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Ethical foundations of competitive order according to Walter Eucken*

Abstract

Ordoliberalism is a German economic and legal doctrine, in which ethics occupies a privileged place. The basic premise is the freedom and responsibility of human beings. In contrast, the starting point for considering ordoliberalism as a doctrine is the economic, social and political order. The most prominent representative of ordoliberalism was Walter Eucken. Achievements of this outstanding economist as well as other representatives of this school underlay the concept of the German social market economy and the EU competition policy. The aim of this article is to present the concept of Eucken’s competitive order and describe its philosophical and ethical foundation. The article relies on descriptive analysis and literature studies.

Keywords: Ordoliberalism, free-market economy, ethical activism

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1. Introduction

Ordoliberalism is a German economic and legal doctrine in which ethics occupies a privileged place. Its basic premise is the freedom and responsibility of human beings. The starting point for considering ordoliberalism as a doctrine is, however, the order in its economic, social and political sense.

According to ordoliberals, this order comes from the natural order created by God, in which the indisputable principle was the protection of private property and individual freedom. Ordoliberals sought such norms and principles that would make this order reality.

From the perspective of economics, Walter Eucken made the most significant contribution to this theory. His greatest achievement was to overcome the antinomy in economic sciences and to formulate the theory of free-competitive order (cf. Pysz, 2008). Certain elements of the Euckenian theoretical system found application in the construction of the German model of social market economy, and in the later period, these influenced the development of European Union legislation—especially in the field of competition policy. The assumptions of Eucken’s free competitive order laid the grounds for the EU ban on the abuse of a dominant position—Art. 81 and Art. 82 of the Treaty of Rome.¹ The aim of this article is to present the theory of the free competitive order put forward by the said economist as well as its philosophical and ethical foundations. The article uses the method of descriptive analysis and literature studies.

2. The philosophical and ethical foundations of Walter Eucken’s ordoeconomics

To understand Walter Eucken and his academic output, it is necessary to understand the environment in which his views were shaped. At the end of the 19th century, a rapid social, economic, cultural and political progress occurred in Western Europe. A capitalist economy entered a new phase—monopoly capitalism, which was accompanied by the intensification of the political and economic struggle between countries of the capitalist system. Large monopolistic organisations emerged, destroying small and medium-sized private business and uniting themselves on the international scale (cf. Cameron & Neal, 2010).

¹ In her speech delivered on the occasion of the 125th anniversary of the economist’s birth on January 13, 2016 at the Albert Ludwig University of Freiburg, Angela Merkel spoke on how Walter Eucken’s works remain meaningful and up-to-date in the present-day economy. She mentioned that, for example, Eucken’s principles of order are and will remain the success factors of a well-functioning and admirable economic order. For a transcript of the speech, cf. https://www.bundeskanzlerin.de/Content/DE/Rede/2016/01/2016-01-14-rede-walter-eucken.html.
Walter Eucken came from an aristocratic family with a rich intellectual tradition. His father, Rudolf Eucken—a philosopher, a supporter of German neo-idealism and a laureate of the Nobel Prize in Literature in 1908—had a profound influence on young Eucken.

The subject of Rudolf Eucken’s scientific research was the Aristotelian philosophy. One of his students was Max Scheler (cf. Krąpiec, 2002, p. 301 et seqq.). While positivism and materialism prevailed in the 19th century, R. Eucken declared aligned himself in favour of idealism and built his own system, referred to as the ethical or creative activism. It was a combination of activist themes of German idealism with the perspective of the Protestant theology, which put emphasis on carrying out our mission in the world around us (cf. Eucken, 1927, p. 45). The concept of ethical activism had a significant impact on the way Walter Eucken thought about the order. In the light of this concept, every human being should try to introduce the moral order both in own life and in the whole society. Such an order was understood as a well-established system of values, allowing us to make unequivocal choices between good and evil in the situation of establishing our life goals and the ways of accomplishing them. Human life is a vocation, within the scope of which every individual has important duties towards oneself, fellow humans and God.

