

# Tolerance and (Social) Market Economy

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At first glance, it seems downright absurd to make a linkage between market economy and tolerance. Is the market not rather the place of manifold discrimination and humiliation? And isn't it true that the market has transformed our community into a hierarchical consumer society?

## 1. *Discrimination and exclusion in the market*

Economists have known for a long time that people have a tendency to emphasize their social status through consumption. The American economist Thorstein Veblen discussed this reality as early as 1899 in his famous *Theory of the Leisure Class*. He used the term “conspicuous consumption”<sup>1</sup> to describe the phenomenon that people prefer to pay premium prices for luxury goods and services instead of buying cheaper “normal” products and services with similar quality and benefits. The aim of such behavior is to publicly display one's wealth, in Veblen's words: “Conspicuous consumption of valuable goods is a means of reputability to the gentleman of leisure.”<sup>2</sup>

The morally negative aspect of such conspicuous consumption is not only that it obviously implies the “element of waste”<sup>3</sup>. Moreover, it establishes a kind of socio-economic hierarchy and it can be the reason for discrimination when people are excluded from enjoying certain goods because they are too poor to buy them. In rich, developed countries, it might be branded clothes or the latest smartphone. Those who cannot afford such prestigious objects are discriminated against by their peer group – and this is not only the case among teenagers. Zygmunt Bauman goes so far as to regard present society as a “society of consumers”, the “most prominent feature” of which he considers to be “– however carefully

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1 See: Veblen 2007: 49 et seq.

2 Ibid. 53.

3 Ibid. 60.

concealed and most thoroughly covered up – [...] the transformation of consumers into commodities.”<sup>4</sup>

Yet, the market does not only exclude people from enjoying prestigious goods. The poorest of the poor in this world often cannot even afford the necessities of life. “Such an economy kills,” Pope Francis wrote in his first Apostolic Letter *Evangelii Gaudium*. “Today everything comes under the laws of competition and the survival of the fittest, where the powerful feed upon the powerless. As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape.”<sup>5</sup> This papal accusation is true especially with regard to the “bottom billion”, those people who live in countries isolated from and ignored by the world market. They fall more and more behind and often fall apart. In an unprecedented prosperous world they “are stuck at the bottom” without any perspective for an improvement of their situation, and they “are living and dying in fourteenth century conditions.”<sup>6</sup>

Hence, there are certainly reasons to regard the market as a place of discrimination and intolerance. On the other hand, that thesis seems quite strange if you think more carefully about it. After all, the modern idea of tolerance is historically rooted in the idea of liberalism – just like the market economy. Rainer Forst rightly writes that “this liberal justification of tolerance reaches its culmination in Locke’s work.”<sup>7</sup> John Locke was the intellectual father of *Whig liberalism*, a tradition which was revived in the 20<sup>th</sup> century by neoliberals like Friedrich August von Hayek. But could it really be possible that one and the same intellectual movement has created institutions of tolerance in the political sphere and institutions of intolerance in the socio-economic sphere? In any case, it might be worthwhile to have second thoughts about it.

## 2. *Economic liberalisation as liberation and anti-discrimination program*

First of all, it should be noted that the pre-liberal economy, which was not organized through markets, had a lot of discriminatory structures as well. In pre-modernity, production, services, and trade were strongly determined by the feudal order and the guild system. In the feudal system,

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4 Bauman 2007: 12.

5 EG 53.

6 Collier 2008: 3.

7 Forst 2013 : 209.

prevailing in the agrarian sector, the peasants were personally unfree and economically completely dependent. And the guilds regulated access to most professions in the cities; they controlled quantity and quality of products and services; they dictated the prices for the customers and the wages of the journeymen. These circumstances completely contradicted the ideals of the Enlightenment era: autonomy and self-determination. And it was due to the intention to realize precisely these ideals in the economic sphere that free choice of profession and freedom of trade were introduced first in England in the 18<sup>th</sup> century and in most other European countries during the 19<sup>th</sup> century.

