The 80s was the decade of the market. Now, subtly, the mood has changed. **Hugh Emy** argues that in the wake of the old socialist project the Left needs to embrace the social market as a ‘middle way’ between state and market for the new era.

There can be little doubt that when the federal Labor government was elected in 1983 the Australian economy required a fundamental overhaul: the existing economic engine was no longer capable of protecting Australian living standards in the twenty-first century. The latter required creating a new production structure — and this in turn meant coming to terms with the qualitative changes transforming the global economy generally and world manufacturing in particular. There seems little doubt either that, given the number and variety of structural rigidities which had built up over the years under protectionism, restructuring to create a more productive and competitive economy was the best option available. Australia’s structural economic problems were sufficiently serious to require radical treatment. With hindsight, one may query both the way in which some reforms were implemented, and the results of others. Overall, however, opting for economic liberalisation was probably the best overall strategy for reform.

But, what was appropriate in the 1980s as the first stage of reform may be less appropriate in the 1990s for the next and more difficult stages: actually building a more durable market economy and establishing or consolidating a greater range of industries which can compete globally. It is one thing to create the **preconditions** for a more competitive economy. It is quite another to actually bring about the kind of production structure required — one that will indeed guarantee the country’s longer-term economic security. Clearly, there is an important debate in industry policy circles between those who favour continuing with
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free market policies, and others who favour rather more government intervention, and a rather slower rate of tariff reform than most market economists would prefer. The government seems to be in two minds on the matter. There have also been several calls for 'a middle way' between pure free market approaches on the one hand and old-style protectionism on the other.

This article is not concerned directly with the industry policy debate. That debate simply provides a highly relevant backdrop to the major policy issue facing both the government and the ALP: how far is it sensible to base restructuring generally on the program of economic liberalisation, which, at least until very recently, the government has been pursuing with increasing vigour since 1987? I want to argue that it is time to take a more discriminating (or pragmatic) approach to the market, time to put the market in perspective, to find a middle way not only in industry policy, but also in terms of the deeper and more problematic relationship between state and market. The concept of a social market economy is a way of doing this. It combines respect for the virtues of open and competitive markets with a legitimate role for government as a guardian of social and political order, and as the body uniquely responsible for the long term, strategic development of both economy and society.

The term 'social market' originated with the West German Christian Democrats who, in the course of postwar reconstruction, wished to develop a competitive market economy without losing sight of the concept of social justice. While they valued the market as a source of political and economic freedoms, they did not believe that by itself it provided a sufficient basis on which to build a just society. The term has resurfaced, primarily in Europe, in the last few years. In Britain, for example, Tories like John Major who wish to humanise the unacceptable face of Thatcherism have used the term as a convenient rhetorical device.

Following the eclipse of socialism, socialists have also found the term useful as a means of accommodating market freedoms with a continuing commitment to the principle of collective social responsibility, upheld by the state. That appears to be closer to the meaning of the original term in Germany, and it is the sense I adopt here. In this sense it is likely to be of more use to those who think the market a necessary but not sufficient condition for a free or civilised society; who believe that income distribution should not be left wholly to the market; and that communitarian values are ultimately more important than a simple individualism.

The concept of the social market may be attractive to anyone who has qualms about a full-bore commitment to free market policies. Currently, it may be of more use to members of the political Left who face an awkward problem in reconciling the Labor government's faith in the market and the social value of individualism with the values traditionally held by social democrats and social reformers. Although Labor deserves credit for tackling the long overdue problems of structural reform, the government has more recently lost its way. One Nation was an opportunity lost. While the package was astutely designed to counter Fightback! at the level of policy initiatives, and to reassure the financial markets, it neither addressed nor described the kind of society Labor wished to create in the longer term. It mentioned a 'stronger Australia' and 'a more civilised society' but left a central question unanswered: by what values or principles — or by what social vision — can Labor clearly differentiate itself from its free market opponents?