In one of his most famous works titled *Grundsätze der Wirtschaftspolitik* [Principles of Economic Policy], Walter Eucken defined *ordo*—the central idea of ordoliberalism—as an order that is consistent with the nature of humans and things, and in which moderation and balance are present. He observed that already the ancient philosophy formulated the concept of order in this way, searching for a hidden architectural plan of shaping the world in the diversity of things. As stated by Walter Eucken, the concept of *ordo* was formed in the Middle Ages and influenced the entire culture of that era. It meant that the diversity could be reasonably combined into one integrated whole. Eucken believed that when dysfunctional economic systems are in operation, the most sought-after order is a kind of order that corresponds with the reason or nature of humans and things (cf. Eucken, 2004, p. 372). Thus, *ordo* became to him a factor integrating particular elements of the economic, legal and political order.

Walter Eucken’s interests lied not only in the basic concepts from the field of political economy but also revolved around the issue of spiritual development and leadership. In the face of changes that were taking place in society after 1930, he looked for spiritual support in building up a new image of a human. Eucken argued that the secular nature of liberalism, the socialist pursuit of equality, deficiencies of dialectical theology and a growing state cult shook the anthropological foundations of human existence.

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2 Rudolf Eucken studied philosophy, classical philology and history at the University of Göttingen, where he received a PhD degree for his dissertation titled *De Aristotelis dicendi ratione*. In 1871, he was appointed Professor of Philosophy at the University of Basel, where Nietzsche also lectured at that time. A year later, he moved to Jena and remained there until his retirement in 1920. In 1912, Eucken gave lectures at Harvard University, and in 1913 he became Doctor Honoris Causa of Syracuse University (USA).
It became his goal to search for and to create a new image of a human being, which would provide an alternative to the image of an individual in the national socialist state. Following his father’s ideas, Eucken sought a comprehensive spiritual order of life (cf. Kamińska, 2014, p. 55 et seqq).

The influence of Rudolf Eucken’s thoughts is also to be observed in his son’s works. In the book entitled Die Grundlagen der Nationalökonomie [The Foundations of the National Economy], Walter makes a reference to the work of his father twice. While providing characteristics of stages (Stufen) and styles (Stile) of management, he refers to Rudolf’s Geistige Strömungen der Gegenwart (cf. Eucken, 1965, pp. 38–41, 248, after: Czech, 2010, p. 114).

Links to the philosophy of Rudolf Eucken can also be seen in the methodology he applied in his academic work. In the literature on the subject, more and more authors claim to have found connections between W. Eucken’s methodology and Edmund Husserl’s phenomenology as well as the method of isolating abstraction he employed. This technique consisted in the abstraction of the so-called ideal types—i.e. forms in which economic life manifests itself—based on the observations of the real economic world. Fragments of reality obtained in this manner became the basis for the creation of models grounding in which, by the way of deduction, further theses were being advanced, in line with the assumptions that underlie these models. This approach was an innovative way of perceiving reality. Walter Eucken limited his analysis to economic reality, and its central concept became the so-called data wreath (Datenkranz), which encompassed the general economic parameters of a given country, such as climate, soil types or mentality of citizens resulting from historical conditioning. W. Eucken asserted that the neoclassical theory did not deal with the general economic parameters and that the whole point of economic policy was, according to him, to transform these parameters (Eucken, 1965, pp. 156–158). Using the data wreath, the economist performed an analysis of economic orders that existed in different countries at different points in time. Identifying and knowing the “ideal types” of economic reality provided, in his opinion, the basis for connecting historicism with certain assumptions of neoclassical economics (cf. Kamińska, 2014, p. 54 et seqq.)