In her impressive trilogy on the bourgeois era, the American economist Deirdre McCloskey has shown that it was not material changes, inventions, or new production methods that led to the explosion of prosperity in Europe and North America since 1800. Rather it was these values and its egalitarian impetus which enriched the world. “The modern world was not caused by ‘capitalism’ which is ancient and ubiquitous [...]. The modern world was caused by egalitarian liberalism, which was in 1776 revolutionary, being at the time most prevalent in places like Netherlands and Switzerland and Britain and British North America – though even in such islands of liberalism a minority view. Then it spread. The Great Enrichment, 1800 to the present, the most surprising secular event in history, is explained by a proliferation of bettering ideas springing from a new liberalism”.<sup>8</sup>

The bourgeois era brought with it an enormous surge of freedom, and forces were released that produced a prosperity the world had never seen before. This economic growth could only have happened because, from then on, inventors and entrepreneurs were much less restricted by social resentment and institutional constraints than in previous eras. For example, that British men could relatively free enter into the different lines of business, was one of the key reasons why the Industrial Revolution took place in Great Britain at first. Compared to other European countries, “Britain gradually created a much more level playing field for its potential businesspeople.”<sup>9</sup> Under these conditions, people have been able to develop their ideas much more freely. Hence, the decisive factor was the liberation of the people who had been despised and thwarted for centuries by narrow-minded monarchs, noblemen, clergy, town councilors, and guild

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8 McCloskey 2017: XV.

9 Acemoglu et al. 2019: 585.

masters, and who were now able to develop their full creativity and to set about transforming the world with courage and energy.

As a result, the bonds of the economy in Europe were loosened and an unprecedented economic uplifting took place. This “uplift happened most significantly not to the aristocrats or the landlords, but to the commoners, your ancestors and mine,”<sup>10</sup> McCloskey writes. Alois Schumpeter wrote something similar as early as 1942:

“[T]he capitalist engine is first and last an engine of mass production which unavoidably means also production for the masses [...]. Electric lightning is no great boon to anyone who has money enough to buy a sufficient number of candles and to pay servants to attend to them. It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars and so on that are typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man. Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.”<sup>11</sup>

In this regard, market economy and free competition have obviously eliminated many structures of intolerance and discrimination. The reason is, at least to some extent, the calculated thinking of the market. As whoever makes a good offer on goods or services which are demanded, can establish his or her business on the market. Whereas resentment and intolerance increase transfer costs and do not pay off for the individual market actor. It is therefore economically rational to be tolerant on the market. Hence, the social inclusion of discriminated minorities usually can be achieved faster and better in the economic system than in other spheres of society. Only in a free market economy, the unorthodox, eccentrics and even the lunatics have basically the same opportunities as everyone else – and there is no doubt that some of the most successful entrepreneurs in economic history fall into this category of nonconformists.

And the market economy has brought enormous benefits not only for entrepreneurs, but also and above all for consumers. As mentioned above, in former times, the prices were often dictated by guilds and other cartels. In this respect, the turn to market economy and to classical economics brought about a veritable paradigm shift, as true competition on the market prevents such cartel arrangements and ensures customers the best ser-

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10 McCloskey 2017: 37

11 Schumpeter 2012: 79.

vices at the most favorable price. “The fundamental assumptions on which the teachings of the classical economists hung were that production served exclusively to fulfil consumption, that the consumer’s interests represented the sole directly justifiable economic interests and that in particular the producer’s interests could only be taken into account inasmuch they satisfied the needs of the consumer.”<sup>12</sup> For this reason Franz Böhm rightly described competition as the “greatest and most ingenious instrument of disempowerment in history”<sup>13</sup>.

So after all, is it perhaps the other way around? Are competition and market economy rather preconditions of tolerance and non-discrimination? Some assertions are false in a way that even their opposite is not true. Yes, market economy eliminated some traditional forms of intolerance and discrimination, but it has also given rise to new ones.

