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The intellectual foundations of the social market economy

Theory, policy, and implications for European integration

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Abstract

Purpose – This paper suggests that an adequate understanding of the notion of the social market economy, which has become a prominent aspect of debates on the social model of the European Constitution, is to be assessed in the context of the historicist tradition in German economic and social thought.

Design/methodology/approach – The paper explores the intellectual history of the notion of the social market economy and its conceptual relevance for a dynamic European social model by highlighting Alfred Müller-Armack's contributions to ordoliberalism and their relationship with German historicism, in particular with Gustav von Schmoller's approach to *Socialpolitik*.

Findings – The paper finds that the decisive concern of the notion of the social market economy is the reconciliation of economic dynamism and social cohesion in a basic setting of legal rules and cultural values, reaching beyond common interpretations that focus more narrowly on institutional aspects of social policy.

Practical implications – By highlighting the interplay of economic, social and cultural dimensions, the paper suggests an extension of the conceptual horizon of current debates on the social model of the European Union, promoting policy implications that account for the possibilities of balancing conflicting social interests in the process of integration.

Originality/value – The paper applies a reconstruction of the intellectual history of the notion of the social market economy to the problem of designing a social order for the European Union with its underlying discourse on the constitutional status of a European social market economy.

Keywords Social market economy, Germany, Economic theory, Integration

Paper type Conceptual paper

1. Introduction

Recent debates on a constitution for the European Union have confronted the matter of the economic and social order that may arise from the process of European integration. In particular, the question has been posed, whether the concept of the social market economy, as presented in the draft version of the European Constitution, is actually fit to serve as a model for dealing with economic and social concerns in the integration process. An underlying concern aims at reconciling the economic dynamism of European integration with adequate means for promoting social cohesion. However, these debates on the role of the social market economy as a model for the economic and social order of the European Union tend to misrepresent the intellectual foundations of the concept of the social market economy. This holds especially with regard to its roots in the German discourse on social reform that had been promoted by historicist contributions since the nineteenth century. Indeed, socio-cultural development and its



policy implications constituted a major concern of the German Historical School, in particular promoted by Gustav von Schmoller's contributions, highlighting the project of *Socialpolitik* as a means for reconciling competitive market forces and social cohesion. Accounting for these arguments, this paper suggests that the notion of the social market economy, as put forward by Alfred Müller-Armack in agreement with basic propositions of ordoliberalism during post-war disputes on economic policy in Western Germany, needs to be assessed in the context of that historicist tradition in German economic and social thought. This position is underlined by Müller-Armack's original emphasis on the cultural and religious embeddedness of the economic sphere, actually put forward both with regard to the concept of the social market economy and the historical dimension of European economic development, thus pointing at topics of utmost relevance for current debates.

In outlining a rational reconstruction of the line of reasoning that ranges from the historicist project of *Socialpolitik* to the notion of the social market economy and its ordoliberal context, the presentation proceeds as follows. First, the problem of social cohesion in Gustav von Schmoller's theory of economic development is addressed, thus delineating a conceptual field of argumentation that constitutes the essence of the German Historical School. Second, the political project of *Socialpolitik* is taken to the fore, reconstructing Schmoller's arguments on the need for social reform that have inspired post-Schmollerian variations on that policy theme, as put forward most prominently by Max Weber. Third, the argumentation of the ordoliberal critics of the historicist project of *Socialpolitik* is explored. Paralleling ordoliberal elaborations on the orientation of social policy in a competitive market order, Müller-Armack's concept of the social market economy is introduced as an expression of a persistent concern with an integrative approach to economic dynamism and social cohesion. This is augmented by an exploration of that concept of the social market economy in Müller-Armack's theorising on the cultural embeddedness of economic activity, as expressed in the elaboration on a historically rooted European economic style. Fourth, implications of that reconstruction of the intellectual heritage of historicism for an application of the social market economy to European integration are examined, highlighting the conclusion that the Historical School implicitly provided major impulses for theorising on an economic and social order of the European Union.

2. The problem of social cohesion in Schmoller's theory of economic development

The comprehensiveness of the Schmollerian research agenda has been paralleled by its major impact on efforts in research and teaching on political economy in the German-speaking areas at least in the last quarter of the nineteenth century. Contributing to the formation of *Socialpolitik* as a concern with the integration and cohesion of the socio-economic sphere that has persisted ever since, it informed the social reforms of the Bismarck era, while conceptually preparing the grounds for Germany's post-war discussions on the notion of a social market economy. Regarding an interpretation of the essence of Schmoller's underlying research program, various historical, empirical, ethical, and policy-oriented segments have been distinguished (Backhaus, 1994, pp. 10-11). This has been accompanied by the recognition of historical, evolutionary, cultural and etatist modes of analytical orientation (Prisching, 1994, pp. 118-19). Schumpeter, in an authoritative early survey of economic thought,

summarised his assessment of the Schmollerian perspective in the German Historical School by a total of six points: first, the historical relativity of theoretical insights; second, the unity and “Gestalt” character of social life, where all constitutive elements are interdependent and not to be isolated; third, the variety of economic motives encompassing rational as well as non-rational aspects; fourth, the evolutionary and developmental perspective; fifth, the interest in a detailed analysis of individual research objects; sixth, the anti-mechanistic, organicist point of view (Schumpeter, 1914, pp. 110-11).