In his book titled Nationalökonomie worzu?, published in 1938, Eucken (1947) drew attention to the existence of the great antimony in the economic thought, which was rooted in the ordinary course of the management process. He stressed that every phenomenon has a theoretical and a historical aspect. Walter Eucken was one of few economists who claimed that the deductive theoretical and

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3 When it comes to understanding of the types (Typen), there are frequent borrowings from the early work of R. Eucken from 1872—Die Methode der Aristotelischen Forschung (cf. Czech, 2010, p. 114).

4 An example of this is the work by Goldschmidt (2001, p. 41 et seqq.) and Gander, Goldschmidt, & Dathe (2009). In Germany, conferences on the relationship between the two scholars called “Economics and Phenomenology” are organized. Apart from Husserl, Szulczewski (2012, p. 107) also mentions Wilhelm Dilthey, who was friends with Walter Eucken’s father and could have had an influence on the formation of his meta-economic views. In addition, literature mentions that the thinking of ordoliberalists about an order was influenced by the social ethics of the Protestant theologian Emil Brunner. Yet, Eucken distances himself from some elements of this concept (cf. Petersen, 2012, p. 138 et seqq).
the inductive historical methods were reconcilable. At the same time, he was developing an alternative scientific program. In an effort to overcome the “great antimony” between the theoretical and the historical research in economics, he framed his own methodological concept in the above-mentioned work *Die Grundlagen der Nationalökonomie*. W. Eucken advanced the theory of two economic models—a market economy and a command economy. In his view, the reality is usually a combination of these two systems (1965, pp. 245–250).

His father’s influence became the most apparent when, as a mature scholar, Walter established a dual objective for his research work. Its aim was to reduce the scarcity of goods to alleviate the hardships of humans’ material existence and to create conditions for them to live a free life, in accordance with ethical principles (Eucken, 1965, pp. 114–115).

3. The constitutive and regulatory principles of Walter Eucken’s free competitive order

Eucken’s research eventually led him to formulate the theory of competitive economic order. As he explained, the foundation of this economic order is a competitive order that can only function if the economic policy of the state implements established constitutive and regulatory principles. W. Eucken distinguishes seven constitutive and four regulatory principles, stating that the former are of complementary character and that the application of only some of them is economically unjustified and harmful to the economy (cf. 2004, p. 254 et seqq).

Of the constitutive principles, the basic and the most essential one (*Grundprinzip*) is the creation of an efficient price system of perfect competition (Eucken, 2004, p. 254–255). The second in order and importance is, according to W. Eucken, the principle of monetary stabilisation. By quoting Lenin, who said that “to destroy the bourgeois society you must debauch its money”, Eucken (2004, p. 255) wanted to make it clear that monetary policy is a priority for the system based on perfect competition, though a monetary order is correlated with the general economic order.

Here, the rule is that any efforts to introduce a competition-based system will be futile until the stability of the value of money is ensured. (Eucken, 2004, p. 256)

A good monetary system should not be constructed to simply preserve the relative stability of the value of money but should function as automatically as possible (Eucken, 2004, p. 256). A monetary system that is built into the mechanism of achieving a balance in the economy could form the basis for the stabilisation of the economic process (cf. Folz, 1970).

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5 According to Pysz, expert on Walter Eucken’s works, it is specifically the German economist’s conviction about his mission as a scholar that is a direct manifestation of Rudolf Eucken’s ethical activism.
A crucial issue that W. Eucken addresses in *Grundsätze der Wirtschaftspolitik* is the spontaneity of the monetary system creation, because if it does not develop spontaneously, it will be abused for inflation purposes. There is too much temptation to temporarily cover up the disproportions that arise within the scope of the *full employment at any cost* policy—which follows from the power struggle between economic groupings—using inflationary measures, such as credit expansion, depreciation or the low-interest rate policy (cf. Eucken, 2004, pp. 257–258).

