2. FOUNDATIONAL ECONOMIC THEORIES

In this chapter

- the historically most influential economic theories are presented;
- their contemporary significance is considered;
- their importance for social democracy is presented.

Three great economists: Smith, Marx and Keynes

»Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist«, wrote John Maynard Keynes (Keynes 1966: 323), himself one of the most important economists in history. In this chapter the essentials of his theories and those of the two other most important and influential economists, Adam Smith and Karl Marx, are presented and compared. This marks out the three poles of the historically most important economic theories.

Are the classics still relevant?

But is it worth troubling oneself with the ideas of economists who lived so long ago? Do their explanations still apply to a constantly changing globalised world or are they outdated, no longer comprehensible and refuted by history?

Why and in what ways do these theories have significance for social democracy? They can be of use in two ways.

»Ideological quarries«

First, in many instances they constitute »ideological quarries« which policy can take advantage of. Getting acquainted with these sources can help in examining the substance of economic policy arguments, ensuring that one is not »blinded« by ideology.

Social democracy: Borrowings from all three

Second, although social democracy is not entirely in thrall to any of the three economic theories, but constitutes a general normative framework, it does draw on all three theories, albeit with a clear preference towards managed capitalism as described by Keynes.

They have been subject to severe criticism. There have been countless attempts to refute them. They have been pronounced dead – but regularly prove that there is life in the old dog yet. No one seriously concerned with economics can ignore the ideas of Smith, Marx and Keynes.

The historical context: Smith: Middle of the 18th century

Any examination of these classics must take into consideration the context of their respective epochs. Adam Smith formulated his ideas in the middle of the eighteenth century, in the age of mercantilism, which taught monarchs that they should finance the luxury of their courts by controlling trade and directing the economy. Smith developed his scepticism towards the state, therefore, based on his experiences of extravagant, self-enriching monarchies, in contrast to, for example, a modern welfare state.

Marx: Middle of the nineteenth century

Marx's eloquent critique of capitalism in the mid-nineteenth century sought an answer to the impoverishment of the masses during early industrialisation and the first wave of globalisation. Today the perception of his ideas is shaped by the state socialism of the twentieth century, which gives a sometimes distorted picture.

Keynes: The 1930s

Finally, in the 1930s Keynes analysed an economic liberalism which, in view of the global economic crisis, was obviously coming apart at the seams. His *General Theory of Employment, Interest and Money* was not least an attempt to offer proposals for the stabilisation of the economic system in order to prevent other democracies from descending into radical dictatorship. With the global financial crisis which began in 2007 Keynes's ideas have enjoyed a renaissance. Both his observations on global financial market regulation and state investment programmes are being intensely debated again.

Timeless ideas and economic models

Consideration of the three great economists Smith, Marx and Keynes, besides providing basic orientation, has another, very practical advantage. Many economic models and explanations familiar to us today and which we deploy frequently, without knowing their origin, were formulated by them.

	Smith	Marx	Keynes
When	Mid-eighteenth century	Mid-nineteenth century	1930s
Occasion	Mercantilism, absolutism	Industrialisation and impoverishment of the workers	Global economic crisis and emergence of dictatorships
Main aim	Freedom from the mercantilist state	Improvement of the situation of the workers and their liberation from exploitation	Safeguarding democracy by stabilising the economy and the labour market
Links to social democracy	Freedom and the model of cooperation	Model of »decent work« and the issue of the balance between labour and capital	Model of the coordinated economy and active economic policy

Smith: The »invisible hand of the market«

The image of the »invisible hand of the market«, for example, was introduced by Adam Smith. It is supposed to explain the efficiency of the market. Today it is sometimes used in the form of a mythological transfiguration in accordance with which the market can fix anything.

Marx: »Decent work«

In contrast, anyone seeking a policy which can ensure »decent work« cannot ignore Marx. It was he who came up with the crucial concept of the »alienation of labour«.

Keynes: »In the long run we are all dead«

Keynes, finally, coined the oft cited saying »in the long run we are all dead«. He was calling for the state to take responsibility for counteracting market failures. His remark is directed primarily against those who rely on the long-term – which often means a very long time indeed – ability of the market to heal itself instead of the economic policy responsibility of the state.

Further reading:
Nikolaus Piper (ed.) (1996), Die großen Ökonomen: Leben und Werk der wirtschaftswissenschaftlichen Vordenker, Stuttgart.

2.1. Adam Smith – Founder of Economic Liberalism

Smith: »The Wealth of Nations«

The foundational work of economic liberalism is »The Wealth of Nations«, published by Adam Smith in 1776.

Adam Smith (1723–1790) is regarded as the father of economic liberalism and lived and worked as a moral philosopher and customs official in Scotland.

He put forward the thesis that, assuming the free play of market forces, prosperity would be maximised if everyone pursues their own interest. Smith published the book An *Inquiry into the Nature and Causes of the Wealth of Nations* (usually referred to simply as *The Wealth of Nations*), which can be regarded as the foundation of the modern economy, in 1776. His basic ideas are taught in economic textbooks to this day.

Less well known is the fact that the moral philosopher Smith, in *The Theory of Moral Sentiments*, declared that fairness, trust and honesty are essential for economic activity and that mutual sympathy is the most important motivating force behind social coexistence.

Historical context: Mercantilism in the mid-eighteenth century

At this time Great Britain found itself in a period of transition from mercantilism to capitalism (Gerstenberger 2006: 40, 57–65; and Conert 2002: 64).

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In the mercantilist era, which lasted from the sixteenth to the eighteenth century, princes and kings measured the success of their economic policy in terms of the amount of gold and silver they were able to amass. Trade was regarded as a zero-sum game: whatever a country obtained was at the expense of another country. Imports of goods were therefore subject to high protective tariffs and the import of commodities was promoted. Royal courts tried to direct the economy. The guilds regulated in detail who could pursue which activities and in what quantity of goods could be produced.

Smith's aim: overcoming mercantilism

Smith wrote what one might call his »capitalist manifesto« in order to break open this rigid economic order. His ideas fell on fertile soil and he contributed to the liberalisation of the economy and trade.