Methodologically, in agreement with the concept of a historical method in economic analysis, Schmoller suggested an analytical procedure that would encompass empirical observations, the formulation of definitions and classifications, and finally the reconstruction of patterns as well as the elaboration of causal explanations (Schmoller, 1901, p. 100). Hence, Schmoller actually followed the idea that detailed and comparative research strategies might uncover a sufficient amount of empirical regularities and thus lead to the formulation of the historical laws of socio-economic development (Dopfer, 1988, pp. 556-7). Accordingly it has been suggested that it is not a lack of theoretical orientation which characterises the Schmollerian agenda, but rather the rejection of empirically unfounded abstract theory in favour of an agenda of comprehensive empirical research which should inform an applied type of theorising (Scheffold, 1989, pp. 78-9). Indeed, accounting for the interdependence of historical, institutional and social dimensions, Schmoller proposed an outline of a historically oriented theory of economic development that should synthesise the already available analytical efforts of the Historical School.

According to Schmoller, any economic process is based on two fundamental factors, curiously resembling the Marxian approach to the dialectics of productive forces and productive relations. Indeed, Schmoller suggested that the basis of economic processes were constituted by “natural-technological” factors upon which a layer of “psychological-moral” factors would unfold (Schmoller, 1898a, p. 57). This scheme also constitutes the analytical core of Schmoller’s notion of political economy which should integrate institutional and technological aspects, affecting both the domains of the natural and the cultural (Schmoller, 1898b, p. 223). Accordingly, in Schmoller’s scheme of development stages, the criteria of classifying an individual stage correspond to the degree of economic interdependence among the economic parties involved, as indicated by the degree of the division of labour and its technological as well as infrastructural foundations which define the range of the relevant economic unit. Economic development then involves a sequence of increasing complexity, resembling the Spencerian scheme of evolution. This notion of increasing complexity is set in relation to the factor of economic interdependence. Specific stages of economic development correspond with the evolutionary pattern of a growing organism, reflecting the increasing range of interdependent relationships, including the particular stages of the village, town, regional-territorial, and national economy (Schmoller, 1904, p. 764).

A decisive analytical unit of Schmoller’s approach is thus constituted by the notion of *Volkswirtschaft*, that is, the national economy which has evolved as a specific developmental stage of economic and socio-cultural evolution. In accordance with Schmoller’s twin concept of material and non-material factors, it represents a particular type of economic formation, a specific whole, which is grounded on certain psychological, that is, intellectual and instinctive motive patterns, as well as on

a material structure which consists of a particular system of institutions and organisations, including the modern state, further socio-economic structures, and natural as well as technological specificity. Economic phenomena then represent integral parts of the general pattern an economy, and they should be analysed as such, for an isolating type of analysis would miss their essential functions (Schmoller, 1898b, pp. 220-1). This focus on institutional aspects of economic behaviour also led to a persisting scepticism regarding the materialist implications of the concept of capitalism as it had been used before by Marx and Sombart (Schmoller, 1903, p. 144). Instead, Schmoller favoured the notion of the “machine age” as an appropriate label for the economic process under the conditions of industrial production as the dominant mode of production. The specific technological features of that industrial “machine age” based on the introduction of machines in the production process, fuel an ongoing institutional and structural differentiation (Schmoller, 1901, pp. 218-19).

Schmoller’s concept of the evolutionary process takes a non-mechanistic position, for the seemingly natural process of socio-economic evolution is said to be regulated by the impact of cultural development, substituting intellectual insights for pure instincts. The core of Schmoller’s approach is thus subdivided into an ethical and an evolutionary segment, both pointing at specific sources of change. The ethical aspect denotes a historical orientation regarding institutional change and the idea of ethical progress in history. Concerning normative policy implications, Schmoller then emphasised the feasibility of reconciling market dynamics and social justice, as reflected by Schmoller’s position on the embeddedness of profit motives in ethical spheres of moral fairness. Even the most primitive modes of market exchange would be based on a sentiment of closeness, that is, on mutual trust (Schmoller, 1901, pp. 37-8). The interplay of natural instinct and cultural intellect allows for labelling the Schmollerian ideas, which he himself tended to present as ethical-historical also as genuinely ethical-evolutionary (Ebner, 2000, pp. 356-7). These evolutionary and ethical dimensions of economic and socio-cultural progress, based on the motives of instinct and custom, are transmitted by the mediating mechanisms of competition and co-operation. Schmoller perceived market competition as a kind of natural selection which results in the survival of the fittest, a process to be contrasted with a conscious regulation of economic life that should be based on the progress of intellectual insights. The scheme of economic progress still does not allow for historical determinism, and it is also opposed to the idea of a final stage of history in terms of a Hegelian “end of history” although Schmoller’s attitude towards the Prussian monarchy as a historically most advanced carrier of social reforms seemed to resemble Hegelian ideas. Yet Schmoller insisted on the unpredictability of socio-cultural development as an undetermined evolutionary process (Schmoller, 1898a, p. 118).

