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Keynote Address: A Global Social Market Economy in Response to the Challenges of the 21st Century

Toward a Moral Economy: Policies and Values for the 21st Century

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The spoken word applies.

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[Welcoming speech]

When a German bishop and cardinal visits the world-famous Department of Economics in Chicago, to talk about economics and the idea of the social market economy, we may well think some explanation is called for. At the very least it is not something that goes without saying. And I am of course also aware that for many Americans the concept of the social market economy is itself unfamiliar, and may even be seen as a trifle provocative. I have learned from numerous discussions that many Americans harbor the suspicion that the social market economy is not a proper market economy at all, but rather a kind of market economy that has been somehow polluted by socialist elements. So I would like to begin by giving a brief explanation of what we Europeans understand by the concept of the social market economy. There are two reasons why I might see myself, in a way, as having been predestined for this task – first, because I come from Germany, and secondly, because I am a Catholic bishop. Let me try to cast some light on this statement – which does of course ask to be taken with a pinch of salt.

First of all it is a fact that we Germans hold the copyright for the concept of the social market economy. “Social market economy” was the program and the slogan under which the first German Federal Chancellor, Konrad Adenauer, and his Economics Minister, Ludwig Erhard, brought about their country’s return to a free market economy, following the planned economy of the Nazis and the militarist economy of the war years. So even in Europe the

social market economy is sometimes viewed as a typically German phenomenon. But recent years have seen drastic changes, and the term and the idea of the social market economy have been welcomed by other European countries as well. The Poles even made it a part of their constitution in 1997 – we Germans never went to such lengths. And with the Treaty of Lisbon’s coming into force at the end of 2009, the social market economy is now a major pillar, in political and economic terms, of the European Union. Article 3, section 3 of the Treaty on European Union now reads as follows: “The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment.” The *Commission of the Bishops’ Conferences of the European Community* (COMECE), of which I became President in March this year, took occasion from this to formulate a declaration of its own on the European social market economy to which the Treaty aspires. This came out in January of this year, under the title “A European Community of Solidarity and Responsibility”.

But why then should I venture the assertion – which I would ask you, again, not to take altogether seriously – that I am particularly well qualified, as a Catholic bishop and former Professor of Catholic Social Teaching, to launch this conference by saying something about the idea of global social market economics? Well, quite simply because Catholic social teaching played a highly important part in setting up this very same social market economy in Germany. Lord Ralf Dahrendorf, an active German politician of the sixties who later moved to England, where he worked as a professor and publicist, once observed: “Anyone who talks about the social market economy in Germany [...] means Ludwig Erhard plus Catholic social teaching.”¹ As a description of the historic facts, that is both succinct and accurate. The major influence of Catholic social teaching on the development of the social market economy, however, is little known outside Germany. Most people just have an idea of the influence of ordoliberalism, Walter Eucken and the Freiburg School. But that is only one half of the story.

For Germany the Second World War was not just a military catastrophe, it was also a total moral defeat. For that reason, people were concerned in 1945 not just with the re-

¹ Dahrendorf, Ralf, *Wie sozial kann die Soziale Marktwirtschaft noch sein? [How social can the social market economy manage to be?]*, 3rd Ludwig Erhard Lecture, Berlin 2004, 13.

establishment of democratic institutions and economic reconstruction, but also with the comprehensive moral purification and renewal of the country. The churches played a very important part in this. After more than twelve years of Nazi dictatorship, they were the only socially relevant institutions that had not been smashed or brought into line and that were not morally discredited. Never before and never since in modern German history have the churches been such a major social and political influence as in the first twenty years after the Second World War. And that applies to Catholic social teaching as well, in a quite exceptional measure. This is an extremely interesting story, but for reasons of time I am unable to go into it in greater detail just now.