Smith fundamentally transformed the theory of what constituted the wealth of a national economy. He measured wealth exclusively in terms of work performed and not, as the mercantilists did, in terms of gold reserves.

According to Smith there are three sources from which general prosperity can be achieved:

Three sources of prosperity

- striving for one's own interest and property
- division of labour and specialisation
- free trade and competition

He described by way of an example how striving for one's own interest and property can be productive and ultimately serve the common good.

Striving for one's own interest

> *»It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages«*
> (Smith 1974: 17).

In the very first sentence of The Wealth of Nations Smith described the division of labour as the essential driving force of economic development:

Productivity through the division of labour

> *»The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour«*
> (Smith 1974: 9).

He explained the benefits of the division of labour using the example of a pin factory. An individual pin-maker can produce only a few pins a day. However, if production is divided up into several stages, each performed by a specialist worker concentrating on one »distinct operation«, several thousand pins can be produced in a day.

Prosperity through free trade and competition

Finally, Smith advocated free trade and free competition. Much as in the case of the division of labour between different workers, parties who can trade freely with one another can specialise in what they do best. Overall productivity can be increased in this way. Allocation through the »invisible hand of the market«, according to Smith, is more efficient and creates more incentives than any form of central economic planning. Smith gave the example of trade between Scotland and Portugal.

Taking advantage of »comparative advantage« through trade

While Scotland was particularly good at producing wool, Portugal was good at producing wine. Smith called this a comparative advantage. If the two countries concentrated on their own specific products and traded instead of trying at great expense to produce both wine and wool both would benefit.

This consideration diverged from the contemporary view that trade is a zero-sum game. Ironically, as a customs official Smith was responsible for the observance of mercantilist trade regulations for over a decade.

What is »Laisser-faire«?

In order to let the sources of prosperity – pursuit of profit, division of labour, trade and competition – do their work the state, according to Smith, should influence the market only indirectly, leaving it as much freedom as possible. This led to the so-called »laisser-faire« doctrine.[2] It implies that the state should confine itself to ensuring public safety, national defence, legal certainty, infrastructure and education and otherwise should not intervene in the market. This will result in the greatest possible productivity.

Unleashing the productive forces

Smith laid the theoretical foundations for the liberalisation of the economy which, primarily in the nineteenth century with industrialisation, unleashed hitherto unprecedented productive forces. Smith assumed that a free market economy would automatically find a balance and did not foresee crises and recessions.

Problems with the division of labour

Similar to Marx, who analysed the exploitation of the workers and the alienation of labour, Smith was also aware of the dark side of capitalism. He feared that constant refinement of the division of labour would lead to the »mental mutilation« of workers and, to make up for it, called for more educational opportunities.

Smith: The Theory of Moral Sentiments

In his lesser known work *The Theory of Moral Sentiments* (1759) Smith describes people's need to behave decently and fairly and to overcome their egoism as beings with collective needs. He thereby refutes those who wish to rope him in as principal witness for the view of humanity as the purely utility-maximising homo oeconomicus.

Smith regarded himself as, first and foremost, a moral philosopher rather than as an economist, emphasising the importance of fairness, trust and honesty in business dealings.

2 Laisser faire (French) means something like »letting [people] do as [they] choose«.

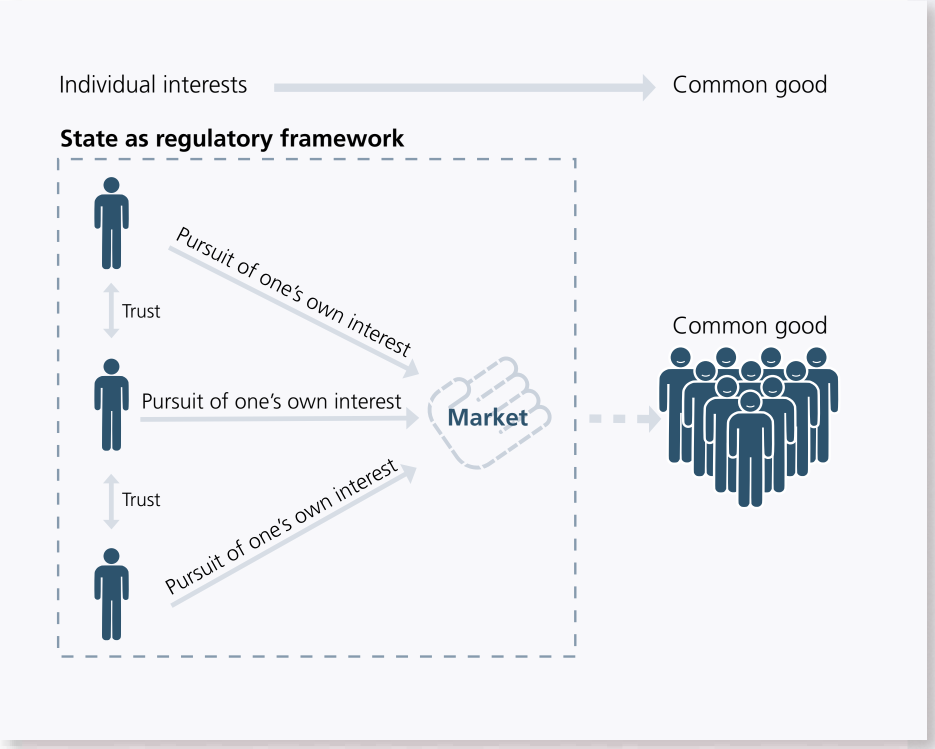

Figure 1: Smith: Promoting the common good through self-interest

Smith's influence

The classic theory of economic liberalism, which was based on Smith, remained dominant until the global economic crisis of 1929. Only in the wake of the latter did widespread doubts emerge concerning whether markets led by the invisible hand always achieve equilibrium. The severe crisis and the sustained high unemployment which followed it could not be explained on the basis of the laisser-faire approach. Classic economic liberalism was shaken to its foundations. Nobel Prize winner Joseph Stiglitz, looking back, has remarked that »the reason the invisible hand often seems invisible is that it is not there« (Stiglitz 2002).