However, Schmoller’s ethical-evolutionary perspective on economic development accounted most decisively for the role of institutions, primarily understood as customary habits, moral powers as well as legal foundations of the prevailing economic order. Moreover, the economic sphere of production, distribution and exchange would also exert an influence on the institutional framework. The cultural development of societies then would follow a cyclical pattern, driven by the institutional mechanism of increasing complexity and the underlying structural tension between evolutionary aspects of competition and ethical aspects of cooperation. This type of argument manifests itself in the exploration of

the economic development of national economies. In the final chapter of Schmoller's "Grundriß" the cyclical character of the development process was presented as a result arising from the emergence of modern societies, portrayed as increasingly complex and therefore potentially unstable entities. The national economy then would become subject to internal social conflicts and class struggles as well as to external policy conflicts in the spheres of international trade and competition on international markets (Schmoller, 1904, pp. 465-6). The cyclical rise and decline of nations and civilisations crystallises as the common pattern of economic development, essentially caused by the actual condition of the moral powers of a particular society (Schmoller, 1904, pp. 673-4). At this point, the project of *Socialpolitik* proves its analytical relevance, reflecting a concern with policies for social reform that emerged as a constitutive programmatic component of all strands of historicist and institutionalist thought (Ebner, 2001a, pp. 725-7).

3. Historism embattled: the project of *Socialpolitik* and its critics

In accordance with the distinction between an evolutionary-natural and an ethical-cultural domain of economic and socio-cultural evolution, the programme of *Socialpolitik* was presented as a product of the latter. Schmoller suggested that the division of labour would be subject to a seemingly natural evolutionary logic of increasing complexity and differentiation, thus fuelling a differentiation of incomes that would even result in the elimination of social strata as a most immoral aspect of that natural process. The cultural process promoted by *Socialpolitik*, however, would promote the division of labour as a means for increasing productivity while simultaneously acknowledging the need for upholding humane cultural and social conditions, as reflected by distributive justice and social coherence (Schmoller, 1898a, pp. 126-7). Indeed, Schmoller's proposals for a solution to the social question, pointing to the socially disastrous consequences of industrialisation and urbanisation as facets of an all-encompassing process of rationalising modernisation, then would focus on efforts in general education and ethical orientation as a means for the alleviation of poverty and the social balancing of income distribution. These efforts point to corporatist ensembles that transcend the confines of state intervention and community-based self-organisation, for instance by strengthening the role of para-fiscal arrangements, which promote the organisation of comprehensive social insurance schemes and funds, to be interpreted as a decisive contribution to the civilising formation of a well-educated and trained working class that would accompany the socially stabilising role of the *Mittelstand* as a most crucial component of Schmollerian *Socialpolitik* (Priddat, 1995, pp. 31-2). Coping with unjust economic patterns concerning the distribution of income and property should allow for countering revolutionary tendencies in a polarised and conflict-ridden class society (Schmoller, 1898a, p. 111). Accordingly, it has been underlined that Schmoller advocated performance-based wage structures in accordance with the Aristotelian principle of distributive justice that accounts both for market-based exchange value and the productive efficiency of performance (Priddat, 1995, pp. 189-90).

All of this constitutes the "ethical solution" to the problems of the social question and social reform, providing an adequate framework for education as a means for improving standards of living both in moral and monetary terms (Schmoller, 1918, pp. 333-4). The specific reform strategy factors of upgrading the particular levels of

education, income and property for the working class, together with the continued social impact of the *Mittelstand*, were already outlined in the programmatic contribution to the controversy with Treitschke, who denounced Schmollerian *Socialpolitik* and related efforts of the so-called “socialists of the chair” as a sinister contribution to socialist radicalism (Schmoller, 1898a, pp. 5-6). In this context, social reform was meant as a means of social pacification, based on the social, economic and even political integration of the working class and related organisations in the institutional frameworks of the existing state, thus contributing to an abolishment of the motive of socio-political revolution in the organised labour movement (Schmoller, 1918, pp. 642-3). Indeed, even during the political catastrophes of World War I Schmoller expected that the Wilhelminian system, as a socially enlightened system of rule, would persist through working class support against efforts of both socialist radicalism and democratic liberal republicanism aiming at the abolition of monarchy (Schmoller, 1918, p. 647). It is fair to state, however, that the Schmollerian policy agenda succeeded at least with regard to the introduction of social insurance schemes as well as regarding educational matters. Indeed, concerning the introduction of compulsory schemes for social insurance funds, it was of course the Schmollerian orientation that informed Bismarck’s strategy of social reform during the 1880s in Imperial Germany, thus preparing the ground for consecutive efforts in establishing a modern *Sozialstaat* as a component of Germany’s social market economy in the post-war era. Generally, the motives of integration and cohesion, both with respect to the social and economic domains, signify the crucial arguments for that reform policy orientation. The corresponding efforts concerning a balanced reconciliation of economic concerns in terms of competitive market forces and social concerns in terms of the cohesive reproduction of an integrated social whole represent decisive aspects of *Socialpolitik* as an inspiration for subsequent concerns with reforming the economic and social order.