Let me instead go on to talk about the misgivings I regularly have when I find myself discussing the social market economy with people in the United States. As I said earlier, I repeatedly get the impression that my opposite number supposes the social market economy to be not a proper market economy at all, but rather a kind of hybrid of the market economy and the socialist planned economy. But this is completely mistaken. On the contrary, the concept of the social market economy came into being in programmatic opposition to the centrally managed economy, as practiced both in the Soviet Union and to a great extent in Nazi Germany during the Second World War as well.

Taking the idea of the social market economy as a point of departure, the social element – social justice, that is, in relation to the economy – does not come about as a result of state planning in the sense of socialist central economic management, nor does it result from occasional government tweaks under the heading of interventionism. Rather, it is the consequence of market competition *per se*. At the same time, however – and this was the central insight of ordoliberalism – competition is not a phenomenon that occurs naturally. It does not just happen automatically, when economic freedom prevails. Price agreements, lack of information on the part of some market players, the abuse of economic power, cartells and monopolies – all these factors present constant obstacles to competition in the free market economy. It follows that it is the task of the state to guarantee fair conditions of competition, based on an appropriate regulatory framework. The economic success of the individual should be determined not by power mechanisms but by fair competition. The theoreticians of the social market economy speak in this connection of “competition on the merits”. And in fact it is the state’s job to draw up and maintain the rules of fair competition – just as there are rules of the game in *football* or *basketball* to ensure a fair fight, as well as a referee to see

that the rules are observed and to intervene when they are infringed. That is the basic idea of the social market economy. And when competition on the market is fair, then the market economy actually is a social market economy.

Alfred Müller-Armack, as state secretary of Ludwig Erhard's department of economics, was the real head of the political program of the social market economy. He defined the social market economy in the following words: "The *concept* of the social market economy can [...] be defined as a regulatory political idea, which makes the competitive economy the basis for a combination of free initiative with social progress, the latter being ensured by the performance of this same competing economy."² And because of the central importance attaching to the regulatory framework – *ordo* in Latin – in connection with this idea, German neoliberals after the Second World War actually referred to themselves as "ordoliberal".

The concept of neoliberalism has since become practically a term of abuse in Germany – I am not sure how things stand in the USA – being understood as synonymous with all the alleged or actual downside aspects of capitalism. But originally the term was associated with quite different intentions. It was actually coined at the Walter Lippmann Conference in the summer of 1938, at which two dozen liberals discussed the possible renovation of liberalism at a time when Europe was already deeply shrouded in the dark clouds of fascism, National Socialism, Communism and Stalinism.

The participants at this conference were unanimously agreed that old-style capitalism, *laissez-faire* liberalism and unbridled Manchester capitalism bore a fair share of responsibility for the demise of the liberal idea. In Germany, for instance, the lack of regulatory policies had resulted in the development of cartells and oligopolies in many sectors of industry. This was particularly the case in the sphere of heavy industry. And it is noteworthy that under the Weimar Republic it was in fact heavy industry which blocked every attempt at social and political reform, and so made a significant contribution to the suicide of the first German democracy. It is also significant that it was the right wing of the heavy industrialists, men associated with Fritz Thyssen, who became the first industry to support and finance Adolf Hitler and the Nazi party. This was the brand of capitalism that the participants at the Walter Lippmann Conference rejected. Alexander Rüstow, one of the

² Müller-Armack, Alfred, article on the social market economy in HdSW [Handwörterbuch der Sozialwissenschaften: Concise Dictionary of the Social Sciences], vol. 9, Stuttgart et al. 1956, 390-392, (specifically: p. 390).

founding fathers of the social market economy in Germany, therefore proposed a conceptual distinction to set off their ideas from this form of capitalism and from *laissez-faire*, old-style liberalism. As a result the term “neoliberalism” came into being.

So if today the excesses of financial capitalism which triggered the crisis of 2008 are branded as “neoliberal”, if this kind of “casino capitalism” is referred to as neoliberalism, historically speaking this is completely wrong. It was just this kind of excess, which in the last resort leads to the self-destruction of freedom and the market economy, to which the neoliberals were opposed. Unfortunately today the term “neoliberalism” is burnt out. But for that very reason, I would still like to insist on a distinction between capitalism and the social market economy. And under the auspices of the social market economy what we need, in my view, is a regulatory framework – one effect of which will be to restore the financial markets to their proper function of serving the real economy and so contributing to the common good.