The next few decades comprised the era of Keynesianism, as described in the next section. Only after years in the wilderness did economic liberalism undergo a renaissance, from the 1980s, in the hands of the neoliberals.

The Chicago School

The most famous of the economists who revived, developed and propagated Smith's ideas were Friedrich August von Hayek and Milton Friedman. The latter established an economic liberal ideology which also became known as the »Chicago School« (Friedman was a professor in Chicago). However, the neoliberals confined Smith's ideas to his critique of the state and his advocacy of the free market. Hayek and Friedman disregarded his »theory of moral sentiments«.

Reinterpretation under Thatcher and Reagan

Their reinterpretation of Smith's work became extremely influential, especially in the USA under President Ronald Reagan and in the UK under Prime Minister Margaret Thatcher. The guiding principle of the policies of both these figures was that the state is not part of the solution to the problem, it is the problem. That meant deregulation, privatisation and the reduction of state benefits.

Washington Consensus

Believers in the market also exercised great influence over the policies of the World Bank and the International Monetary Fund. Within the framework of the so-called Washington Consensus these institutions spread the economic liberal ideology, for example, in Latin America, the post-communist states and, after the 1997 Asian crisis, in Southeast Asia. The deregulation of financial markets was also decisively influenced by this ideology. Its consequences included the worst crisis in the global financial architecture for decades and a global recession from 2008. The scope and magnitude of the crisis have led to an economic and political rethink. Instead of economic liberalism with its blind faith in the market, now gaining the upper hand are those seeking a new balance between state and market and who emphasise the primacy of politics over the economy.

Further reading:
Helen Winter and Thomas Rommel (1999), Adam Smith für Anfänger. Der Wohlstand der Nationen: eine Leseeinführung, Munich.

2.2. Karl Marx's Critique of Capitalism

Karl Heinrich Marx (1818–1883) was a German philosopher and political journalist.

What liberal economists saw as stability and growth as a result of the development of the free market Marx described as class conflict, exploitation, impoverishment and a crisis-prone system which could lead to a revolution of the proletariat.

Marx's most important economic publication (partly posthumous) was »Das Kapital« (Capital), whose three volumes appeared between 1867 and 1894. The »Communist Manifesto«, published in 1848, exerted enormous political influence.

Marx: Relations to Smith

The critique of capitalism of the German philosopher Karl Marx is often seen as a theoretical counterblast to Smith's ideas. That is only partly true: Marx studied Smith's work closely and came to similar conclusions. If anything, the forces of production and innovativeness of capitalism are emphasised even more strongly by Marx than by Smith. However, Marx drew very different conclusions. Unlike Smith Marx saw capitalism as inherently unstable and destructive, leading not to the »wealth of nations«, but to the impoverishment of the vast majority of workers.

Historical context: Early industrialisation in the mid-nineteenth century

In order to be able to understand Marx's ideas one has to put oneself in the precarious circumstances of workers during the period of early industrialisation in the nineteenth century. A document from the Museum of Industrial Culture in Duisburg conveys this vividly: (Baier u. a. 2002: 18):

»While the affluent built an exclusive residential area on the outskirts of the city dreary rows of ugly apartment houses were built for the workers which were overcrowded, unhygienic and overpriced … For example, often a whole family and a lodger slept in one room, with several people sharing a bed in rotation: sleeping patterns corresponded to shift work. Working conditions in the factories were geared entirely to the machines to which the workers who served them had to adapt themselves. Seventy-hour working weeks were the rule and in the textile industry even 80 hours. Child labour was widespread, social security was almost unknown and health care was poor.«

This description applies more or less to living and working conditions in many poorer countries today.

Exploitation as a consequence of capitalism

Marx regarded these inhuman living and working conditions not as an unfortunate accident, but as a necessary consequence of capitalism. According to his analysis the free market led inevitably to misery and exploitation since the profits of the capitalists are the result of the exploitation of the workers.

The concept of »surplus value«

Of central importance is Marx's theory of »surplus value«, which he presented in the first volume of *Capital* in 1867 and set out in the volumes which appeared posthumously. Surplus value is the value which the entrepreneur can realise as profit in exchange over and above his invested capital: for example, if he has put 100 euros into production (which would be a proportionate reward for the goods and all means of production) but realises 110 euros on the market. According to Marx this surplus value can be obtained systematically only from value-creating labour. In other words, if the worker creates more value than he receives in the form of wages.

Surplus value arises, according to Marx's labour theory of value, from the profit obtained by the entrepreneur from the output of the workers after the deduction of wage costs and expenditure on the means of production. Surplus value is therefore synonymous with the exploitation of the workers. Marx distinguishes further between absolute surplus value, which comes into being simply through overtime (longer working time), and relative surplus value, which is achieved through increasing productivity (Wirtschaftslexikon 2009).

Marx described how the workers received only the wages needed to maintain their subsistence. The capitalists, in contrast, enriched themselves from the difference between this wage and the surplus value the workers created.

He assumed that the capitalist – driven by ever increasing competition – tries to increase this surplus value. Wages fall further, working time is increased and the deployment of machinery is stepped up. The consequence is rising unemployment. At the same time, competitors are gradually driven out of the market. Finally, society is increasingly divided between those without property and a small group in whose hands capital is concentrated.

In the so-called *Economic and Philosophical Manuscripts* written in 1884, besides the concept of »surplus value«, Marx also identified the notion of the

Further reading:
Volker Happe, Gustav Horn and Kim Otto (2009), Das Wirtschaftslexikon. Begriffe. Zahlen. Zusammenhänge, Bonn.[3]

3 We would like to thank the publisher J.H.W. Dietz Nachf., Bonn, for the opportunity to use definitions from its Economic Lexicon in this volume.

»alienation of labour«. In this Marx (as Adam Smith had done) discerned the dark side of the division of labour in production. In mass production the worker is involved only in extremely limited and monotonous stages of production. He is deprived of contact with the ultimate product and the satisfaction associated with producing it.