Corresponding modifications of the Schmoller program were most prominently pursued by Max Weber, Sombart and Spiethoff, labelled the “Youngest Historical School” by Schumpeter (Schumpeter, 1954, p. 815). Regarding methodological concerns, a first point of attention was provided by the Weber-Sombart axis against value judgements during the *Werturteilsstreit* in the *Verein für Socialpolitik*, founded by Schmoller as an organisation of reform-minded political economists, which had soon emerged as a major academic platform. Moreover, while Schmoller had been aiming at the formulation of universally valid theoretical laws by the means of detailed historical and empirical studies, the post-Schmollerian strategy claimed the necessity of an integration of theory and history by stressing the historical specificity of economic theories (Betz, 1988, p. 414). In this context, Max Weber’s works on the genesis and evolution of modern capitalism have paved the way for further analyses of the relationship between institutional and structural features of capitalist evolution (Ebner, 2001b, pp. 1752-3). Regarding the matter of the social question and the postulates of *Socialpolitik*, Weber argued in his Freiburg Inaugural Lecture of 1895 that social policy needs to be understood primarily as a contribution to “the social unification of the nation” countering pressures for fragmentation and conflict that arise from the economic sphere (Weber, 1988, p. 23). This prevalent motive of integration and cohesion allows for a recollection of Schmoller’s positions. Weber, however, rejected any etatist leaning that could be associated with Schmoller’s ethically

grounded *Socialpolitik*, advocating instead an efficiency-oriented approach to modern administration and business enterprise as a means of countering the ongoing process of bureaucratisation (Weber, 1924, pp. 415-16). In terms of the political perspective of Germany, Weber even promoted the idea of political leadership exercised by a well-educated labour aristocracy; a perspective that could be realised only in the distant future (Weber, 1988, pp. 23-4).

Werner Sombart, as a like-minded representative of post-Schmollerian thought, then argued that modern capitalism would contribute to a gradual corrosion of the embeddedness of economic life in customary social relations. The epoch of full capitalism, lasting from the eighteenth century to the outbreak of World War I, should represent the ideal typical scheme of the capitalist economic system in its purest form, as it put the principles of profit and rationalism in control of economic relationships. In particular since the end of the nineteenth century, economic life became uniform, mechanised, and rationalised (Sombart, 1987, pp. 884-5). Late capitalism, rising during World War I, should at last mark the emergence of a dominant phase of “bureaucratised capitalism” (Sombart, 1987, p. 806). Based on these considerations, Sombart’s position on *Socialpolitik* and social reform were closely related to the analysis of the developmental dynamism of modern capitalism. From early on, Sombart suggested a characteristic definition of the latter in terms of economic policy measures that would be meant to conserve, promote or suppress particular economic systems or some of their components that could be found in the domains of economic spirit, organisation and technology. This orientation should be distinguished from *Personalpolitik* aiming at the well-being of specific persons or social groups (Sombart, 1897, p. 8). Hence, *Socialpolitik* was meant to be a system-based policy in the sense of dealing with the institutional and structural features of capitalism and its historical alternatives. The tendency of economic systems replacing each other during a competitive struggle then would counter policy-related attempts at harmonising the development process by integrating various elements of diverse economic systems in an organic whole (Sombart, 1897, pp. 40-1).

Furthermore, the recognition of the persistence of diverse forms of economic institutions and structures resembled the perspective on economic styles, which had emerged from earlier discussions within the German Historical School, reflecting a metaphorical orientation towards the cultural sciences (Scheffold, 1994, pp. 221-2). Sombart’s notion of economic systems had been increasingly focussing on the matter of economic spirit as the decisive institutional component that would accompany the aspects of organisation and technology, while the related notion of economic styles underlined both the institutional and structural specificity of economic formations. These latter positions have been quite prominent with Alfred Müller-Armack’s particular notion of economic styles, to be perceived as an approach that focuses on the matter of integration and cohesion of an economic formation. Actually, Müller-Armack developed his notion of economic style with regard to the economic and socio-cultural evolution of modern Europe, still pointing to ideas on the cohesion of economic systems that would become crucial features of his subsequent elaboration on the concept of the social market economy. Indeed, when presenting the intellectual sources of the latter, he was paying reference to the post-Schmollerian research efforts on capitalist evolution put forward by Max Weber and Sombart, among others (Müller-Armack, 1974, pp. 246-7). Therefore, Müller-Armack’s concept of the social market economy

may be assessed as an extension of earlier concerns with *Socialpolitik* as a means for balancing economic dynamism and social cohesion.