The third principle constituting a competitive order consists in making sure that markets are open to everyone. W. Eucken states that “denying some economic entities an access to the market supply and demand is the method that was and still is used most commonly in the industrialised countries in order to break and reduce the strong tendency towards competition” (Eucken, 2004, p. 264). In W. Eucken’s understanding, the openness of markets means the possibility of free entry into and exit from a specific market (Eucken, 2001, pp. 32–33; 2004, pp. 267–268). Therefore, an economic policy must be founded on the open markets principle, since closing the markets entails a serious risk of violating the arm’s length principle. Such a situation creates conditions for establishing monopolies. And in this case, the task of an economic policy is not to allow the state and private monopolies to refuse or restrict anyone an access to the market.

The fourth constitutive principle is the existence of private property, which Eucken perceives as a prerequisite for a competition-based system.

Thus, the question of whether the ownership of production is needed for the introduction of a competition-based system should be answered in the affirmative.

The current tendency to eliminate private ownership of the means of production moves us further away from the creation of a competition-based system.

(Eucken, 2004, p. 271)

An order based on competition is essential if private ownership of the means of production is not to result in economic and social malpractices. On the one hand, W. Eucken understands the private ownership under conditions of free competition as the power and freedom of disposition in the service of political economy, and on the other hand, as an inability to limit the power and freedom of other owners, to the disadvantage of the public. An important issue relating to the subject matter is the fact that private property is a necessary condition for the preservation of the private sphere of freedom. In other market systems where the collective ownership of the means of production dominates, the position of an individual in the social system is weakened and consequently, persons are deprived of their self-reliance (Eucken, 2004, p. 274 et seqq.).

Another constitutive principle is the freedom to enter into contracts, which—as Eucken asserts—should be linked to a competition-based system. The lack of such freedom makes it impossible to control economic processes through the market mechanism. The freedom to enter into contracts contributes to the creation of a competition-based system and it is within the framework of such a system that it really starts making sense. However, this freedom cannot be used to dismantle
a competition-based system either by creating structures that would dominate the economy, by protecting economic power or by abusing that power (Eucken, 2004, pp. 277–279).

Liability is the sixth principle of the competitive order. Eucken began discussing its significance pointing out that “the one who reaps benefits must also suffer losses” (Eucken, 2004, p. 279), which means that every economic entity should bear financial responsibility for the consequences of its activities. Eucken draws attention to the contemporary tendency in the economy that consists in limiting the liability, as exemplified by the code of commercial companies allowing the founding of limited liability economic organisations. Liability is an element of the mechanism that controls free competition, as it curbs the tendency to create corporations and other economic groupings. In addition, it is an indispensable institution for managing a system based on competition. Any limitation to legal responsibility reinforces a tendency for centralised economic planning. Eucken emphasises that without personal liability of individuals, a competition-based system will be as ineffective as in the absence of appropriate forms of market or systems. Thus, liability is a condition not only for the existence of an economic system based on competition but also for a social system in which freedom and responsibility prevail (Eucken, 2004, pp. 279–285).

To Walter Eucken, a stable economic policy is the main requirement for a competition-based system, which is why it is the seventh principle constituting the economic order. The task of economic policy is to create a systematic framework for the economic process. It is vital that the framework remains unchanged. This way, the system based on competition will prove fully effective. Eucken explains that establishing taxes, trade agreements and exchange rates for longer periods could provide incentives to invest (Eucken, 2004, pp. 285–289).

The constitutive principles should be regarded as the principles of the economic system. When combined all together, these are used to make and implement one global decisions in the sphere of the economic policy. The greatest benefit of applying them together is ensuring the effective operation of the mechanism for controlling modern economic process. The interdependence of the principles constituting the economic order is so strong that an application of these principles in isolation from the rest would lead to missing the set goal (Eucken, 2004, pp. 289–291).

Apart from the constitutive principles, four principles regulating an economic policy play a considerable role in shaping the economic order. Eucken point out that strict application of solely the constitutive principles cannot prevent specific competition-based systems from having certain non-system forms. They tend to, for example, create various forms of monopoly, and therefore have areas that require additional adjustments and supervision of the state (Eucken, 2004, p. 291).