Concept of »alienation«

For Adam Smith, competition and the division of labour were the well-springs of progress. Marx, by contrast, regarded competition and the division of labour as the root evil of capitalism and the cause of exploitation and alienation. He perceived that production advances in his time benefited only the capital owners, while impoverishing the workers.

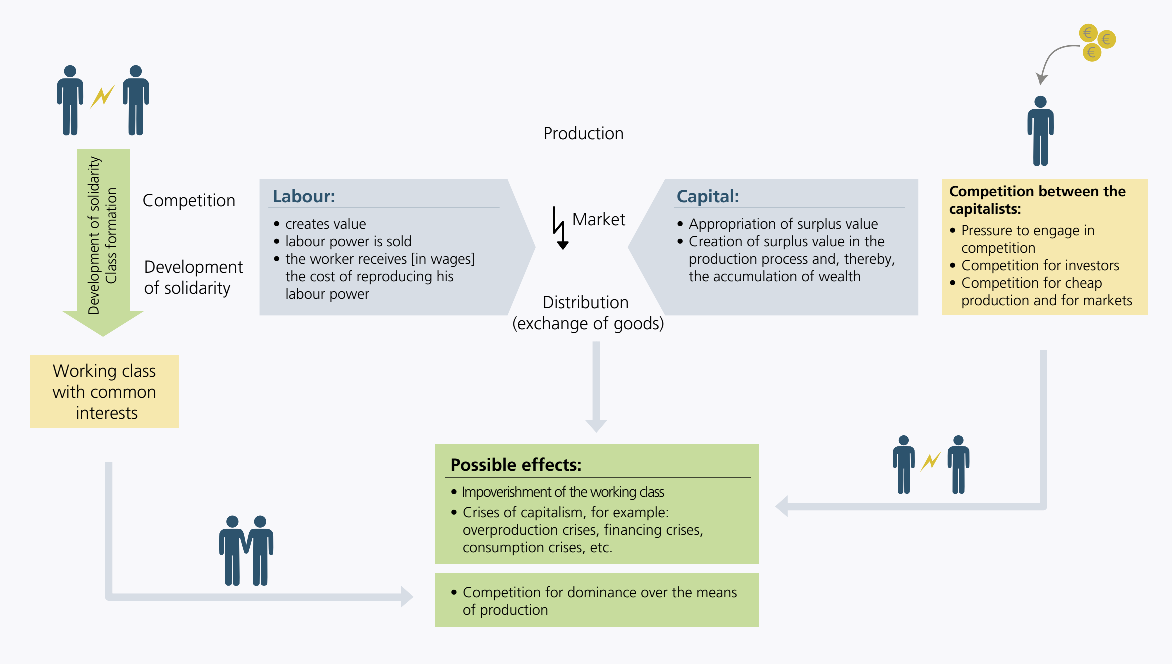

Figure 2: Basic structure of Marx's argument

Instability of capitalism

A profit-oriented economic order, according to Marx, is unstable and crisis-prone. In his view, it could lead ultimately to a revolution by the exploited.[4]

> *»Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds.«* (Marx 1991: 684 f.)

Private ownership of the means of production as the hallmark of a class society

A final key concept in Marx's theoretical armoury, which he addresses primarily in the Communist Manifesto of 1848, is »property« or »ownership«, particularly in the sense of private ownership of the means of production.

Private ownership of the means of production, for Marx, is a distinguishing feature of capitalism's class society. After the proletarian revolution predicted by Marx in his early writings private ownership would, in his opinion, be abolished. The working class, due to the low – barely sufficient to maintain subsistence – wages it receives, has no chance of acquiring significant property. The capitalists, in contrast, appropriated their property through exploitation.

Political demands in the Communist Manifesto

Marx therefore demanded in the Communist Manifesto, among other things:

- centralisation of credit in the hands of the state through a national bank with state capital and a sole monopoly
- centralisation of transport in the hands of the state
- multiplication of state-owned companies, means of production, cultivation and improvement of all estates in accordance with a communal plan (see Marx/Engels 1987: 54).

Problems of nationalisation

Marx's most important interpreter, Friedrich Engels, saw problems in such nationalisation: »the more [the state] proceeds to the taking over of productive forces, the more does it actually become the national capitalist, the more citizens does it exploit … the capitalist relation is not done away with. It is rather brought to a head« (Engels 1988: 553f).

4 In the literature on Marx different answers are given to the question of whether he considered revolution a necessary or only a possible historical development. Decisive in this respect is the question of whether one distinguishes between different phases of Marx's work or take his oeuvre as a whole. For further reading, see: Heinrich (2004: 169–78).

The following quotation is attributed to the economist John Kenneth Galbraith: »Under capitalism, man exploits man. Under communism, it's just the opposite.« States such as the Soviet Union and the former East Germany (DDR), which carried out the demands of the Communist Manifesto for centralisation and nationalisation of the banks, the transport system and the means of production, failed.

History as the result of class struggles

Marx interpreted history as a result of class struggles, which reach their peak in the encounter between the bourgeoisie and the proletariat and could culminate ultimately in a proletarian revolution. He developed the utopia of a classless society without competition and private ownership of the means of production.

Impoverishment is not inevitable

History has shown, however, that the impoverishment of the workers described by Marx and the increasing concentration of property among capital owners is not inevitable. It was possible to distribute the gains in prosperity more fairly, not least through the organisation and solidarity of the workers in trade unions and the creation and consolidation of the welfare state.

The terms **»Bourgeoisie«** and **»Proletariat«** which Marx used refer to the opposing classes. The term »proletarian« is derived from the Latin »proletarius« (»belonging to the lowest social stratum«). The term »bourgeoisie« is derived from the French and refers to the »full-fledged property-owning stratum« (entrepreneurs, capitalists, managers, rentiers).

Schumpeter: »creative destruction«

The concentration of capital was breached by the »creative destruction« described by Austrian economist Joseph Schumpeter. He depicts how companies are perpetually reorganised as a result of innovations, competition, crises and new markets.

»The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process … that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of creative destruction is the essential fact about capitalism.« (Schumpeter 1942: 137f).