In developing their idea of regulatory policy, incidentally, the founding fathers of the social market economy learned a lot about certain crucial issues from the USA – in connection with *anti-trust* legislation, for instance. *Anti-trust* legislation is precisely concerned with the principal objective of the social market economy – that of ensuring fair competition, by consistently restraining the abuse of superior information and economic power.

Now please don't get me wrong. I don't want to put up an impassioned plea for ordoliberalism, or offer a theory that was developed at the end of the Second World War as a panacea for the problems we face in the global economy today. I am myself, after all, a representative of Catholic social teaching, and in the early days of the German Federal Republic the attitude of Catholic social theorists to the ordoliberals was by no means always an easy one. There were some heated discussions about the concrete institutional shaping of the concept of the social market economy – for example in relation to questions like pension insurance or the right to co-determination. But I don't want to weary you by lingering over these details of German social and economic history.

However, the basic idea of ordoliberalism and the social market economy still seems to me to be correct: first of all the realization that “a market genuinely determined by competition [...]” is “an effective means for achieving important goals of social justice,”³ as stated by the

³ Compendium of the Social Doctrine of the Church, para. 347.

Compendium of the Social Doctrine of the Church in 2004. And secondly, the idea that this competing market must be secured against the abuse of economic and political power with the help of a regulatory framework established by government.

And I am firmly convinced that today, in the world of the globalized economy – where there is increasing interdependence between national economies and where national problems, in the banking sector for instance, can rapidly become problems for the international financial market – we also need international regulations based on the regulatory idea of the social market economy. I believe that a globalized market calls for a global order. A global economy needs a global regulatory framework. This is what I am getting at when I say the words, “*A Global Social Market Economy in Response to the Challenges of the 21st Century*”.

Now of course I am not an economist myself, but a theologian and a priest. I have in the past lectured on Catholic social doctrine at the university, but since I became a bishop and a cardinal, additional obligations have prevented me from following academic developments down to the last detail. So I would not lay claim to any special qualifications for making concrete proposals for the institutional shaping of a global social market economy. “The Church does not have any technical solutions to offer and does not claim in any way to interfere in the politics of states,” as Pope Benedict XVI writes in his social encyclical *Caritas in Veritate*, published in 2009. This applies to me in equal measure. So I am grateful to those attending this conference who tomorrow will be undertaking the labor of getting down to these questions at the level of detail. I am really and truly grateful to all those who have come here to take part in this discussion. But I hope you will excuse me if I mention one person in particular in connection with the subject of my talk today, with a view to thanking him for his contribution – I refer to Professor Michel Camdessus, former director of the International Monetary Fund, who has agreed to give the principal lecture of the session on “Global and Local Solidarity: Issues of Globalization”. Many thanks, Professor Camdessus, for your coming here today to share with us your views on this important subject. I look forward eagerly to your remarks, as I look forward to all the lectures we are going to hear and the ensuing discussions. Of course I would also like to express my particular thanks to Professors Roger B. Myerson, Kevin M. Murphy and Russell Hittinger, who will do me the honor of replying to my address today.

But first of all let me say that this conference is something to which I feel great personal commitment – it really is close to my heart. I believe it is important that we – Americans and Europeans – should find time once more to get into dialog with one another. The ongoing economic crises of recent years have made it dramatically evident how far our national economies are interlinked today, and so to what an extent we are dependent on cooperation. The real estate and financial crisis that erupted in the USA in 2008 had a severe impact on the financial markets and the economy of Europe as well. And today the national debt crisis of some European countries presents a danger to the incipient economic recovery of the USA. Whether we like it or not, in the globalized economy of our day the economic problems of the USA are European problems as well, just as the economic problems of Europe are also problems for America.