### *3. Discriminating mechanisms and effects in free market economies*

The discrimination that takes place in the market is different from that which occurs in other spheres of society. “Normal” intolerance in social interaction usually refers to certain deviating characteristics of people, e.g. their religion, their disability, their cultural background or their sexual orientation. Those who follow the economic rationality of the market behave indifferently, i.e. tolerantly, towards such characteristics of people. Nevertheless, there is discrimination on the market as well. But this is hardly compatible with the traditional concept of intolerance, which always has an affective connotation of aversion. Market discrimination, on the other hand, is emotionally cool, it remains in the mode of calculated thinking and excludes people solely on the basis of a lack of economic resources and competitiveness. For those affected, however, this form of discrimination is no less humiliating.

#### *a) Rawls and the injustice of the liberal meritocracy*

On closer inspection, the meritocracy of the bourgeois market and the competitive society is not so much morally superior to the pre-modern aristocracy with its despicable intolerant social structures. This insight is

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12 Böhm 1982: 107.

13 Böhm 1961: 22.

the starting point of John Rawls' epoch-making *Theory of Justice*. Many coincidences determine people's chances in life: whether they are born to rich or poor parents; whether they belong to a social minority or to the majority society; whether they are healthy or sick; whether they are disabled or not; whether they are more or less intelligent; whether they are blessed with loving parents and gain a basic trust in life or not. Rawls speaks of the "natural lottery", meaning that fate often causes no less discriminatory inequality than birth rights in earlier times. The people enter the market with these very different preconditions and the pure market economy does not change anything about them. On the contrary: For those favored by fate the market offers almost unlimited opportunities to develop; for the others it exposes them to competition in which they often find it difficult or impossible to keep up. Therefore, Rawls is firmly convinced that the outcome of the natural lottery "is arbitrary from a moral perspective. There is no more reason to permit the distribution of income and wealth to be settled by the distribution of natural assets than by historical and social fortune."<sup>14</sup>

There may be, of course, many counterexamples, but on the whole one can say that market competition regularly has the effect that those who are anyway on the sunny side of life have success and become even better off, whereas those who are less fortunate often have big problems to keep up or to improve their social position – an experience which may lead to the feeling of humiliation and discrimination. The point is: while the general level of prosperity in free market societies may be higher than elsewhere, there are also bigger material differences, i.e. a higher degree of inequality.

### b) *Piketty and the problem of growing inequality*

In recent years there has been growing discussion about this phenomenon of inequality in free market societies. This debate was not least stimulated by the French economist Thomas Piketty and his book *Capital in the Twenty-First Century*, first published in French in 2013 and in 2014 in English and other languages. It became one of the most popular and most discussed economic bestsellers of the last decades. The American economist Paul Krugman wrote in the *New York Times* that Piketty's study "will be the most important economics book of the year — and

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14 Rawls 2005: 74.

maybe of the decade”.<sup>15</sup> After this verdict of the popular Nobel Prize laureate, Piketty was hyped up and became a kind of an economic pop star. The international financial crisis and the European debt crisis made Piketty the man of the hour.

Three decades after the start of the neoliberal revolution, led by the governments of Margaret Thatcher in the UK and Ronald Reagan in the USA, there is rising criticism of capitalism all around the world. Even protagonists of the neoliberal revolution became somewhat skeptical of their former credo. Charles Moore, for example, a companion of Thatcher and her official biographer wrote in 2011: “I’m starting to think that the Left might actually be right.”<sup>16</sup>

Piketty and his research team collected an enormous amount of data based on which they can show the development of wealth and income differences over a period of nearly 200 years, from 1820 to today. The study shows a growing concentration of income and wealth among the top 10 % of households since the 1980s. The reason is that in recent decades the rate of return on capital has been significantly higher than the rate of economic growth. And Piketty’s thesis is that this trend will continue, unless it will be stopped by far-reaching political interventions. He is firmly convinced that such political measures are absolutely necessary and more concretely he proposes a global system of progressive wealth taxes. He argues: “When the rate of return on capital exceeds the rate of growth of output and income, as it did in the nineteenth century and seems quite likely to do in the twenty-first, capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based.”<sup>17</sup>