4. Ordoliberalism and the social market economy as an economic style

An assessment of Müller-Armack's contributions to the concept of the social market economy needs to account for the shift that occurred in the domain of German political economy during the 1930s and 1940s from historicist positions towards ordoliberal thought with theoretical inclinations towards the Austrian School. Schemes of plan-market dichotomies would come to dominate comparative economics; a terrain prepared by Mises's elaboration on Austrian price theory, meant as a contribution to the socialist calculation debate. The ordoliberal approach then provided a lasting cornerstone for subsequent analyses of economic policy and economic systems, taking its point of departure in the dichotomy of theory and history and thus confronting the same array of problems the Historical Schools had struggled with. Pioneering contributions of the ordoliberal theorists of the Freiburg School, focussing on the relationship between economic, legal and social issues, were decisively shaped by Walter Eucken und Franz Böhm since the 1930s. Eucken's approach to ordoliberalism, in particular, did not subscribe to an almost stateless economy, as traditional liberalism would have it, but rather to a strong state that should hold responsibility for establishing the rules which constitute the market process, thus pinpointing the institutional arrangement of economic order as decisive object of analysis and policy orientation (Watrin, 1979, pp. 412-3). The corresponding ordoliberal credo, denoted as the "Freiburg Imperative" then related the competitive order of market processes, primarily based on a market price system, well-established property rights and competition-promoting policies, with institutional pillars such as religion-based community orientation, confronting the disruptive effects of socio-cultural rationalisation, and a strong state with a high level of policy competence that is fit to reject the demands of special interest groups (Rieter and Schmolz, 1993, pp. 104-7).

In terms of the underlying theory of economic order, Eucken suggested a scheme of ideal types of economic systems that should be applicable to all economic epochs in history, that is, basically centralised-administrative versus decentralised market-based modes of planning and allocating (Eucken, 1944, pp. 95-6). These economic systems should inherently allow for high degrees of political construction, as the deliberate choice on the distribution of property rights and the system of political decision-making would contribute to the institutional establishment of a specific order (Scheffold, 1995, pp. 226-7). In a similar fashion, then, Eucken approached the matter of *Socialpolitik* by redefining the underlying concerns as compared with earlier historicist arguments for social reform. Actually, a novel type of social question was taken to the fore, namely the subordination of workers and other employees to a bureaucratic-administrative system of regulation, allocation, and distribution of resources and incomes by the state, involving labour contracts, labour allocation and social insurance as an expression of a gradual socialisation of life (Eucken, 1952, pp. 186-7). As social policy should account for these problems, it is to be designed as *Wirtschaftsordnungspolitik*, that is, policy for maintaining a competition-oriented economic order, aiming at the preservation of the market process as the decisive precondition for the productive solution of all actually existing social problems (Eucken, 1952, pp. 312-3).

However, even from the theoretical position of ordoliberal theory, Weberian and Sombartian motives continuously provided arguments for augmenting the reductionist tendencies prevalent in Eucken's contributions that would reduce the historical matter of economic systems to the setting of institutional mechanisms for the allocative coordination of individual economic plans. In particular, Müller-Armack's notion of the social market economy should contribute to the formulation of such an ordoliberal variation, highlighting a culturally sensitive understanding of the role of religion and related world-views in economic life that resounded historicist ideas (Kosłowski, 1998, pp. 74-5). More specifically, Müller-Armack attempted to provide concepts for a historical and evolutionary view on comparative economic development which should allow for highlighting its cultural foundations. It has been claimed that the whole context of post-Schmollerian discussions mattered for that perspective, quite in accordance with Müller-Armack's interest in economic development and business cycles (Scheffold, 1999, pp. 16-7). In particular, religious world views were used as a criterion for the historical-geographical identification of economic styles, as they would shape economic, political and technological as well as scientific attitudes, pointing primarily to Max Weber's works on the sociology of religion as a stimulating influence (Müller-Armack, 1981a, pp. 48-9).

Economic styles were defined as a representation of the "unity of expression and attitude" of a certain people or nation in a particular historical period, that is as the unity of the cultural expressions of economic and socio-cultural life and its underlying world-views, whereas economic systems should denote the actual mixture of style elements within a country or region, as economic styles tend to become subject to fragmentation and recombination (Müller-Armack, 1981a, pp. 57-8). This conceptual orientation was meant to contribute to an analysis of the emergence of economic styles by means of the historical process itself, that is, by means of an evolutionary process that drives historical change (Müller-Armack, 1981a, pp. 58-9). Müller-Armack actually argued that the common features of European economies were historically rooted in a European economic style of the Middle Ages, based on a common Christian value system, which was fragmented into particular national styles and regional "style zones" due to the impact of Reformation and the decline of Catholic hegemony in Europe since the sixteenth century (Müller-Armack, 1981a, pp. 96-7). Subsequently, Müller-Armack's policy conclusions concerning European integration in the post-war era postulated that an appreciation of that historical European style would be an indispensable condition for safeguarding the constellation of an "irenic unity" which is known in the philosophy of religion as the mutual understanding of diverse religious confessions, which implies proceeding with European integration on the basis of an ethical-cultural consensus that allows for reconciling opposites without ignoring historically rooted specificity (Müller-Armack, 1981c, p. 590).

