust is ruling against CSR decreed by the government: intellectual cuttings are tenacious. Must politics and administration perhaps conceptionally orientate more towards the own tradition of the human market economy in order to communicate the message to the woman and the man? The new accentuation of the order-political importance of conscience responsible entrepreneurial management can remove the deficits of a too mechanistic optic which regards anchored the order politics solely in parliaments and town-halls.

Such an orientation towards human market economy would have also a socio-political importance. Modern societies have a permanent tendency to guide the most competent and autonomously thinking coming generation into the business community. Here they have not only the best salary; here they are less exposed to the media community and find margins of creativity and engagement. Even many a politician of the elder generation obviously seems to be attracted by a second career in the business community. But this "staff policy", (which in reality is none) contracts with the challenges with which we are faced. For these include the production of public goods, thus not marketable goods: a modern education policy, effective integration of immigrants, international regulations for environment, financial markets, systems of social security etc.

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Shall these problems be resolved the national and international politics are dependent upon the ethical laboratory of the enterprises. For their guiding question does not read: Are we allowed to do all the things which were able to do? It rather reads: Why can we not do things which we should be able to do? Entrepreneurial ethics originate creative energies instead of pronouncing interdiction of thinking: We need this as model for better regulation on the political level. We must put the questions to the enterprises - and entrepreneurs and managers must ask themselves - and try to find models for better solutions. This should be a lesson from the economic crisis of the last years which we have mastered with success.

Let me terminate with the word of the bishop of our protestant sister-church of the President of the council of the Evangelic Church in Germany (1991-1997) Mr. Dr. Klaus Engelhardt. In the context of the common word of the churches on the economic and social situation in Germany in 1997 he analogically said: The social market economy is ethically an economic form essentially more rich in conditions as we generally presume. Therein is summarized in a pregnant form what I intended to say here.

We have been accustomed to discuss no longer these conditions, thus on the moral dimension of successful management. This must change if we will master the challenges with which we are faced in the 21st century.