The first of the regulatory principles puts emphasis on the necessity for the control and supervision of monopolies by the state. The economic power should be present in a competition-based system only to the extent necessary to maintain its functioning. W. Eucken considers it obvious to have two types of monopolies in such a system. On the one hand, these are natural monopolies (e.g. gasworks, manufacturers of weighing scales and of medical devices) or monopolies whose
functioning results from economies of scale; on the other, there are monopolies
that destroy a system based on competition. A major problem is to supervise it
properly in the industrialised economic system, in which industry sectors are mo-
nopolised. Eucken states clearly that this is beyond the power of a modern state
since the political influence of the interest groups is too great and arising problems
are too complex. He believes that it is relatively easiest to solve the problem of
monopolies in the competition-based system, because it is possible to prevent the
creation of monopolistic structures with the ban on cartels, and most important-
ly—with appropriate economic and legal policies.

The supervision over monopolies should stay in the hands of the antimonopo-
ly office, which would be governed by an act that offers protection against the
external pressure of interest groups. Eucken compares the significance of its exis-
tence and functioning to the role of the Supreme Court (Eucken, 2004, p. 294).
Among the tasks of the antimonopoly office, the German economist distinguishes:
controlling the terms of trade agreements and any forms of distorting competition
(such as blockages or discounts for regular customers), controlling and preventing
the price differentiation for the same goods and services, monitoring the abuse of
power by entrepreneurs and trade unions (Eucken, 2004, pp. 294–297). The con-
trol of monopoly in a competition-based system should be designed in way to be
of preventive character.

In his considerations, W. Eucken concludes that the problem of supervision
and control of monopolies can be solved only when other constitutive and regula-
tory principles of the competition-based order are being followed, when the crea-
tion of monopolies is reduced to a minimum and the control over them functions
Income policy is the second regulatory principle of Eucken’s competitive or-
der. Modern, industrialised economies pose a problem in the field of the economic
system and solution to it can be found in the creation of a competitive order. Yet,
this system is imperfect—it involves various threats and shortcomings, which
primarily relate to the way in which the social product is distributed. Income,
earnings, profits and interest, which emerge in the economic process in a sort of
automatic way—as part of free-competition, are subject to the distribution that
ethically speaking is neutral. Eucken notes, however, that the distribution of the
social product by the price mechanism operating on a free competition basis is
better than the distribution in other types of systems, though it still requires some
adjustments. Eucken examines the question on the possibility of ensuring such
a distribution of income that would optimally fulfil the principle of social justice.
A serious problem that arises in this context is the inequality of income and the
wealth differentiation, which we may attempt to redress by means of progressive
tax policy. The purpose of progressive tax would be to adjust the distribution
process within the framework of this system. Nevertheless, the income distribution
cannot be too high, so as not to curb the tendency of economic entities to invest.
Therefore, while the adjustments to it are indispensable from a social perspective,
it is important to set its upper limit (cf. Eucken, 2004, pp. 300–301).
Another regulatory principle concerns the problem of doing the rational economic calculations by individual households and enterprises. It should, in Eucken’s opinion, lead to rational economic calculation in relation to the entire economy to enable proper control of the economic process. This is a fundamental idea of competitive order. Even though the system works quite well, it does not consider the impact that plans of individual entities exert on the entire economy or the effects of their actions on the environment and employees’ health. Eucken notes that even in a system based on perfect competition, we face the same problems as in the monopolized economy. He seeks a solution to this issue in establishing limited state control as well as in adopting regulations that would eliminate negative externalities (Eucken, 2004, pp. 301–303).

The last regulatory principle relates to the prevention of abnormal supply behaviour. It is about the situation in the labour market when the increase in supply is accompanied by a drop in wages or prices. Eucken’s model of economic system prevents this drop to some extent, but the economist additionally highlights the need for employee protection—banning child labour and limiting the working hours for the adults. Should abnormal supply behaviour persist, the state must take measures and set minimum wages (Eucken, 2004, pp. 303–304).