Piketty’s study is anything but anti-capitalist. If his analysis is right, he rather shows that one of the promises of capitalism fails, i.e. the promise of more equality. For example, Milton Friedman, one of the masterminds of the neoliberal revolution, writes: “The great achievement of capitalism has not been the accumulation of property, it has been the opportunities it has offered to men and women to extend and develop and improve their capacities. [...] Another striking fact, contrary to popular conception, is that capitalism leads to less inequality than alternative systems of organization and that the development of capitalism has greatly lessened the extent of inequality.” But Piketty delivers a lot of data and arguments just against

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15 Krugman 2014.

16 Moore 2011.

17 Piketty 2014: 1.

this assertion. He gives evidence for a dramatic concentration of wealth in the last decades and offers a persuasive interpretation of this development. He shows that the egalitarian tendency of the post-world-war-era was an exception in the history of capitalism, which was caused by certain regulatory policies and tax policies, and he recommends such policies for the future again.

#### 4. *The concept of Social Market Economy*

Piketty's main concern is that growing drastic inequalities and the abuse of economic power could undermine the democracy and its institutions, which are based on egalitarian presuppositions. In historical perspective, it could be argued that this happened in Germany during the Weimar Republic. The economy was dominated by aggressive interest groups, powerful corporations, and cartels, that ruthlessly pushed through their interests and cared neither about fair competition nor about democratic rules. It was the firm will of the founding fathers of the social market economy to draw the right conclusions from these experiences. So they wanted to draw up an economic system which "would be the counterpart of political democracy,"<sup>18</sup> as Ludwig Erhard wrote, the first German minister for economic affairs after the Second World War. He described the program of the social market economy as virtually revolutionary: "I wished to remove all doubts about my aim, which was to create an economic structure within which it would be possible to lead ever widening circles of the German people towards prosperity. Determined to overcome the old conservative social structure once and for all, I planned for a broadly based mass purchasing power."<sup>19</sup>

##### *a) Ordoliberalism: fair competition and the limitation of economic power.*

In the international debate, there are certain misunderstandings about the concept of social market economy. A lot of people outside Germany tend to confuse the terms "social" and "socialist". But the attribute "social" in the concept of social market economy is not meant to be a restriction of the market freedom. Originally, "social market economy" was nothing

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18 Erhard 1958: 128.

19 Ibid. 1.

more than an advertising slogan. After the Second World War, a lot of Germans were full of distrust against capitalism. The hyperinflation of the early 1920ies as well as the Great Depression of the early 1930ies caused severe social and political disruptions. As a result, a majority of Germans pleaded for a “third way” between discredited capitalism and dictatorial communism after the war. In this atmosphere, the attribute “social” proved to be quite useful to convince the Germans of the advantages market economy would provide.

In the view of the founding fathers of the social market economy, however, the attribute “social” should indicate that unrestricted market competition is neither the best way to reach economic efficiency nor to realize social justice. Minister Erhard and Walter Eucken, the economist who probably influenced him most directly, were liberals without compromise and advocated free domestic and international markets.<sup>20</sup> The crucial difference from other liberal economists laid elsewhere. The fundamental ordoliberal assumption is that a competitive market economy does not emerge and is not sustained by itself. Eucken writes: “A free economic and social system does not arise of its own record, especially during the age of industrialization and mechanization. That is one of the lessons manifestly taught us by history. In the late 18<sup>th</sup> and the 19<sup>th</sup> centuries, people recognized that political freedom ought to be backed by constitutions containing prudent guarantees and legal freedom by codified laws. At the same time, they believed that a truly free economic order could evolve of its own record. In truth, the principles governing a well-functioning and free economic system resemble those for the State and the legal system. The structures of economic growth cannot be left to *laissez-faire*.”<sup>21</sup>

Eucken’s conclusion is that a free market economy as well as the State needs a constitution: an economic constitution, for which he uses the term “*ordo*”, the Latin word for “order”. For this reason, Eucken and his German fellow neoliberals were called “ordoliberals” and their theoretical concept “ordoliberalism”. The *ordo* in the sense of Eucken is a regulatory framework for economic activities. The legal constitution in a democratic state guarantees the rule of law in the State, and the regulatory framework in the sense of ordoliberalism secures the rule of law on the market.