Allowing for the factors which constrain what ministers feel able to say in public, it is not clear what values are now uppermost in the minds of Labor's more visible leaders. Especially following the eclipse of socialism as a major intellectual resource for the Left, it is not easy to say just what the Labor Party really stands for at the present time. This makes the commitment to free market policies more problematic. In embracing economic liberalisation, albeit for good reasons, has the government unwittingly become a prisoner of the market? Has it implicitly legitimated its opponents' more radical goal of a fully deregulated market society?

There is little doubt that market strategies, the creation of a more competitive economic environment — or a production culture — are integral to restructuring. However, the government has evidently reached a point where it needs to rethink its position on the market. It needs to clarify the role of government and, in view of the doubts and fears among its supporters, explain the difference between creating a system of open and competitive markets and going all the way towards a fully deregulated market society. Until it does so, it is doubtful if it will be able to enunciate a clearer position on industry policy, or know how to accommodate the growing demands for policy changes emanating from both the labour movement and business leaders, as well as several state governments.

The government's increasing difficulties at the policy level are only partly the result of rising unemployment and electoral stress. They also reflect a certain incoherence at the theoretical level: how far to embrace market solutions? What is the proper role of the state? And, if one begins to retreat from the route recommended by (most) neoclassical economists, how does one justify the change of course? The problem is also that there is, as yet, no alternative theory or set of directions available with a status (or simplicity) equivalent to free market theory.

Conceivably, the social market model provides a fruitful way of reconciling economic and social values that are now in dispute. The synthesis also provides a way of bringing the government back in as a legitimate player in the process of structural change. The model embodies, first, a firm commitment to the principle of the competitive market. This means accepting that, on the whole, a system of open and competitive markets is the most effective method of handling the myriad problems of resource allocation in complex societies; that relying on the price mechanism ahead of government or bureaucrats is more likely to produce an optimum supply of goods at reasonable prices. Markets are also likely to maximise freedom of choice for buyers and sellers, while an effective market society is
The first choice of supporters of the social market model, then, is in favour of working with rather than against the market. This means recognising that competition and self-interest have positive as well as negative features: that there is some substance to the notion of an invisible hand by which competition between a number of buyers or sellers is supposed to limit the power of each and produce collective outcomes which are in the public interest. It means that governments should work to maintain a fully competitive economic environment. This is, therefore, rather different from the more familiar notion of a mixed economy—a notion which was always an uneasy half-way house between the ideologies of capitalism and socialism, and embodied a basic ambivalence about the merits of capitalism, if not private enterprise. The social market signals a recognition that markets (and capitalism) are here to stay—and that in large, complex, industrial societies, markets have positive virtues. It is less a question of trying to get beyond or transcend market capitalism. It is more one of trying to organise and direct this kind of production structure in line with other, chosen values. The point is, again, that maintaining economic viability and political liberty in complex societies requires a particular (and varying) combination of state and market controls.

Second, this model implicitly accepts that 'the market economy' is not a gift from God. It is a human construct which emerged under particular social and historical conditions and which takes different forms in different cultures. There is no one correct form of 'market'. There are different types. Although the impersonal and seemingly automatic functioning of the price mechanism has a certain fascination, it is a mistake to invest 'the market' with some kind of overriding or superior form of rationality. The market is, in all senses, part of society. It should be viewed as society's instrument for achieving or pursuing other social values. Or more simply, the wealth potentially available through markets is a means to other, equally important ends. Saying this has two broad implications.

To begin with, the social market model acknowledges the importance of open and competitive markets and the economic benefits they bring but it also recognises that the market economy has a downside. For example, the driving force behind it remains the profit motive, plus self-interest and the possibilities for individual aggrandisement. Such values have to be contained otherwise the lure of wealth or the excessive pursuit of self-interest may have anti-social consequences, legitimising greed or allowing the accumulation of wealth as an end in itself. One has to recognise that the materialist values privileged by market capitalism are not wholly compatible with other value systems one finds in a self-proclaimed pluralist democracy. One must remember also, as numerous theorists from both the Left and Right from Marx onwards have pointed out, that market capitalism gives rise to a far-reaching process of ceaseless change which stresses all aspects of its environment. The reaction against economic liberalism in the nineteenth century arose precisely because it created social conditions which societies then found unacceptable.