The model of competitive order presented above makes it possible to accomplish two objectives. Firstly, in a situation of full competition, when all market participants have an opportunity to influence the rules of the market game, each of them has an influence on the price mechanism. Secondly, the policy pursued according to this model requires the economic system to be grounded in law and democracy. Another foundation of economic order is the adherence to ethical principles, thanks to which it emerges as the order worthy of the human values. Eucken advocates that without regard for ethical values, capitalism assumes a ruthless character. Hence, one should look for moral solutions to economic problems (Kamińska, 2009, p. 21).

The theory of order has made it possible to combine seemingly mutually exclusive elements into a whole by embedding the general theory of economics in the real economic order that is created in a given moment in a given country. The direct reference to reality has become a decisive factor in combining the neoclassical and the historical approaches. The theory of economic order links the coherence and logic of the neoclassical school, while the consideration of historical and cultural factors gives it a social and empirical character. Eucken wanted to ensure that economics fulfilled an auxiliary function with respect to the economic policy. In the aforementioned Nationalökonomie of the car?, Eucken states that economics should explain economic processes and provide practical solutions to the issues of everyday life, instead of dealing with pure theory and creating models at a high level of scientific abstraction, which cannot be translated into the practice of economic life (cf. 1947, p. 55).

In the literature on ordoliberalism, some scholars identify faults in Eucken’s concept. It overlooks an individual as an independent subject of economic decisions, which may lead to the exclusion of weaker individuals from the market, depending on the changing combination of production factors. This exclusion
entails the need to intensify discretionary state interferences in the economic process, especially when it comes to income distribution. This manner of solving economic problems goes against the ordoliberal vision of the state, where it takes on the role of an impartial arbitrator (cf. Pysz, 2010, p. 86).

To Walter Eucken, the theory of order is, above all, a normative science with clear ethical objectives. His approach may stem from the conviction that there is a relationship between the economic order and the internal moral order. The adherence to moral principles is a vital prerequisite and a precondition for the existence of an economic order because social and political freedom can only develop in a society where certain ethical principles and values are being respected (cf. Kamińska, 2009, p. 21).

Implementing and preserving a free competitive order is the responsibility of the state, the antimonopoly office, and other institutions, among which Eucken mentions the world of science and education, as well as churches (cf. Eucken, 2005, pp. 367–390). W. Eucken did not wish them to get involved in politics, but to convey their views on issues of existential significance (Eucken, 2005, p. 387). Once the functioning of free competition and the freedom of autonomous planning and decision-making is secured, it should encourage individual initiatives and actions, which is an indispensable condition on the path to social development.

4. Conclusions

Walter Eucken’s theory of the free competitive order provided a completely new perspective on the economic policy and its role in shaping economic systems. Putting all the elements of the Euckenian free competitive order into economic practice can prove to be a very difficult task nowadays due to the changes that took place in the recent years in the global economy. The model of perfect competition, which Eucken opted for, can be used to describe its functioning only in an extremely limited way. However, the concept exposes some of the crucial and topical issues. Above all, Eucken reminds that economics should play an auxiliary function with respect to the economic policy, which means that its task is to propose solutions to pressing economic and social problems. The 2008–2009 economic crisis and its consequences clearly demonstrate the need to look for an order that would be consistent with human nature and would be protected by appropriate institutions and legal regulations. This order is an order built on the ethical foundation, so it can only occur if the society adheres to moral principles. What laid the philosophical and ethical foundation for Walter Eucken’s theory was mainly Rudolf Eucken’s concept of ethical activism as well as own research and reflection of this eminent economist. Thus, the search for an order that is consistent with human nature requires adopting an interdisciplinary, multi-faceted approach to economics and granting a privileged place to the ethical reflection.

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6 This was Eucken’s view (cf. Szulczewski, 2012, p. 120).
References