Paralleling the application of his style approach to European topics, Müller-Armack formulated the concept of the social market economy as a value-based order of social reconciliation, that is, as an application of the irenic approach to the socio-economic problems of post-war Germany with its diverse political and ideological factions. Indeed, facing the cold war constellations of system conflict, both the social market economy and European integration were perceived as outstanding integrative ideas (Müller-Armack, 1966b, p. 295). The irenic approach proposed by Müller-Armack should originally recognise the diversity of positions as a condition for reconciliation

and at last unification (Müller-Armack, 1981b, p. 563). Hence, an “enlightened” Catholic social philosophy with its principles of social balance and subsidiarity was to be combined with the Protestant ethos of communal cooperation, socialist concerns for the social question, as well as with liberal principles of progress in liberty (Müller-Armack, 1981b, pp. 564-5). Indeed, the social market economy according to Müller-Armack should facilitate the correspondence of economy and society on the grounds of a new economic style that could proceed beyond liberal capitalism and state socialism in terms of a third way position that provides a synthesis of market and plan. In contrast to types of guided market economies, the social market economy should become a socially managed market economy which is oriented towards the unparalleled dominance of the market mechanism with its flexible price system beyond any planning illusion (Müller-Armack, 1966a, pp. 109-10). Therefore, planning mechanisms were rejected, for the objective of social cohesion and balance was to be achieved under the primacy of market-related instruments. Instead, differences to the liberal model should focus on the acknowledgement of market failure, the possible incongruence of market process and social justice, and the necessity of embedding the competitive order in an institutional framework that provides most promisingly for integrative as well as reconciliatory moments and establishes common norms and values (Müller-Armack, 1966c, pp. 234-5). These motives of religious-cultural embeddedness remained crucial in the conceptualisation of the social market economy, although subsequent presentations tended to follow a seemingly more secular mode of argumentation (Erhard and Müller-Armack, 1972, pp. 25-9).

The underlying project of balancing the efficiency of market competition and the moral values of social equilibration informed also the rationale of social policy in Müller-Armack’s terms, for it was said to provide an integration formula that could overcome the antithesis of free enterprise and social progress (Müller-Armack, 1998, pp. 263-4). Social policy in the framework of the social market economy should thus allow for both economic dynamism and social pacification in a harmonious setting of an embedding institutional order (Kosłowski, 1998, pp. 81-2). At this point, Schmoller’s implicit influence on the concept of the social market economy is most obvious, highlighting a predominant focus on the matter of institutional provisions for socio-economic integration and cohesion. Viewed from the comparative perspective of the history of economic thought, then, the combination of social and ethical-cultural concerns ranges indeed from discussions within the Historical School to the positions of ordoliberalism, which shaped the programmatic accounts of post-war German economic and social policies. Accordingly, Müller-Armack’s concept of the social market economy completed those concerns for socio-economic integration and cohesion that had become prominent with the project of *Socialpolitik*, as promoted by the German Historical School with Schmoller as a decisive contributor in conceptual terms and with Max Weber and Sombart as major successors in related analytical efforts. Actually, this viewpoint leads to another policy-related implication, namely the matter of institutional constructivism. Indeed, a purposeful design of a social market economy as a cultural, social and economic whole in Müller-Armack’s sense is unachievable, whereas Eucken’s idea of economic order implied that such an order needs to be established through deliberate constitutional choice, which enforces adequate policy approaches (Riese, 1972). Further insights on the relevance of the notion of the social market economy are to be gained from the application of

Müller-Armack's persistent concern for social integration as a culturally embedded process to European economic development from a historical perspective. This allows for outlining parallels between the institutional dimension of the social market economy and corresponding problems in the process of European integration. Regarding the current debates on institutional reform, these aspects may underline the prospects as well as the limits of related policy efforts.

5. Beyond *Socialpolitik*: implications for European integration

Müller-Armack's approach to the process of European integration reconsidered a European economic style that would allow for an irenical constellation of integrated world-views. Proceeding with European integration thus required an ethical-cultural consensus that would reconcile conflicting positions without ignoring historically rooted specificity. The concept of the social market economy then formulated an application of that ever-present theme of combining economic dynamism and social coherence in application to the situation of economic restructuring in the post-war context of Western Germany, relating the matter of social balance and subsidiarity with entrepreneurship and market competition. The historicist project of *Socialpolitik* was therefore executed in the modified shape of the ordoliberal project of the social market economy. Indeed, quite in agreement with a historicist sensitivity for the institutional context of economic processes, Müller-Armack viewed the European dimension of the social market economy in terms of the convergence of national models of economic policy and the underlying structural variables. Thus, the irenical formula of the social market economy applied to European integration should allow for balancing the dialectical relationship between free initiative of market operations and the legitimate objectives of social security. Beyond the framework of rules and regulations that had been established in the Treaty of Rome, then, further policy areas administered by the European Commission such as regional policy were assessed as subject to adequate coordination efforts, promoting an integration of the governance modes that characterise the diverse European economic systems. This integrative strategy should be based on an irenical "third way" type of order, set apart from the laissez-faire procedures of market liberalism as well as from the indicative planning efforts of market socialism (Müller-Armack, 1998, pp. 272-3).