But together we also bear a heavy load of responsibility for the rest of the world. German stockbrokers have an old saying – I don't know whether you have something similar: “When the USA sneezes, the rest of the world catches a cold.” The widespread concern about the national debt crisis in Europe shows that this now applies equally to the European Union: “When the European Union sneezes, the rest of the world catches a cold.”

That sounds like a joke, but it is actually deadly earnest. Both in the USA and in Europe, many people have been severely affected by the crisis. Millions have lost their jobs and their homes, many young people are failing to gain entry to the labor market. This is tough, and painful. And many millions of people in the poor, underdeveloped nations have been even harder hit. Today the destiny of people in the poor countries of this world is more closely linked than ever before to the success or failure of the rich, developed national economies. To give just one example – in 2008, a few weeks after the American and European stock markets crashed, mobile phone orders in China collapsed. And again, just a few weeks later, the copper and cobalt mines in Africa started closing down. You need copper and cobalt to make mobile phones. In the Congo, 60 percent of all the copper and cobalt mines were put out of action. 300,000 workers lost their jobs. We must keep on reminding ourselves of these interdependencies in the global economy of today. If we take irresponsible decisions, other people have to bear the consequences worldwide – and that includes, in particular, the poorest of the poor.

These major and increasing interdependencies between the national economies show, in my view, just how urgently we need a greater measure of international coordination in political and economic terms, along with a stable regulatory framework in the sense of a global social market economy. And one thing is beyond doubt – if this idea is to have the faintest prospect of being realized, it can only be because the USA and the European Union work together to achieve this objective.

So there are plenty of reasons why we, as Americans and Europeans, should get together to talk about the moral foundations and concrete problems of our national economies and of the global economy we all share in – as we have undertaken to do at this conference. And I am firmly convinced that our common cultural values give us a good basis for coming to an understanding in relation to these issues. Both on our side, and on the other side of the Atlantic, there has of course been a lot said and written in recent years to the effect that since the end of the Cold War Europe and America have been developing in divergent directions. Political strategists advise us that we should not remain unduly focused on our allies of the 20th century. We should rather turn to the upwardly mobile regions of the world – above all, to Asia.

There is some truth in this. The world of the 21st century is significantly different from that of the 20th century. Since the turn of the millennium, countries like India and China have undergone an impressive economic development. They are already playing an important role on the international political stage, a role that will become even more important in future. The days when the G7 or G8 nations could determine the political framework for the global economy off their own bat, so to speak, are undoubtedly a thing of the past. And in a sense this is a good thing. The old global economy, dominated by North America, Western Europe and Japan, was often regarded by the developing and threshold countries – with some justice – as a quasi-colonialist regime. From this point of view we should welcome the fact that the G20 are playing an increasingly important part, and that the most prominent threshold countries can now take their place at the conference table.

On the other hand, the multipolar world of the 21st century also comes with its problems. In a multipolar world it is even more difficult than before to achieve the goal of an internationally acknowledged and realizable regulatory framework for the global economy, as we are faced with an increasing number of players who – with every justification – also want to have their

say and exercise an influence. Some of the rising nations seem to be not particularly interested in strengthening the framework of international political coordination. Instead they practice power politics, an interest-driven politics in the style of the nation states of the 19th century. So the multipolar world is anything but the locus of an organized and established balance of interests that some hoped would follow the end of the Cold War. In 1992 this futuristic vision was outlined by American political scientist Francis Fukuyama in his book *“The End of History and the Last Man”*. Fukuyama thought that after the downfall of the Soviet Union and the eastern bloc, democracy, the law-based state and the market economy would spread out to all parts of the world quite automatically. In the Cold War of ideologies the good – freedom – had triumphed, and so history had reached its terminus, just as it had come to its ultimate fulfillment internally. A good 15 years later another American political theorist, Robert Kagan, published a book with a title in flat contradiction of Fukuyama’s thesis: *“The Return of History and the End of Dreams”*. And I’m afraid Kagan is right. Fukuyama’s vision of the future was an over-optimistic one. That doesn’t mean that I would prefer to spread doom and gloom. But we have to admit, in sober earnest, that since the nineties of the last century we have seen not just the spread of freedom and democracy, we have also witnessed the return of autocratic regimes which practice a ruthless brand of power politics.

