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Economic policy supporting social well-being. Remarks on the margin of Ludwig Erhard's book “Prosperity for All”

Abstract: The purpose of the article is to present the achievements of Ludwig Erhard in the field of economic policy and his vision of social well-being. Immediately after World War II, Erhard was the main author of Germany's economic policy. Based on the principles of ordoliberalism, the social market economy became the source of economic success. Under the Constitution, also in Poland the social market economy forms the basis of the economic system. However, it turns out that the actions taken differ significantly from Erhard's original concept, and sometimes even close to the model of the socialist economic order. The state's interference in market processes is growing, ad hoc decisions are more and more often made, calculated more to improve the current situation than to ensure lasting prosperity.

Key words: social market economy, ordoliberalism, economic policy, social well-being

Introduction

Published for the first time in 1957, a book by Ludwig Erhard (1897–1977) entitled “Prosperity for All” (German: *Wohlstand für Alle*), thanks to the efforts of the Polish Economic Society, was translated and published in Poland in 2011. The publication, despite the passage of over 60 years since the first German edition, is thoroughly valid. The main subject of consideration of a politician and an economist Ludwig Erhard is an economic system based on freedom, responsibility and competition, in which market participants – entrepreneurs and consumers – freely decide on the provision of services and consumption. In turn, the state – in the proposed model – plays the role of an entity constituting the rules of competitive economic order and caring for their observance and preventing market distortions.

Careful reading of the book indicates that its content does not only contain theoretical description of the principles of social market economy (German:

Soziale Marktwirtschaft), but is a recipe for social well-being. The aim of the article is to present the achievements of Ludwig Erhard in the field of economic policy and his vision of social well-being. To paraphrase the statement of Walter Eucken (1891–1950): “There is no such political and economic measure that would not have – directly or indirectly – social effects and social significance” (Eucken 2005, p. 353), one can hypothesize that there is nothing in the social market economy, which would not matter for improving social well-being. Reading Ludwig Erhard’s publications also prompts a critical look at Polish present economic policy.

Ludwig Erhard’s views on economic policy

Sources of social market economy

An important factor shaping the economic views of economists gathered around the so-called The Freiburg school became the disadvantages of the economic order functioning in the first half of the 20th century. Among the creators of ordoliberalism, which dates back to the 1930s, include: Walter Eucken, Ludwig Erhard, Franz Böhm (1895–1977), Alfred Müller-Armack (1901–1978) and Wilhelm Röpke (1899–1966). The leitmotiv of the supporters of the new doctrine at the time was the development of a third form of economic policy based on market liberalism, alternative to the previously known, based on the good and human dignity. According to Walter Eucken: “social security and social justice are the great challenges of time. From the beginning of industrialization, the social issue was increasingly transformed into the key issue of human existence. It has the enormous historical power, so thinking and action must be primarily focused on resolving it” (Eucken 2005, p. 41).

Ludwig Erhard, Minister of Economics (1949–1963) and Chancellor of West Germany (1963–1966) is quite commonly associated with the dynamic economic development of post-war Germany. The sources of Germany’s economic success were neither the socialist economic order nor the mild fiscal policy of the state. The social market economy based on the principles of ordoliberalism ensured the prosperity of German society.

The role of the state in the conditions of a social market economy

According to Erhard: “the most promising means to achieve and ensure everyone’s well-being is competition... The way through competition leads in the best sense of the word to the socialization of progress and profits, and also supports individual entrepreneurship”. Therefore, one of the most important tasks of the state in the field of economic policy is to ensure that free competition is maintained. “Prosperity for everyone and prosperity through competition are closely coupled and inseparable demands: the first defines the goal and the second defines the path to the goal” (Erhard 2011, p. 19–20). The new system and economic freedoms were created on the foundation of social values. The adjective *social*

emphasizes the importance of justice and social security, and the term *market economy* strictly refers to the principles of individual and economic freedom and the free development of prices of goods and services.

The implementation of the adopted principles was to be ensured by conscious and social-oriented control activities of the state (Müller-Armack 1947, p. 88). The state that organizes the *ratio* in the national economy should carry out similar tasks to those it performs on a daily basis in a small, self-sufficient household the *ratio* of the person managing it (Eucken 2005, p. 47). As a result, a strong, impartial and progressive government should ensure compliance with market competition rules, respect for private property and freedom of choice for the individual (Röpke 1949, p. 238). In an economic system based on competition, individual freedom is limited only by the sphere of freedom of another individual – thanks to which a state of equilibrium is created in a free society (Eucken 2005, p. 291). Democracy and the free economy are logically as inseparable as the dictatorship and central management of the economy by the state (Erhard 2011, p. 26). Therefore, excessive and unjustified state interference in the economy is not only the reason for the ineffective functioning of the market, but it violates the principles of democracy¹.