In a study from 1939, Eucken lays out that in the classical liberal perspective market economies are based on some fundamental principles: private property, freedom of contract and competition. Hence, the classical

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20 See: Mierzejewski 2004: 18.

21 Eucken 1982: 270.

liberal economists pleaded for reforms to establish these principles in the economic system. But, as Eucken explains, their mistake was that “they believed and hoped that a simple system of natural freedom [...] could bring into being a well-ordered competitive economy.”<sup>22</sup> They did not see or, perhaps better to say they did not foresee that free markets are unstable, tending to self-destruction, and above all that they are continually threatened by the abuse of power. But Eucken is convinced that at least, since the late 19<sup>th</sup> century, these degenerations of the market economy could not be ignored any more.

“It may be the case that an economic constitution is intended to shape an economy or part of it, but that in fact the economic system does not correspond, or not completely, with the constitution. This is a characteristic of the later part of the nineteenth and the beginning of the twentieth centuries. According to the basic principles of most modern economic constitutions, there is supposed to be private property and freedom of contract and competition. The actual economic systems supposedly based on such an economic constitution in fact diverge more and more from these principles. To an increasing extent, for example, ‘freedom of contract’ is used to abolish competition by means of cartel agreements. The governing principle of competition is thus contradicted by the actual development of important sectors of the economy, for example, in the coal and iron and steel industries. Freedom of contract is often used to alter the form of the market and build up concentrations of economic power. ‘The simple system of natural freedom’, contrary to expectations, does not bring about a competitive order.”<sup>23</sup>

With respect to this analysis, it should be quite obvious that, for Eucken and his fellow ordoliberal, the market activities cannot be left to *laissez-faire*. Yet, the ordoliberal counter-concepts to *laissez-faire* are neither central planning nor state interventions, but “*Ordnungspolitik*”, “ordo policy”<sup>24</sup>. The main goal of *ordo* policy is to establish an “*ordo*”, i.e. a framework of rules for the market competition. These rules shall not restrict, but on the contrary guarantee, secure, and sustain the competitive freedom in the market against its tendencies to self-destruction.

Erhard emphasizes that the concept of *ordo* policy has nothing in common with the ideas of state interventionism. The interventionist state

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22 Eucken 1992: 83.

23 *Ibid.*

24 The German term “*Ordnungspolitik*” is often translated as “regulatory policy”, which is correct in some respect but at the same time the cause of new misunderstandings. For this reason, I prefer the translation “*ordo* policy”.

intervenes in the market and, by doing so, undermines free competition. In contrast to that, Erhard compares the role of the state in the ordoliberal concept with that of a “supreme judge”. As an enthusiastic football-, resp. soccer-fan he uses the metaphor of the game: “I believe that, as a referee is not allowed to take part in the game, so the State must not participate. In a good game of football it is to be noted that the game follows definite rules; these are decided in advance. What I am aiming at with a market economy policy is – to continue with the same illustration – to lay down the order and the rules of the game.”<sup>25</sup> By this comparison, Erhard wants to point out a crucial aspect of the ordoliberal approach: the distinction between rules and actions. Ordo policy takes place on the level of rules, but not on the level of actions. In other words: Ordo policy is about establishing a framework of rules for the market, whereas direct state interventions shall be avoided or are only acceptable in extremely exceptional cases if they are at all.

This kind of ordo policy is – according to the concept – all about securing economic freedom as well as social justice, as “only changes in rules can change the situation for all participants involved at the same time.”<sup>26</sup> And therein lies the reason why the limitation of power is the first purpose of ordo policy. Erhard writes, “The opposite pole to economic freedom is represented by strongly marked economic power.”<sup>27</sup> Therefore Pierre Larouche and Marten Pieter Schinkel are right with their assertion that the ordoliberal ideal pursued by ordo policy is “a free market without economic power”<sup>28</sup>. The total absence of power shall lead to the (ideal) conditions of “perfect competition” (“*vollständige Konkurrenz*”)<sup>29</sup> on the market. And the only acceptable form of competition on a perfect competition market is what Eucken calls “competition on the merits” (“*Leistungswettbewerb*”<sup>30</sup>).