The automobile industry replaced coachmen, blacksmiths and stable boys. The typewriter manufacturer has to make way for the computer manufacturer. These are examples of creative destruction which, on the one hand, promotes innovation but, on the other hand, creates new uncertainties and requires enormous flexibility from people.

Failure of state socialism

The experiment with state socialism, which based itself on Marx, has failed and its theoreticians have been discredited. Has the theory therefore been refuted? The fact is that, so far, no functional alternative has been found to an economic order based on market efficiency and private property, which has stood up in practice.

Enduring value of Marx's analyses

Marx was a better analyst than guide. No practicable solutions can be derived from his doctrines and his predictions have not come true. However, his analyses still attract attention. More than anyone else Marx heightens one's awareness of the dangers and crises of an unrestrained capitalism.

How should Marx be classified? Willy Brandt: »the pursuit of freedom«

How should Marx be classified, therefore? Perhaps in the manner recommended by Willi Brandt on a visit to the Karl-Marx-Haus in Trier in 1997: »One does justice to Marx best by taking him down from his pedestal, in both a positive and a negative sense. Whatever people have made of Marx or would like to make of him, the pursuit of freedom, the liberation of man from servitude and abject dependence was the principal motif of his thought and actions.«

Further reading:
Francis Wheen (2008), Marx's »Das Kapital«: A Biography

2.3. John Maynard Keynes: The Management of Capitalism

John Maynard Keynes (1883–1946) was a British economist who had a major influence on twentieth century economic theory.

In his influential work General Theory of Employment, Interest and Money (1936) he called into question the ability of markets to heal themselves and founded what came to be known as »Keynesianism«, the aim of which is to steer capitalism.

Keynes also worked on the development of the Bretton Woods system which laid down the rules for the global economy and financial markets in the post-War period.

Keynes – A middle way?

Both Adam Smith's doctrine of free capitalism with as little state intervention as possible and Karl Marx's rejection of competition and private ownership of the means of production, therefore, are problematic. Is there a middle way of coordinated capitalism which harnesses the market's productive forces, but counteracts and cushions its destructive forces?

Keynes's critique of the Neoclassical School

The British economist John Maynard Keynes analysed the Janus-faced[5] nature of capitalism: while efficient and productive, it is also structurally unstable. Although he believed in a market order based on property and competition he was critical of the neoclassical school, which referred back to Smith's doctrines.

For example, he criticised the fact that its »assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world« (Keynes 1966: 319).

Doubts about the »invisible hand«

In the face of the profound global economic crisis in 1929 Keynes also called into question the »invisible hand«. The market had not found its level again, which is what Smith's assumptions would lead one to expect, but rather unemployment had remained at a high level and economic stagnation had set in.

Danger of an economic downward spiral

Keynes identified a downward spiral: if fewer goods are produced and workers are laid off consumers and producers become uncertain and spend less money (»panic saving«). Demand continues to fall, companies produce less and cut more jobs, people save still more, and so on. The crisis goes from bad to worse

5 The Roman god Janus was endowed with two heads, one facing forward and the other backward.

and the economy risks falling into a lasting depression. In the wake of the world economic crisis, in which this is exactly what happened, this fell on fertile soil. Keynes not only recognised situations in which the free market does not function but, in the form of anti-cyclical economic management, developed ideas about how to counteract it.

Active intervention by the state called for

Economic management by the state

In an economic downturn the state must intervene in the market and make up for private demand, borrowing and issuing more money. It could give people money directly, for example, by reducing taxes. However, this approach could fall flat if people continued to save in response to uncertainty. More effective is for the state to spend directly, for example, by building roads or schools. As a result of this additional spending more people would be employed, who would then consume more, create demand and set in motion a positive spiral. Keynes put it like this:

> *»If we spend more than 150 million pounds everyone will have a higher income; and those who are unemployed no longer need unemployment benefit. In addition, this spending will bring many other people into employment. The money will circulate in the economy and be spent on all manner of goods and not be concentrated on a few industries.«*
> (Keynes 1939, quoted in Weinert 2008)

»In the long run, we are all dead«

This was his justification for abandoning the belief that the market always achieves equilibrium, as Smith had assumed. His remark – already mentioned – that »in the long run we are all dead« is well known. This amounted to an appeal for the state to take responsibility: it is more important to create jobs and growth today than to trust vaguely in some better future and a self-regulating market.

Keynes conceded, however, that market intervention is risky: it is difficult to know when to step in and to what extent. He wrote:

> *»The outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. Our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible.«*
> (Keynes 1966: 126)