As Erhard argued, a modern and responsible state cannot allow its role in the economy to be limited to the function of a night watchman, which means a falsely understood freedom of action contrary to the principles of competitive market order. The task of the state is not to interfere directly in economic processes. In any case, not when the economy does not require or provoke external intervention. There is also no place for the state as an active entrepreneur in a competitive economy (Erhard 2011, p. 175–176).

The task of the state in the economic sphere is to eliminate disturbances in the functioning of the market and to maintain a market price system that is resistant to the influence of monopolies. The social market economy is an economic system that does not offer special privileges to any entity or group of economic entities. Under the applicable market rules, all market participants are equal. Everyone – according to Erhard – should participate in economic success, which is why the state should ensure that perfect competition is kept as wide as possible (Erhard 2011, p. 211).

Avoiding unjustified interference in market processes and impartiality of the state limits the possibilities of exerting influence of entrepreneurs on decisions in the sphere of economic policy and helps to force economic entities to comply with market rules (Pysz 2008, p. 84). Politicians – as Erhard stated – cannot be representatives of business entities in the government: “I do not consider myself a representative of the interests of group possessing classes, especially not a representative of the interests of industry or trade. This assumption is completely

¹ The mission of the state, as postulated by neoliberals, should be limited to the role of “night watchman” – an entity that cares primarily for the protection of private property, order and public security. The socialist Ferdinand Lassalle used the comparison of the state to the night watchman for the first time, somewhat jokingly defining in this way the role of the state on the market determined by neoliberals (Mises 1927, p. 33).

wrong. To be responsible for the economy means to be accountable to the entire nation” (Erhard 2011, p. 171–172). The ideal of the role of the state in the social market economy is thus: state establishment of the framework of economic governance – yes, state planning and management of processes taking place in the economy – no (Eucken 1949, p. 93).

Price stabilization and maintaining value of money

One of the pillars of the ordoliberal economic order is price stability. Without ensuring a stable value of money, the established competitive order will not bring the expected benefits (Eucken 2005, p. 297). According to Erhard, in the long run there is no economic progress that would justify the seemingly even harmless weakening of the value of money. It is also not true, the politician concludes, “that the natural effect of strong economic expansion is widespread price increases. In the interest of all income-generating and savers, it is important for prosperity to grow and embrace ever wider society, while maintaining price stability” (Erhard 2011, p. 120). Constantly weakening currencies, as a condition for economic expansion, Erhard calls “the most dangerous illusion” (Erhard 2011, p. 121).

For Erhard, the violation of the principle of price stability is shameful. An irresponsible action is to cause inflation and lead to the loss of real value of money in order to facilitate the repayment of liabilities. Just trying to destabilize prices should lead to a political catastrophe. The goal of economic policy should be economic expansion, which is free of inflationary trends, and the preservation of the value of money is a condition for sustainable economic growth and real progress in the social sphere (Erhard 2011, p. 128).

Inflation, although a feature of almost every modern economy, is also negatively perceived by society. The drop in the value of money is mainly felt by small investors – the middle class. In the context of inflation, the real value of their savings decreases, and at the same time the propensity to save. According to Erhard, savings are an important factor in maintaining market development. A high propensity to save works in the economic times as an automatic stabilizer protecting against inflation. In turn, in conditions of weakening, accumulated savings meet investment needs, also when the state, in order to stimulate consumption, reduces interest rates. The example of the German economy immediately after World War II proves that it is possible to implement a stabilizing function without directly interfering with the market. This was possible, however, thanks to building public confidence in money (Erhard 2011, p. 116, 238).

Pay policy

Wage policy is closely related to the problem of price stability. The government’s main task is to ensure that any wage increase is justified by improving the productivity of the economy. The imbalance between wages and productivity will result in inflation. In turn, wage increases and the announced increase in public investment will weaken the confidence of the private sector in the possibility of

creating technical progress. State interventionism will increase and the planned economy will develop. The effect of unjustified state interference will be weakening of private sector activity, abandoning the search for capital and implementation of investments, and the country will cease to be included in the “circle of modern industrial economies and will slowly but surely return to the primitive economy” (Erhard 2011, p. 262).