For that very reason, in my view, it is important that the USA and Europe – even in a changing world – should reflect on the points they have in common, and stand shoulder to shoulder as partners for a peaceful and more just order of things. There is an essay well worth reading which focuses on these points that we have in common – *“Qu’est-ce que l’Occident?”* by the French philosopher Philippe Nemo. The book has been translated into English under the title *“What is the West?”* Nemo can be a provocative writer, but his ideas are always stimulating. And his essay is an impassioned plea addressed to both Europeans and Americans, urging them to reflect on their cultural similarities and common values, on the things that actually characterize western civilization. This would involve our recovering a sense of the value of our common history and culture. Of course that does not mean any disrespect towards other cultures. In the globalized world, mutual respect between cultures and intercultural dialog are absolutely indispensable. But a dialog of this kind can only fruitfully be conducted when the partners conversing are first of all conscious of their own cultural origins. This is also stressed by Pope Benedict XVI in his encyclical *Caritas in Veritate*: “Today the possibilities of *interaction between cultures* have increased

significantly, giving rise to new openings for intercultural dialog: a dialog that, if it is to be effective, has to set out from a deep-seated knowledge of the specific identity of the various dialog partners.”⁴

It would be desirable if Europeans and Americans, in the consciousness of their common cultural history and their shared values, could again speak with a united voice in the political and institutional shaping of the multipolar world. In the spirit of these values we must seek together for ways of resolving the major political, economic, ecological and social problems with which humanity is faced today. And we must also present a united front against those who act in contradiction of these values, and are endeavoring to revive a form of power politics driven by national interest. We cannot meet the challenges of the 21st century with the political style of the 19th – a style, incidentally, which even in the 19th century had disastrous consequences. But today the consequences would be perfectly catastrophic, if international politics were to be determined exclusively by the mechanisms of power and interest-driven politics. This is because our finding an answer to the really big challenges facing humanity today will be crucial not just for the interests of individual nations, but as determining the future of us all. So the politics of the 21st century must not be characterized by national egotism and envious power games – instead, we must look for ways of cooperating both on the level of existing international organizations, and through the new international institutions and agreements that need to be created. In his *Caritas in Veritate* Pope Benedict makes an urgent appeal to this effect. He writes as follows:

*To manage the global economy; to revive economies hit by the crisis; to avoid any deterioration of the present crisis and the greater imbalances that would result; to bring about integral and timely disarmament, food security and peace; to guarantee the protection of the environment and to regulate migration: for all this, there is urgent need of a true world political authority, as my predecessor Blessed John XXIII indicated some years ago. Such an authority would need to be regulated by law, to observe consistently the principles of subsidiarity and solidarity, to seek to establish the common good, and to make a commitment to securing authentic integral human development inspired by the values of charity in truth. Furthermore, such an authority would need to be universally recognized and to be vested with the effective power to ensure security for all, regard for justice, and respect for rights.*⁵

In these remarks the Pope concurs entirely with what I have been referring to as global social market economics. Some commentators however have opined that this call of the Pope’s for a *true world political authority* is naive, is an idealistic fantasy. For a Pope such

⁴ CiV 26.

⁵ CiV67.

idealism may be all very well, but in the real world *realpolitik* is indispensable. I would like to give a short answer to these criticisms – and am happy to do so, in view of the fact that the Pope is referring to the same thing that I understand by the global social market economy, so to that extent I would be equally open to criticism for having my head in the clouds.