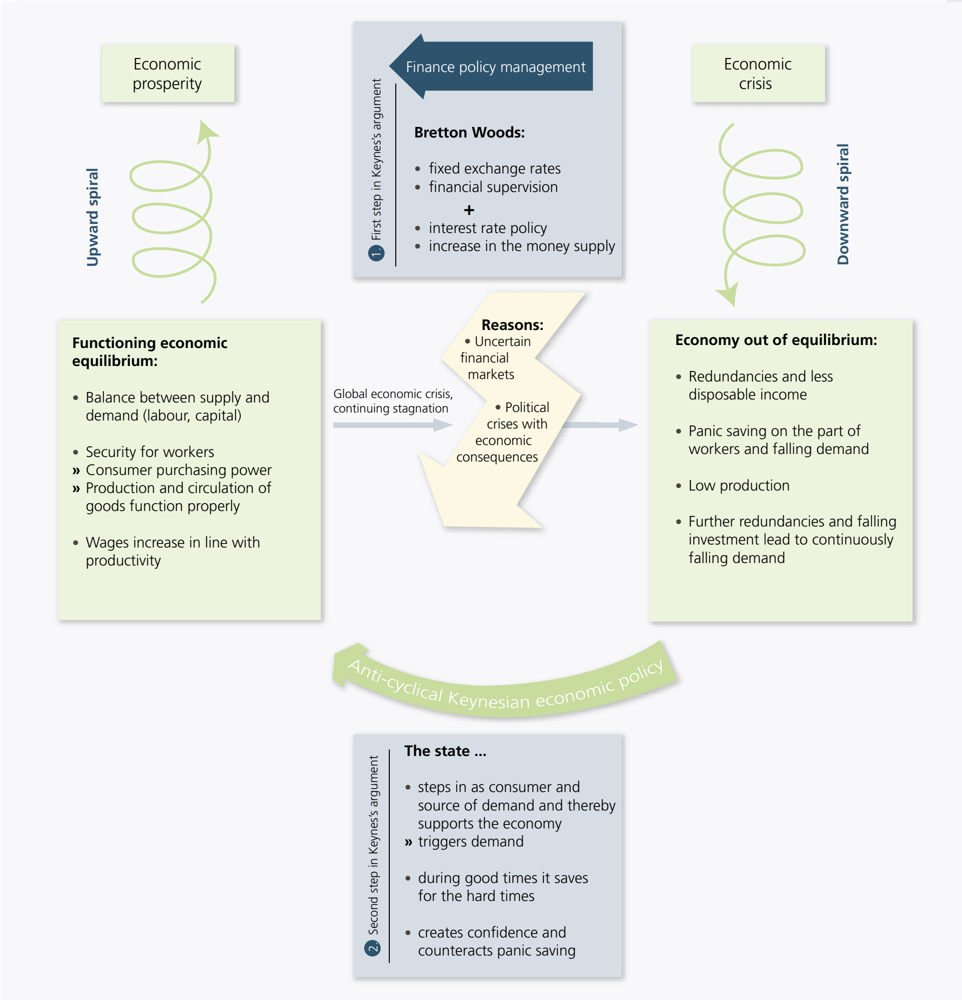

Figure 3: Basic structure of Keynes's argument

The so-called Keynesian Revolution

Keynes's analyses and recommendations that the state must intervene in the market were such a formative influence on his time that his opposition to both Smith and Marx is often described as a »Keynesian revolution«. Reactions to his ideas have reflected this. (Economic) liberals and conservatives have described Keynes as a closet socialist, while Marxists have reproached him with having too much faith in the market. What is certain is that Keynes, in an effort to oppose the emerging dictatorships – not only in Germany – sought to preserve democracy.

»The authoritarian state systems of today seem to solve the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated and, in my opinion, inevitably associated with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.« (Keynes 1966: 321)

Fundamental Psychological Law

Furthermore, with his »Fundamental Psychological Law«, Keynes supplied a reason why redistribution can be not only socially desirable, but also economically rational. A dynamic economy requires sufficient demand. Top earners tend to save a high proportion of their income. To stimulate demand it makes therefore sense to give low earners, whose rate of saving is lower, more income.

Keynes's influence on the twentieth century

Finally, Keynes played a decisive role in the construction of the so-called Bretton Woods system.

Bretton-Woods-System: In 1944, at a conference at Bretton Woods in the USA, the international financial architecture of the post-War period was agreed. At its core was an international currency system under which exchange rate fluctuations were curbed through a linkage to the US dollar. The International Monetary Fund (IMF) and the World Bank were set up as institutions for international lending and financial market regulation. The Bretton Woods system remained in place until 1973. After currency market turbulence the dollar peg of exchange rates had to be given up.

Keynes's influence is unmatched by any other economist in the twentieth century. Keynes's recommendations were implemented first in the United States within the framework of President Roosevelt's »New Deal« from 1933. First, public investment – for example, in infrastructure – was increased significantly. Second, consumption was boosted by an increase in social security benefits, since those on low – or with no – incomes have a low rate of saving. Keynes's doctrines remained the economic orthodoxy into the 1970s. In Germany, they were represented in particular by the economist Karl Schiller, who was SPD Minister of Economic Affairs and Minister of Finance between 1966 and 1972. During this period even the conservative US President Richard Nixon declared: »We are all Keynesians now«.

Problems with Keynesianism

From the mid-1970s, however, Keynesianism experienced a crisis. On the one hand, anti-cyclical budgetary policy did not function in the manner envisaged by Keynes. Although spending was increased during crisis periods government debt was not repaid when the economy took a turn for the better. As a result, public debt piled up and the scope for deficit spending was progressively reduced as crisis followed crisis. On top of all this came the two oil crises. The enormous oil price hikes generated a vicious circle: wages were raised, but higher energy prices ate up the additional income, in response to which wages were increased yet again, leading to rises in inflation, which in turn further increased wage pressure. Economic stimulus packages were ineffective. There was economic stagnation coupled with high inflation (»stagflation«). Neoliberal and new classical economists stepped forward, emphasising enterprise-friendly supply-side policy: efforts to boost locational advantages through cost reductions, budget consolidation and austerity measures were the order of the day.

Stagflation: When economic stagnation and inflation coincide (Wirtschaftslexikon 2009).

After years of economic liberalism the calls for state intervention in a largely deregulated market – among other things as a result of the financial market crisis which began in 2007 – are growing louder. A return to Keynes is also discernible. That is not really surprising since what Keynes wrote about international financial markets is more apposite than ever:

»Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.«
(Keynes 1966: 134)

Further reading:
Reinhard Blomert (2007), John Maynard Keynes, Reinbek.
Heinz-J. Bontrup (2006), Keynes wollte den Kapitalismus retten. Zum 60. Todestag von Sir John Maynard Keynes, Bonn.

2.4. Ideal Types of Economic Theory

In everyday political debate the ideas of Smith, Marx and Keynes are ubiquitous. If a liberal (in the sense of »economic liberal«) politician seeks to strip down the state to its core functions and declares that the state is not part of the solution but the problem itself, this is in line with the thought of Adam Smith. In periods of unrestrained globalised capitalism, in which markets increasingly come apart at the seams, Keynes's solutions with regard to the management of the market economy become relevant again. And in the face of images of factories in developing countries in which workers stitch clothes for 14 hours a day for exploitative wages Marx's analyses come easily to mind.