The expansive wage policy pursued for a long time will lead to a disruption of the market price system. In this context, Erhard warned against making concessions to the pay demands of some professional groups. Wage negotiations, due to the interdependence of economic life, have effects throughout the economy, not just in selected industries. However, it turns out that sometimes, contrary to rational arguments, poor economic results are rewarded with an increase in income: “no one is ready to recognize and draw the consequences of the fact that weaker results should naturally affect income. Not the opposite, with the help of these fairy-tale orders, they are supposed to bring higher income” (Erhard 2011). State regulations, with weaker results, less involvement and weakening productivity, cannot provide ever higher income. As Erhard unequivocally stated: “this is hocus-pocus, and the minister of economy who would tolerate this dangerous development would seriously compromise his duties” (Erhard 2011).

Improving production efficiency

In the pursuit of an increase in prosperity and consumption, one cannot neglect efforts to improve production efficiency. Because “it seems much more useful for me to increase prosperity through the expansion of the economy than through attempts to achieve it through fruitless conflicts over a different division of the social product” (Erhard 2011, p. 181). It is easier to offer each member of society an adequate share in ever-growing assets than to meet the needs of changing only the way of redistributing low national income. The solution to the problem of raising living standards is not in the sphere of division, but in improving productivity.

Fiscal policy

According to Erhard, the postulates of society and entrepreneurs regarding the reduction of effective taxation should be recognized as valid. It is possible to effectively reduce tax burdens by limiting state interference in market processes, its tasks in the field of income redistribution, decentralization and extension of economic freedoms. Keeping the state expenditure at a relatively constant level in the conditions of economic growth allows to reduce the public sector’s demand for money in the future. In turn, lowering tax rates will stimulate economic growth (Erhard 2011, p. 24–25).

Social policy

Social policy is not a collection of activities detached from economic policy, nor is it an addition to economic policy. There is a close relationship between economic policy and the social situation of employees and society as a whole. There is nothing in economic policy that does not matter for social policy (Eucken 2005, p. 353).

Erhard, a practitioner and an economic politician, noticed that: “the interference of social policy and social benefits is much less necessary as far as it is possible to shape economic policy better” (Erhard 2011, p. 291). He compared the overly welfare state to “modern madness” (Erhard 2011, p. 290). The final result of the welfare state will be the social subject, the state guarantee of material security and the paralysis of economic development achievable in the conditions of perfect competition and a free society. As a consequence, “a state with an extensive social security system will mean not social protection for everyone, but poverty for everyone” (Erhard 2011, p. 299).

Social security – as Erhard argues – is certainly good and desirable, but it must first be based on the work of every member of society. Only when individual accomplishments are not enough or failing does a state commitment arise. Therefore, the middle class, i.e. the part of society that is ready to take care of its own existence, occupies a special place in the social market economy. Action against the middle class is harmful to the whole economy because if pride and desire to survive thanks to their own work disappears in the society, the middle class will become a group of people waiting for help (Erhard 2011, p. 182). Social policy weakening the economic activity of the society leads to stagnation of the economy.

Polish variety of social market economy

In accordance with art. 20 of the Constitution of the Republic of Poland “a social market economy based on the freedom of economic activity, private property and solidarity, dialogue and cooperation of social partners is the basis of the economic system of the Republic of Poland” (Konstytucja... 1997). In this sense, the implementation of economic policy in accordance with the principles of ordoliberalism is not in conflict with Polish legislation.

Ensuring price stability is the greatest responsibility of the rulers in the economic sphere. Erhard’s words contradict the widespread, and not only in Poland, view that low inflation is a factor conducive to economic activity. It is also reflected in Polish monetary policy. The goal of the NBP activities is to stabilize prices conducive to maintaining balanced economic growth and care for the condition of the financial system. Since 2004, the medium-term inflation target has been 2.5% y/y with permissible deviations of ± 1 p.p. (Założenia... 2019, p. 2). What’s more, the central bank, noticing the symptoms of economic slowdown, has not yet decided to raise interest rates despite the fact that in January 2020, according to preliminary data, prices of consumer goods and services increased by 4,4%

compared to January 2019 (Wskaźniki... 2020, p. 1). As a consequence, in conditions of high inflation and historically low interest rates (the NBP reference rate has been 1.5% since March 2015), the real loss of deposit owners in banks reaches even a few percent per year.