The decisive problem is the concentration of economic power itself and that does not depend on the hands it is concentrated in. Since economic power can be abused by the State – as in the case of centrally planned State economies as well as by private actors as in the case of cartel agreements – the ordoliberal conclusion is: “Therefore it must be ensured by law that the advantages of a competitive economy are not wiped out by the disad-

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25 Erhard 1958: 102.

26 Luetge 2016: 9.

27 Erhard 1958: 127.

28 Larouche/Schinkel 2013: 9.

29 Eucken 2004: 246.

30 Ibid. 247.

vantages (which have been proved historically) of a serious concentration of power.”<sup>31</sup>

The abuse of economic power is not only unfair and insofar immoral, but it also leads to manipulation of prices. And this means nothing less than the destruction of the price system, which is, as Friedrich Hayek stresses, the central “mechanism for communicating information”<sup>32</sup> in market economy. Erhard writes:

“The market price, which in a perfect competitive economy cannot be dictated by a single market partner, could be wilfully changed by concentrated economic power, and with it the market trend, to the advantage of influential power groups, who could consciously and artificially control it. A price thus determined for a market organized on monopolistic lines is no longer a ‘datum line’ to which individuals have to adapt themselves to retain their ability to compete, but it can only be determined according to individual judgement and so manipulated. From it naturally grows the danger of cheating the consumer, but also the danger of national misdirected investment, and the possibility of a curtailment of technical and economic progress.”<sup>33</sup>

Following this, he describes the three key elements of the *ordo* policy program; “(a) preserving, to the greatest possible extent, competition between companies; (b) preventing the abuse of monopoly power in markets where complete competition is impossible; and (c) by creating a State organ to supervise and, if necessary, to influence markets.”<sup>34</sup>

### *b) Welfare policy and social iredics*

The fundamental idea of the social market economy is, by Alfred Müller-Armack’s much cited statement, “to combine the principle of freedom on the market with that of social balance.”<sup>35</sup> *Ordo* policy is intended firstly to secure this freedom on the market. It is as well a necessary, but not sufficient condition to achieve the goal of social justice in a market economy. In order to realize social justice, an additional welfare policy is rather necessary. While emphasizing the primacy of the free competitive economy, this need for welfare policy is explicitly acknowledged by the *ordoliberal*s.

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31 Erhard 1958: 127.

32 Hayek 194: 526.

33 Erhard 1958: 128.

34 *Ibid.*

35 Müller-Armack 1956: 390.

In this respect, the concept of ordoliberalism differs significantly from the libertarian ideas of the Austrian School (Ludwig von Mises, Friedrich August von Hayek) or the Chicago School (Milton Friedman). Eucken writes: “Even an ordo policy that focuses on the human person cannot take into account the individual case as such; but every mistake, be it an action or an omission, ultimately has an impact on the existence of the individual person. Therefore, beyond competition policy, provisions are needed to fill in gaps and mitigate hardships.”<sup>36</sup>

Eucken particularly mentions the labour market and the social situation of workers and employees, which is absolutely right. Freedom of contract is one of the basic principles of economic liberalism. But freedom of contract only works if the self-determination of the contracting parties is ensured, which is only the case if no significant power or information asymmetry exists between the parties.<sup>37</sup> However, such an imbalance of power is a typical characteristic of the employment contract. Therefore, labour law is necessary to balance this imbalance. That applies especially to the system of collective bargaining. The German philosopher Jürgen Habermas is not exaggerating when he writes: “The legal institutionalization of collective bargaining became the basis of a reform politics that has brought about a pacification of class conflict in the social-welfare State. The core of the matter was the legislation of rights and entitlements in the sphere of work and social welfare, making provisions for the basic risks of the wage labourers’ health and compensating them for handicaps that arose from the structurally weaker market positions (of employees, tenants, consumers, etc.)”<sup>38</sup>

The example of the employment contract already shows: Welfare policy in the sense of social market economy is not only about redistribution, but it is also – and above all – about equal opportunities and inclusion. As early as 1950, Müller-Armack emphasized that the social market economy is not a mere socio-technical concept, but part of a broader program of “social irenics”.