All of this is even more relevant to the actual praxis of European integration when one reconsiders the fact that Müller-Armack served as chief organiser of the strategically important planning section in Ludwig Erhard's Ministry of Economic Affairs, thus contributing to German policy positions that were part of the consultations for preparing the Treaty of Rome, which established the European Economic Community. It is fair to suggest that most of these positions remained influential well until the ratification of the Maastricht Treaty. So, one may ask for the actual impact of the idea of the Social Market Economy on the corresponding policy dimension of European integration. With regard to that question, a specific understanding of competition and market order could be taken to the fore, as expressed by Article 86 of the EC Treaty, accompanied by a role of competition policy which tends to conflict with interventionist approaches to industrial and technology policies (Watrin, 1998, p. 24). Adding the assessment that the focus on establishing an institutional order for maintaining market competition was accompanied by an orientation towards a subsidiarity principle in social policies that would strengthen

policy competence on the national and regional levels, then allows for a rather affirmative review of the Treaty of Rome from an ordoliberal perspective (Streit, 1997, pp. 14-5). However, following that line of reasoning, also policy-related deviations from the standards that had been established in the original concept of the social market economy are to be addressed.

The need for such an exploration of the actual policy-related relevance of the concept of the social market economy applies especially with regard to the case of socio-economic integration. Indeed, apart from European integration, the notion of the social market economy as a means for integrating diverse institutional patterns into a common order was already used in the Treaty of the Unification of Germany in 1990, providing the legal foundations for the economic union between the market system of the Federal Republic of Germany and the plan economy of the German Democratic Republic. Article 1, Section 3 of this treaty points to the need for adopting the social market economy of the Federal Republic also in the post-socialist GDR. In this case, the treaty characterises the social market economy as the indispensable condition for promoting a pattern of economic and social development that allows for social balance and social security, augmented by ecological concerns (Bundesministerium der Justiz, 1990, p. 1). In this case, it is not necessarily the original concept that is at stake, but the actually existing economic system of the Federal Republic that is said to combine principles of the market order with patterns of a welfare state, which are to be adopted as such by the GDR. However, this orientation applies without accounting for the actual variety and complexity of institutional forms that has contributed to the development trajectory of Western Germany. In particular, the focus of perception is on the economic order of the market process, yet abstracting from the more comprehensive matter of the cultural embeddedness of economic activity.

A similar reduction of the concept of the social market economy to a functional combination of the institutional order of the market process and redistributive components of the welfare state seems to have motivated the introduction of the social market economy as an integration objective in the draft version of the European Constitution. The Treaty establishing a Constitution for Europe was adopted by the Heads of State and Government in Brussels on 17 and 18 June 2004, based on an initial draft that had been prepared by the European Convention and presented to the European Council on 20 June 2003. In article 1-3 of the draft version for the European Constitution, the economic objectives of the European Union are summarised as follows:

The Union 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. It shall promote scientific and technological advance (Conference of the Representatives of the Governments of the Member States, 2004, p. 10).

Again, the institutional dimension of the original concept of the social market economy is almost completely reduced to the matter of the market order, whereas social attributes are primarily interpreted in terms of contributions to social welfare and security.

Highlighting these problematic representations leads to controversial statements on the relationship between the concept of the social market economy and the actual process of European integration. Thus, in the policy-related discourse, a critical

argumentation from an ordoliberal perspective pinpoints the erosion of the style of the social market economy, biased towards the inclusion of redistributive elements of a welfare state that is fuelled by rent-seeking efforts of special interest groups, to be witnessed both in the historical development trajectory of the Federal Republic as well as in the process of European integration (Streit, 1997, pp. 6-9). Both the Single European Act and the Treaty of Maastricht are thus viewed as symbolical milestones in the expansion of interventionist competences in economic and social affairs on the level of the community organs, as exemplified by the legal formalisation of industrial policy in the Maastricht Treaty. Although the original concept of the social market economy left a well-defined institutional space for these kinds of policies under the undisputed primacy of the market process, it is nonetheless the actual tendency of the weakening of competitive market forces to the favour of politically motivated and executed interventions, which is in conflict with the notion of the social market economy (Streit, 1997, pp. 17-20).