There are two things that may be said in answer to this reproach. First of all, we must state without any shadow of ambiguity that anyone who accuses Pope Benedict of naive idealism has understood nothing – nothing whatsoever – of the Pope’s theology. It is well known that Pope Benedict is a great connoisseur of St. Augustine, and his theology is unmistakably inspired by Augustine’s vision. It was St. Augustine who, at the start of the fifth century just after the conquest and sack of Rome by the Visigoths, developed the first great political philosophy of Christendom in his book *De Civitate Dei*. And this book essentially revolves around the question how human life in society can be organized in view of the deep ambivalence of human nature. Christians believe, of course, that human beings are made in the image of God. The core of human nature then, the original essence of humanity, is good in the eyes of us Christians, as it participates in the perfect goodness of God. In their core, their essence, then, human beings are directed to the good, and to God. But as Christians we are also familiar with the story of the Fall. And this Fall, we believe, has resulted in the corruption of this essentially good human nature. The ideal core of humanity is still good, but its real nature since the time of the Fall has also included an element of failure and of evil. So the good core of humanity – its intrinsic, but broken freedom for the good – needs to be supported and encouraged. In terms of social ethics this means that our social institutions must be designed in such a way that they do not appeal to the shadow that has fallen on the soul of humanity since the Fall, but rather stimulate its essential goodness, so that human beings may educate themselves in their conscience towards the good and realize it in their lives. St. Augustine’s book *De Civitate Dei* is deeply imbued with this conviction, and the theology and social teaching of the church are determined by the same leading idea. It might be said that the Christian image of humanity which Benedict XVI represents is altogether realistic, and very close to practical reality! And this is particularly clear when we look at the encyclical *Caritas in Veritate*. Here the Pope gives an explicit warning against naive idealism and the delusion of omnipotence:

Sometimes modern man is wrongly convinced that he is the sole author of himself, his life and society. This is a presumption that follows from being selfishly closed in upon himself, and it is a consequence — to express it in faith terms — of *original sin*. The Church’s wisdom has always pointed to the presence of original sin in social conditions and in the structure of

society: “Ignorance of the fact that man has a wounded nature inclined to evil gives rise to serious errors in the areas of education, politics, social action and morals”.⁶

I would like to echo this warning of the Pope’s. And I would like to know that my call for a global social market economy will be understood and interpreted against this same background.

But there is another reason as well why I believe we should not just dismiss Pope Benedict’s warning that we need a true world political authority by talking about *realpolitik*. There just is no option left to us other than concerted international action. We are faced with a choice of alternatives – either we work together to resolve the political, economic, ecological and social problems of humanity, or we do not resolve them at all. *Tertium non datur*. The human family really is, in a certain sense, a body with a shared destiny, and the important thing is to keep one’s gaze fixed on the “common good of the world”.⁷

Incidentally, it is absolutely not the case that the Pope is calling for a world government. Such a demand would indeed be illusory. On the contrary, we find frequent references in his encyclical to the principle of subsidiarity:

Hence the principle of subsidiarity is particularly well-suited to managing globalization and directing it towards authentic human development. In order not to produce a dangerous universal power of a tyrannical nature, *the governance of globalization must be marked by subsidiarity*, articulated into several layers and involving different levels that can work together. Globalization certainly requires authority, insofar as it poses the problem of a global common good that needs to be pursued. This authority, however, must be organized in a subsidiary and stratified way, if it is not to infringe upon freedom and if it is to yield effective results in practice.⁸

I would also like most emphatically to stress the importance of the subsidiarity principle in relation to my idea of a global social market economy. It is not a matter of disempowering national economic policies, but rather of finding an answer such that in a globalized economy certain responsibilities of regulation and organization shall not be exercised solely by the national governmental authorities. This is why we need subsidiary international agreements and institutions under the auspices of a global social market economy. It is in order to solicit support for this idea, and to discuss this idea with you, that I have come to Chicago. I would like to thank you for listening to me so patiently. I now look forward to hearing the replies of Roger Myerson, Kevin M. Murphy and Russell Hittinger. And I also look forward to our

⁶ CiV 34.

⁷ Cf. PT 98-100; CiV 7.

⁸ CiV 57.

further personal encounters and talks. I thank you from the heart for inviting me to be with you today.