So this model does not presume, as do more extreme economic libertarians, that the market economy is a self-sufficient, self-equilibrating entity. It will not necessarily generate the kind of behaviour or, indeed, the kind of economic outcomes, which are compatible with society's long-term integrity. Advocates of the social market recognise explicitly that the state has played a crucial role at all stages in the growth of market economies. A durable market order is not free standing; it depends on certain elements of statesmanship, strategic thinking and design.

Next, although the market is valued for its productive potential, it requires a deeper justification than its capacity to generate more goods and services. It too requires a moral justification. Or, the way in which it works, and the results it produces, have to be consistent with society's other values. Especially in a liberal or pluralist democracy, the market economy has to work in a manner consistent with the value placed on the dignity of the human person, and with the in-principle commitment to the right of every person to live a fully human existence. This again implies that advocates of the social market are far from indifferent to the results the market produces: the state may intervene either to guarantee equality of opportunity, or to redress emerging divisions between rich and poor which threaten to undermine the integrity of the market order itself.

The basic point is, as British social-marketeer Robert Skidelsky notes, that 'those who value the market as an institution must be concerned to keep its support system in good repair'. This was very much the view of the Christian Democrats who created the social market model during the post-war reconstruction of West Germany. The German economy was built on market principles: the pursuit of economic growth and a commitment to international competition, especially in manufactures, backed by a stable currency. It also embodied systematic co-operation, often through Industry Councils, between representatives of government (federal and state) business, labour, and the industrial banks, to chart the overall direction of national development. However, it was also built on a matching commitment to certain moral principles, notably respect for human dignity—a point which had a particular resonance in post-war Germany, and which was enshrined in the constitution.

Next, the principle of solidarity: this meant encouraging among people at all levels of society—family, neighbourhood and workplace—a sense of being members of a common partnership or enterprise. This was particularly
important for developing co-operative attitudes in industrial relations. By law, every company and every state agency has a freely elected council to represent the interests of the employees in all employment matters. Wages and working conditions are usually negotiated at the enterprise level. A further offshoot of solidarity is co-determination, whereby representatives of the workforce were included in decision-making at both factory and national levels 'in order to achieve the essential trust of all strata' during national reconstruction.

Finally, the principle of subsidiarity meant promoting the citizen's own sense of personal responsibility for, and self-determination in, the organisation of his or her own life. It taught that each level of society should be left to carry out the functions of which it is capable. Where individuals genuinely could not cope with the presumption of self-determination, perhaps through lack of resources, and where voluntary organisations were not enough either, the state would act. As one exponent put it, 'the question is not whether or not the state should act in economic life. The question is when, where and under which conditions the state should act. If the state acts in the spirit of subsidiarity, its priority is to give freedom to the individual and society to act according to their means, interests and responsibilities'. The German model included, therefore, comprehensive provision for social insurance and assistance which was seen as perfectly compatible with a market economy.

The German approach to both reconstruction and nation-building contains certain lessons for Australia in the 1990s. It shows that one can have a strong commitment to market principles and a sizeable state, including both a significant welfare sector and a substantial measure of industry assistance. (For the record, the public sector in Germany spent just over 48% of GNP in 1990. State and federal subsidies to industry in the mid-1980s comprised roughly 13% of GNP—still the lowest level in the EC—according to a 1988 study by the Bureau of Industry Economics.)

It also implies that values, or the moral dimension of society, have an independent significance for economic rebuilding which, in the longer run, may be rather more important than a single-minded adherence to the precepts of 'economic rationalism'. Certainly the Germans thought that individual and social responsibility, economic freedom and social justice, state and market were complementary pairings, not polar opposites. Both their experience and that of several Asian nations suggests that market economies work best in communitarian value-systems and cultures rather than highly individualistic ones.

The German experience recognises four primary functions for the state:

(i) To establish a secure juridical framework for market exchange: to specify and protect property rights; to enforce voluntary contracts; to guarantee free choice of occupation, and to prevent or punish physical harm and fraud; to establish the conditions required for the fair and efficient operation of capital, employment or insurance markets.