The source of a strong inflationary impulse are also social contracts, which were concluded even during wage negotiations with miners' trade unions. The wage increase agreed then exceeding the increase in productivity violates the principle of price stabilization. The agreement with miners is unlikely to solve permanently our mining problems. It can only, in a hot pre-election period, ease the social mood. However, the compromise reached has its price. It leads to a serious disruption in the functioning of the energy raw materials market and will result in a further increase in energy prices for the final consumer and a decrease in the competitiveness of our economy. As Erhard argued, such dubious successes, achieved at the expense of selected social strata that do not want or cannot push through their interests, are not consolation, but rather shame (Erhard 2011, p. 28).

It is also difficult to understand the decisions to launch a central coal storage facility in Poland from January 2020. According to the announcements of the Ministry of State Assets, it is expected to take 1 million tons of coal from mining sites. The benefits of proposed solution is, first of all, unblocking coal mining by mines. The accepted solution will facilitate the work of mines only in the short term and will make expensive Polish coal even less competitive imported raw material. The difficult situation in the energy industry is further aggravated by the state's interference in electricity prices since the beginning of 2019. Doubtful from the economic point of view, decisions are made in the conditions of a consistent EU climate policy, unfavorable economic forecasts and reductions in energy commodity prices on global stock exchanges. Uncertainty in the commodity markets, resulting from the spread of the coronavirus epidemic and the observed economic slowdown, caused the Brent oil to sell down to USD 33 per barrel on March 9, 2020 (Oil... 2020).

The Warsaw Stock Exchange (WSE) and, above all, shares of energy companies react negatively to the economic situation and excessive state interference in the market. Some shares lost over 50% during the year (Table 1). The pace of declines in recent weeks suggests that this is not the end of the sell-offs on the WSE.

Table 1. Changes in selected indexes on the WSE

Index	Value		Change
	11.03.2019	10.03.2020	
WIG20	2,300.22	1,599.48	-30.46%
WIG-energy	2,481.97	1,232.84	-50.32%
WIG-mining	3,602.50	1,975.82	45.15%
WIG-fuel	7,737.05	3,898.47	49.61%

Source: WSE.

The state's actions in the social sphere are also different than those recommended by Erhard. Too much attention is paid to almost unconditional redistribution of national income, and less to investment support. The phenomenon of short-termism, i.e. shortening the time horizon in socio-economic decisions, is one of the symptoms of state dysfunction. It reveals the marginalization of long-term forecasts and the preference for creating wealth at the expense of future generations (Mączyńska 2014, p. 103). Although the effect of the adopted policy has been recorded in recent years, economic growth has been recorded, but the main factor of good economic situation is consumption, and investments in the weaker influence on GDP. The opposite situation occurred even in 2014 (Table 2). Erhard's opinion on the conduct of economic policy in recent years would be unambiguous: "on the one hand, the distribution of goods, and on the other hand the freezing of prices [for example, electricity – ed. aut.] are external signs of mismanagement" (Erhard 2011, p. 136).

Table 2. Scale of impact of selected factors on GDP in %

Specification	2014	2015	2016	2017	2018	2019
GDP change	3.3	3.8	3.1	4.9	5.1	4.0
Consumption in the households sector	1.5	1.8	2.3	2.6	2.5	2.2
Gross fixed capital formation	1.9	1.2	-1.7	0.7	1.6	1.4

Source: *Produkt...* 2017, 2 and *Produkt...* 2020, 2.

Quite free redistribution of national income in Poland has, unfortunately, its negative consequences in the condition of public finances. Short-term prosperity is offered to society through the implementation of social programs. However, such actions can be very risky. "The implementation of the concept of multiplying prosperity forces us to eliminate the manifestations of unreliable policies in which the illusion of success is put before real progress" (Erhard 2011, p. 26).

In Poland, despite the votes of many economists, in order to try to repay commitments made in the period of economic recovery, the budget balance has not been achieved in recent years. Moreover, the use of public funds could be observed for activities not related directly to the purposes for which they were established. For example, at the end of 2017, the Guaranteed Employee Benefits Fund² had almost PLN 5 billion. In the years 2018–2019, the Fund financed, inter alia, internships for doctors and dentists, benefits and pre-retirement benefits. As a consequence, despite the relatively good situation on the labor market, at the end of 2019, the fund, in accordance with the Budget Act, amounted to PLN 1,43 billion. In turn, the Labor Fund is to receive a welcome payment of PLN 250 and annual subsidies of PLN 240 transferred to PPK, which are, after all, a universal saving system that complements the pension system (Ustawa... 2018). It can be assumed that the support of the economy through the central budget and some

² Guaranteed Employee Benefits Fund (FGŚP) is a public earmarked fund whose primary purpose is to protect employees against loss of remuneration caused by the insolvency of their employer (Ustawa... 2006)

special purpose funds, in conditions of economic weakening, will be significantly limited and not very effective. In addition, attempts to balance the 2020 budget, on the eve of the recession, are dubious and definitely late³.