“It concerns the once more apparent opportunity to transform the market economy (which is in fact a many-sided organizational instrument) into a ‘social market economy’. I have attempted elsewhere to explain the nature of such a social market economy, which is by no means synonymous with simply reliance on the greater productivity of a free organiza-

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36 Eucken 2004: 318.

37 See: Grunsky 1995.

38 Habermas 1987: 347.

tion. On the contrary, any free system requires appropriate safeguards to give it the form consistent with present-day moral convictions. In this case, too, thinking in irenic terms means being able to see the problems from different perspectives, to be aware of the essential objectives and to be familiar with the technical principles on whose basis social aims can be more realistically achieved.”<sup>39</sup>

In this concept of the social market economy, the social is not simply an appendage, but an integral part of the market. This means that market processes themselves shall be ordered according to certain ethical principles and rules. Thus the social state is more than merely the ambulance which collects the wounded from the battlefield of the free and unrestricted market competition. Rather, socially responsible *ordo* policy is, in the first place, about developing a framework for fair and just competition on the market. This implies fair conditions of contracts. And beyond that, welfare policy in the sense of social market economy is about providing a life of dignity and inclusion for those who cannot keep up in the market competition because they are too old, too young, too sick or seriously disabled. In a social market economy everyone is indispensable and no one must be left behind.

The social market economy has a social-ethical fundament and is oriented to the common good. Today, considering the climate change, the ecological renewal of our economic system is one of the most pressing demands of the common good. For this reason, the social market economy is facing the challenge to combine not only any more freedom and social balance, but also to implement sustainability as third element into this concept in the future. But as the climate change is caused by worldwide emissions, focusing on the national economy is not sufficient anymore. This necessity to think and act beyond the national economy and in a global scale, is obviously the factor which differs most strongly from the challenges the pioneers of the social market economy were facing after the Second World War.

In this context, it remains important to consider: The irenic formula of the social market economy implies that *ordo* policy, besides economic efficiency, also pursues social justice and, going along with it, social consensus. With regard to the ecological transformation of the social market economy, this demands that ecological policy programs need to consider not only the steering function of measures such as carbon dioxide pricing, but also fairness and social balance of the burdens associated with them.

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39 Müller-Armack 1982: 358.

That, as well, is – and will be even more in the future – a matter of social irenics.<sup>40</sup>

## *5. Conclusions*

From a historical perspective, the introduction of the free market led to the vanishing of many intolerant and discriminatory structures in the economic system. But on the other hand, it also caused new different forms of social discrimination. People who do not have enough money are excluded from enjoying certain consumer goods and cannot fully participate in societal life. It's true free markets increase prosperity and the gross national product, but they also give rise to economic inequality in a society. Great economic inequalities may lead to abuse of power, social conflicts, and could even thwart the egalitarian promises of democratic citizenship. Therefore, free markets in themselves cannot be considered per se a catalyst for tolerance.

The concept of social market economy tries to give answers to these challenges of free market economy; it seeks “to combine the principle of freedom on the market with that of social balance.” Ordo policy is intended to secure balance of power and fair competition on the market. The welfare state as an integral part of the concept shall prevent poverty, mitigate hardships and secure the social inclusion of all citizens. The German founding fathers of the social market economy regarded their concept not only as an economic theory and system, but as part of an overall renewal program for the German society after the Nazi tyranny and the Second World War. That was, as Müller-Armack called it, a program of social irenics: for well-being, social balance, freedom, tolerance, and togetherness.

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40 See: Küppers 2018: 6.

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