(ii) To limit or supplement the market where necessary. This means, broadly, dealing with the effects of market failure: for instance, dealing with monopolies and legislating to promote competitiveness; providing a range of public goods, defence, law and order, a sound currency; looking after consumers' rights and interests; coping with externalities, the adverse and unpriced effects of some economic activity, particularly on the environment.

(iii) To ensure that the market is politically acceptable. A social market economy is meant to be based on social arrangements that are broadly regarded as 'fair'. A government may find it necessary to intervene in the market to prevent or redress outcomes that are widely seen as unjust. It may seek to compensate underprivileged or under-resourced groups, or take action to lessen significant disparities in resources and power on the general — but politically significant — ground that the emergence of 'two nations' is a potential threat to order and stability. More specifically, a government may step in to provide social insurance where private insurance markets are regarded as too costly or inadequate. The two main examples are health and old age. Most of all, perhaps, the social market model regards unemployment — especially mass and/or structural unemployment — as a severe indictment of a market economy, a denial of its social promise and a significant delegitimising factor. Mass unemployment is not regarded simply as a transitional problem, an unavoidable aspect of structural change. It is seen as fundamentally unjust: the pursuit of full(er) employment is regarded as a primary social objective.

(iv) To ensure that the development of the market economy is compatible with the long-run viability of democratic institutions and democratic social values. This recognises that a market economy works best in an open society where general social conditions of freedom and creativity, trust and co-operation, and basic respect for human personality, obtain. However, these conditions have themselves to be reproduced through judicious political means. They do not flow necessarily from 'free markets' alone. A smoothly-functioning system of free markets may help to strengthen or protect them. But markets may work against them too by encouraging and legitimating anti-social forms of behaviour.

The latter point means that a balance must be struck between what is required for efficient markets and what is required for a fair and viable society. According to Robert Skidelsky, 'Certain market outcomes may be efficient and yet be socially unacceptable, and thus weaken the system which produces them. The only safe rule is to discount arguments for both intervention and non-intervention which do not show an awareness of the full range of social costs and benefits involved'.

In short, the social market acknowledges the case for competitive markets while also retaining a place for social justice, for spending on social infrastructure and the social wage, and recognising the need to provide adequate social compensation for those disadvantaged by structural change. It is also concerned with creating a more equal society— although the stress falls on equality of oppor-
tunity (and access) rather than equality of outcomes. It is more genuinely concerned with trying to equalise the resources which people have at the point of entering the market.

Where free market liberals require a formal equality of opportunity, social marketeers (and social democrats) add ‘equalising social conditions’. This might well include policies to minimise inequalities arising through inheritance of personal wealth (such as death duties). It would certainly include a progressive income tax structure and a moderate capital gains tax. It would include substantial spending on education and training and a minimum income policy—in short, it would not leave income distribution solely or even largely to the market. It would try to compensate those who were unable to hold their own in the market.

The antecedents of the social market economy lie more with social liberalism and Catholic social thought than with socialism per se—although the dividing line between social liberals and social democrats is a fine one. This may be a stumbling block for some. However, one must surely recognise today that (a) there is a considerable intellectual vacuum on the Left following the apparent eclipse of socialism; and (b) both economic and electoral realities dictate that any attempt to fill this vacuum, to reconstitute social democracy, must take full account of the centrality of the market. One should maintain a critical perspective towards the market (and the global economy). Yet there seems little point in talking or theorising at present as if there were a qualitatively different kind of society in sight which might serve as a practical alternative to the present one. And there are powerful reasons for wishing to create a stronger and more competitive Australian economy which can hold its own in the global economy.

Both the Right and the Left have to come to terms with the market. The (liberal) Right has to overcome its animus against the state, understand that its idealised view of the free market is a product of Anglo-Saxon liberalism which is not shared in most other market-based economies, and learn to speak the language of social responsibility as well as individual incentives. The Left also has to develop a new theory of the relationship between state and market, one that at least acknowledges the problems with the former and the potential of the latter. If the Left generally favours a more interventionist industry policy, or a larger welfare sector, then the social market model offers a more credible way of approaching the issues than falling back on the now stereotyped language of either socialism or labourism.

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