From an institutionalist perspective, however, it is pointed out that it would be misleading to apply the notion of the social market economy to actually existing policy problems of European integration, for this would ignore the mismatch between an ideal typical concept and the complex historical-empirical context to which it may apply, for instance involving the corporatist structures that were influential in promoting German post-war development while being at odds with the programme of ordoliberalism. Consequently, the programmatic content of the social market economy is said to fail in grasping the variety of policy mechanisms that shape market regulation. Thus, it is unfit to serve as a framework for achieving well-defined social objectives, especially as the instruments that seem to be in line with Müller-Armack's original proposals, namely taxation and income transfers related to social policy, still remain basically in the competence of the nation-states (Joerges and Rödl, 2004, pp. 18-19). This may be associated with the impression that debates on the European Constitution reflect the difficulties of governing those institutional and structural varieties which result from national specificities. In spite of internationalisation tendencies that drive pressures either for a harmonisation or deregulation of regulatory frameworks, persisting national patterns of economic activity point at the relevance of national institutions and production systems (Zysman, 1994). Moreover, even a cross-country convergence of economic performance indicators would not imply a similar convergence of institutional forms, especially due to institutional inertia in industrial relations (Boyer, 1993). By relating these considerations with Müller-Armack's approach to economic styles it may be concluded that the restructuring of national institutions towards a European order implies a confrontation of national economic styles (Bilger, 1996, pp. 175-6). Indeed, the historically rooted trajectories of economic development, which evolve as manifestations of particular economic styles, are not subject to political design, as they reflect institutional search and discovery processes (Ebner, 1999, pp. 152-3). This is in agreement with an interpretation of the social market economy as "permanent search" for combining economic efficiency, individual freedom and social balance (Watrin, 1979, p. 419). Thus, it is not end-state ideal, which is taken to the fore, but rather a procedural model in terms of a specific institutional mode of governing the complexity and dynamism of socio-economic change.

Owing to the persistent national differences in institutional settings and socio-economic structures, debates on the dynamism of European integration have

been characterised by concepts such as multi-speed integration, paralleled by practices like the open method of coordination in the governance of social policies. In particular, the controversies surrounding elaborations on a European Social Charter have reflected the difficulties of establishing standards in policy areas which belong to the core competence of nation-states. Therefore, it has been suggested that the formation of a European social order will result from a mixture of predominantly national style elements, representing embattled compromises (Schmitter, 1997). Thus, the realisation of a European model of the social market economy would have to derive its coherence not from a homogenous stock of inherited cultural values, but rather from the construction of an institutional framework which enhances rule-based cooperation on competitive grounds, including an evolving diversity of cultural patterns that would be subject to self-transformation. These considerations are also relevant for an enlargement of the European Union, especially with regard to the underlying integration strategies (Jovanovic, 1997, pp. 22-3). Accordingly, the matter of a common identity within the European Union has been approached in terms of an “imagined community” featuring cultural components of compatibility, responsiveness and predictability (Lippert and Wessels, 1993, pp. 454-5). A related model of a European social market economy would allow for outlining integration and enlargement strategies for the European Union beyond geo-political arguments, highlighting instead an institutional balancing of economic dynamism and social cohesion within a pluralist setting. Reconsidering the inherent limitations in implementing the model of a social market economy by means of constructivist policies, however, appropriately emphasises its intellectual underpinnings in the thought of historical institutionalism.

6. Conclusion

The combination of social and ethical concerns in the discourse of German political economy can be traced from the project of *Socialpolitik* that emerged from within the policy-related debates of the Historical School to the concept of the social market economy that represented ordoliberal efforts in shaping the institutional orientation of Western Germany’s economic and social policy. Indeed, quite in agreement with historicist positions, the social market economy approach has been formulated in terms of a specific economic style, that is, a coherently structured whole of economic, social and cultural dimensions that is fit to integrate the contradictory effects of market competition and social cohesion. Therefore, despite fundamental methodological, theoretical and policy-related differences between historicism and ordoliberalism, the notion of the social market economy gives evidence for the actual roots of crucial strands of ordoliberal thought in historicist ideas. This applies especially with regard to the lasting concern with the motive of an institutional reconciliation of competitive market process and social cohesion, yet it is also relevant for the policy-related perception of the cultural embeddedness of economic activity and its social consequences. In this context, Müller-Armack’s concept of the social market economy may be assessed as an inherent representation of the post-Schmollerian discourse, thus adapting diverse elements of historicist thought to an ordoliberal framework of institutional analysis.

This assessment is most relevant with regard to the fact that Müller-Armack developed his notion of economic style in the context of a historical analysis of the economic and socio-cultural evolution of modern Europe, by doing so pointing to ideas

on the institutional cohesion of economic systems that would become crucial features of his subsequent elaboration on the concept of the social market economy. The formula of an irenical unity as the defining characteristic of the concept of the social market economy reflects the need for integrating a setting of cultural and religious pluralism into a well-adapted constitutional framework that promotes the cohesion of its diverse components. Therefore, the social market economy defines not a well-established end-state ideal, which is to be taken to the fore in terms of political constructivism, but rather a procedural model in terms of a specific institutional mode of governing the complexity and dynamism of socio-economic change in a pluralist setting. In summarising the question of the intellectual foundations of the social market economy, then, it may be argued that the German Historical School provided decisive impulses for the discourse on the institutional orientation of economic policy in the post-war developmental model of the German economy, implicitly also informing the dispute on the constitutional status of the concept of the social market economy in the European Union. A reconsideration of these intellectual traditions may underline the prospects as well as the limits of related policy efforts.

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