That is not surprising because, ideal-typically,[6] Smith, Marx and Keynes represent three very different economic world views which are repeatedly rolled out when questions of distribution, relations between market and state and other economic policy issues come to the fore. The three ideal-types can be described as follows:

1. Pure capitalism

1. The state should keep out of economic processes. Striving for property is the driving force of economic activity and should therefore not be infringed (the libertarian view, following Smith).

2. Anti-capitalism

2. The capitalist economic system, which is based on private ownership of the means of production and competition, leads to the exploitation and impoverishment of the masses. For that reason, it should be abolished (the communist view, following Marx).

3. Managed capitalism

3. The economic order is based on property and the market economy, but the state, through regulation, redistribution and macroeconomic management – in other words, through the deliberate management of demand – intervenes in the economy. Property is safeguarded, but it is socially embedded and has obligations towards society (social democracy, following Keynes).

»As much market as possible, and as much planning as necessary«

From economic theory it is clear that the unrestrained market breaks down in the same way as attempts to do without a market order. History shows that both market radicalism and the complete abolition of the market have failed.

6 »Ideal-typical« is meant here in the sense of sociologist Max Weber, namely the deliberate exaggeration of reality in order to order or capture segments of social reality theoretically. But »ideal-typical« also means that in this introductory volume only a simplified glimpse of the relevant ideas is possible.

Capitalism has to be guided and managed, if the goals of social democracy are to be achieved. The SPD's Godesburg Programme of 1959, thanks to the efforts of economist Karl Schiller, who at that time exerted considerable influence over the SPD, put it in a nutshell: »As much market as possible, and as much planning as necessary.«

What answers to these questions can social democratic politicians offer?

As already mentioned, the theories presented here must be assessed in their historical context. Clearly, capitalism has not collapsed as a result of its internal contradictions, as Marx predicted. However, it has not settled down into a harmonious equilibrium, as Smith had expected. The twentieth century was characterised by hitherto unprecedented prosperity for large segments of the population, but also by social upheavals and countless crises. How can these developments be evaluated from a social democratic standpoint? Matthias Platzeck, Peer Steinbrück and Frank-Walter Steinmeier offer a possible answer in their 2007 book »Auf der Höhe der Zeit« (Up to Date):

»Against the narrowly economistic thought of the orthodox Marxists, on the one hand, and of the liberals on the other, ›revisionist‹ social democrats around Eduard Bernstein posited both the primacy of politics and the principles of reform and progress, compromise and interest reconciliation across class lines. Where others put their trust in the spontaneous development of economic and historical forces social democrats emphasised the active and pragmatic management of transformation. They wanted proactively to combine market dynamism with social reform and renewal of society in order systematically to make growth and prosperity accessible to all segments of the population. Not only to reconcile the market economy, democracy and social cohesion with one another, but by political means also to bring about their positive interaction: this was the historically new and unprecedented plan for progress put forward by social democrats at the beginning of the twentieth century. For the first time, they were able to reconcile in practical terms and with unprecedented success what had previously always been regarded as incompatible and mutually hostile: a dynamic market economy, a vibrant democracy and social cohesion. Sociologist Ralf Dahrendorf's notion of the ›social democratic twentieth century‹ is therefore fully justified. … It is important once more to recall clearly how hard won was the victory of social democracy against its opponents – and how vulnerable the fruits of this success are in the twenty-first century. … A self-conscious social democratic party must therefore urgently reflect on how enormously important and pioneering those

ideas still are for the world of the twenty-first century which it developed originally in its encounters with Marxist orthodoxy and liberal laisser-faire. Because in terms of the fundamental internal mutual tension between markets, democracy and society nothing has changed in the era of globalisation.«
(Platzeck, Steinbrück and Steinmeier 2007: 19–21)

2.5. Economics Today

Where does economics stand today?

After the presentation of the historically most important economists the question arises of where economics stands today. How difficult it is to answer this question is illustrated by the following story.

A difficult question: an example

On the occasion of the UK's accession to the European Community in 1973 a letter appeared in *The Times* newspaper signed by 154 economists stating that Britain's EC membership would probably bring more disadvantages than benefits. The next day a statement by 142 (different) economists was published which declared that Britain's entry would probably bring more economic benefits than disadvantages. This was followed by a letter from a reader which hypothesised that economists would probably bring the UK more economic disadvantages than advantages (quoted in Wagner and Wiegard 2002: 773).

No dominant view: two reasons

This anecdote shows that there is no dominant view in economics. There are two main reasons for this

First: no science is build on »rock«

First, economics, like all sciences, is in the words of philosopher Karl Popper built not on rock but on marshland. In other words, the data, facts and observations from which economists draw their conclusions are subject to imprecision or can simply be wrong.

Second: economic utterances are value-laden

Second, economics in particular is value-laden. Unlike the natural sciences its assumptions and theories are determined by views of humanity and society. An economist who believes that man is a utility-maximising *homo oeconomicus* will reach different conclusions from an economist who regards man as a complex social being.

A sobering reminder that economics, which is supposedly built on hard facts, also includes a great deal of ideology and that therefore economists' recommendations must always be examined critically was published by economic journalist Andreas Hoffmann:

»I cannot get on an aeroplane without thinking about subsidies. Economists hate subsidies. Subsidies come from the dark side, they paralyse the economy. However, without subsidies there would be no Airbus in the sky. We only fly Airbus because some heads of government wanted to build aeroplanes. Otherwise, Boeing would rule the skies like Bill Gates rules the world of computers. … Or take the power of the trade unions. Allegedly, trade unions hinder enterprises in their pursuit of profit. Why then have precisely German car makers and machine building, metalworking and electrical firms been so successful throughout the world? In fact, they should have failed because their trade unions are the strongest? … It is not much use referring to the real world with proper economic experts. One is likely to receive a disapproving look, followed by a declaration that reality is not the issue but rather the ›economic policy approach‹. … But why is the map so utterly wrong so often? The First World War should never have broken out because economists regarded it as unprofitable. Eight days before Black Thursday in October 1929 star economist Irving Fischer said that there would never be a stock market crash. Not one of the five recessions which have taken place in Germany has been scientifically predicted; nor was the Internet boom in the 1990s. In autumn 2002 the Institute predicted 1.3 per cent growth for 2003: in the event, the economy shrank by 0.2 per cent. At present, everyone is racking their brains about why jobs are being created in Germany and the economy is growing again. Oil is too expensive and Angela Merkel is bungling the reforms.«
(Süddeutsche Zeitung, 16 September 2006)

Economics is not an exact science

But of course economics is not an exact science, able to make precise predictions but, on the basis of assumptions, puts forward more or less plausible empirically grounded theses.