A different approach to budgetary discipline has been taken, for example, in Germany. After the last economic crisis, the budget has not shown a deficit since 2012, and in 2018 almost 2% of the surplus was recorded (Fig. 1). The somewhat favourable situation of the German budget results from the fact that the German economy is a significant beneficiary of the single currency and the enlargement of the European Union to the east. However, it should be remembered that Poland also has an open path to the euro area. Moreover, under the Accession Treaty, we are participants of the Economic and Monetary Union as a country with a derogation (Treaty 2003).

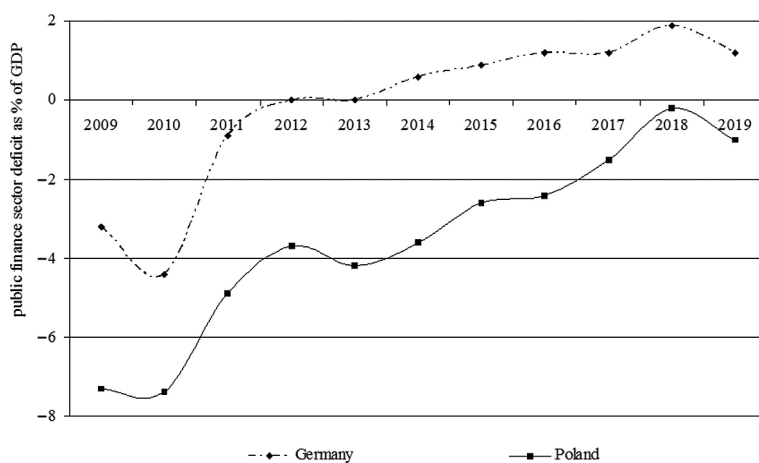


Fig. 1. Deficit of the public finance sector in Poland and Germany
Source: Eurostat.

Conclusions

An analysis of economic development since the beginning of the 20th century indicates that the liberal model of the economy, and in particular the social market economy allows for obtaining above-average economic results and Erhardic “prosperity for all”. Sometimes, however, it turns out that economic reforms and consistent adherence to market economy rules are often dissatisfying, and the welfare state is unsatisfied. This was the case, for example, in Germany after

³ The total amount of state budget revenues in 2020 is to be equal to expenditure and will amount to PLN 435,3 billion (Ustawa... 2020).

World War II. The economic reform introduced at that time was assessed negatively. Initially, unpopular decisions led to dynamic economic development.

Unfortunately, also in Poland, politicians, contrary to the long-term economic logic, instead of consistently strengthening the market economy all too often make ad hoc decisions and offer quite expensive social programs. This is calculated only for short-term profit at the price of serious consequences for the economy in the future. The decisions taken sometimes conflict with the principles of the constitutionally shaped economic order. In turn, the experience of the German economy indicates that the abuse of discretionary policies in the economic sphere is inappropriate. Ad hoc decisions can only be made in strictly defined situations as a response to a serious disruption to the market. Otherwise, the state is moving towards a centrally managed economy.

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Polityka gospodarcza wspierająca dobrobyt społeczny. Uwagi na marginesie książki Ludwiga Erharda pt. „Dobrobyt dla wszystkich”

Zarys treści: Celem artykułu jest przybliżenie dorobku Ludwiga Erharda w zakresie polityki gospodarczej i jego wizji dobrobytu społecznego. Bezpośrednio po II wojnie światowej Erhard był głównym autorem polityki gospodarczej Niemiec. Oparta na zasadach ordoliberalizmu społeczna gospodarka rynkowa stała się wówczas źródłem sukcesu gospodarczego.

Na mocy Konstytucji również w Polsce społeczna gospodarka rynkowa jest podstawą ustroju gospodarczego. Okazuje się jednak, że podejmowane działania znacznie odbiegają od pierwotnej koncepcji Erharda, a niekiedy wręcz zbliżone są do modelu socjalistycznego porządku gospodarczego. Rośnie ingerencja państwa w procesy rynkowe, coraz częściej podejmowane są decyzje ad hoc, obliczone bardziej na poprawę bieżącej sytuacji niż zapewnienie trwałego dobrobytu.

Słowa kluczowe: społeczna gospodarka rynkowa, ordoliberalizm, polityka gospodarcza, dobrobyt społeczny