Consequence: make clear one's own particular standpoint

What consequences can be drawn from this realisation. Certainly not that economics should therefore be regarded as unscientific or that its assertions can be interpreted entirely arbitrarily. However, it is important that economists be open about their assumptions and points of view, allowing those who read them to categorise and interpret them against this background.

Two camps: supply-side and demand-side policy

Roughly speaking, economists today can be divided into the supply-side camp and the demand-side camp, the boundary between which – to be sure – is fluid and subject to many overlaps.

Supply-side Policy

Supply-side policy: Adam Smith, David Ricardo, John Stuart Mill

Supply side-oriented economic policy stands in the tradition of Adam Smith's classical theory, developed by David Ricardo, John Stuart Mill and others. The policy demands that arise from this market liberal theory and its hostility to the state include the creation of conditions that are as favourable as possible for enterprises, enabling them to make good profits. Hence the term »supply-side policy«: the supply of goods and services should be optimised. From this, according to the theory, demand will arise automatically. The state should impinge upon the market as little as possible. Subsidies, public ownership and regulation should be minimised, and taxes and social security contributions should be kept as low as possible. The Central Bank should ensure the stability of the currency, but should not encroach upon the economic cycle.

Demand-side Policy

Demand-side policy: John Maynard Keynes

Demand side-oriented economic policy was founded by John Maynard Keynes and relies on the state playing an active role in promoting employment and managing the economic cycle. Key to this is the maintenance of constant demand in the economy. To this end, wages must grow at least in line with productivity. Henry Ford, who introduced mass production in his factories, thereby boosting productivity, advocated higher wages for the benefit of demand. He is supposed to have commented in this connection that »cars do not buy cars«.

If private consumption and investment slacken the state must step into the breach with investment programmes and employment-intensive measures. As a result of this additional demand enterprises will start investing again, employment will grow and private consumption increase. The Central Bank should do its bit for economic recovery by means of lower interest rates and expansion of the money supply.

Distinguishing Features

Different conceptions of wages

A key distinguishing feature of a supply side- as opposed to a demand side-oriented economic policy concerns wages. The former regards wages as a burdensome cost factor which, particularly during crisis periods, have to be reduced. The latter, by contrast, interprets wages as the decisive demand factor in the economy which must be raised during economic downturns to ensure that a downward spiral does not set in, as was the case in the world economic crisis in the 1920s. Some economists regard lack of demand as the cause of Germany's economic stagnation between 2001 and 2005. Through a combination of years of wage restraint and falling public investment domestic demand fell significantly, putting a strain on the German economy. As a way out of the crisis wage increases and economic stimulus packages were called for (Horn 2005). However, there are two problems with demand policy. First, in practice it has proved difficult during more favourable economic periods to pay back the public debts incurred: among other things, this is why the national debt has relentlessly increased. Ultimately, the scope for economic stimulus programmes and political action progressively diminishes. Second, the conjunction of demand stimulus and a central bank policy of flooding the market with money sometimes led to inflationary wage spirals. At the same time, inflation encouraged »panic saving«, causing consumption to stagnate. The logical outcome of this development at the end of the 1970s was a fatal combination of stagnation and inflation: so-called stagflation.

From Keynesianism in the 1970s to the Washington Consensus in the 1990s

Which of the two theories is more influential? As already mentioned, from the global economic crisis in the 1920s into the 1970s Keynesian demand policy dominated internationally. As a reaction to the stagnating world economy and the spread of inflation (stagflation), however, at the end of the 1970s neoclassical supply policy experienced a revival. Supply-side policy was advocated from the 1980s by Ronald Reagan in the USA and by Margaret Thatcher in the UK, as well as by – albeit in a diluted form – Helmut Kohl in Germany. In the 1990s, this economic policy direction was reflected in the so-called Washington Consensus and spread virulently throughout the world. Above all, the World Bank and the International Monetary Fund propagated a liberalisation policy which called for tax cuts, privatisation, deregulation, free trade and cutbacks in subsidies. The idea was to boost the market and roll back the state. Former chief economist of the World Bank and Nobel Prize winner Joseph E. Stiglitz has since become a prominent critic of the Washington Consensus. He regards blind faith in supply-side theory as primarily ideological and lacking empirical underpinning. The fact is that there are states which have adhered to the recipes of market liberalisation and whose economies have stagnated, while others have forged ahead both socially and economically on the basis of stronger coordination and management of markets (Stiglitz 2002).

Further reading:
A good overview of the background to this debate may be found in the excellent and easily comprehensible book by Peter Bofinger, »Grundzüge der Volkswirtschaftslehre« (2007).

A majority of German economists are supply side-oriented

At present, the majority of German economists appear to be inclined towards supply-side policy. When in 2005 the Red-Green Coalition openly considered reflationary public spending in order to boost demand – in other words, classic Keynesian policy – more than 250 economics professors called for a supply side-oriented economic policy in the so-called »Hamburg Appeal«. Economists who advocate a demand oriented policy have been on the defensive for years, but now they are increasingly getting a hearing.

Keynesian answers to the financial market crisis in 2008

Keynes's demand side theory can explain, for example, why the financial market crisis hit the real economy so rapidly and deeply in 2008, triggering a global recession. Accordingly, many countries have responded with classic Keynesian policies of demand stimulus, expanding public spending and boosting household purchasing power.

The financial and economic crisis since 2008 has led to a major rethink. Even the chairman of the Deutsche Bank, Josef Ackermann, now says: »I don't believe in the self-healing powers of the market any more« (Ackermann 2008) and is calling for a global financial supervision. Market radicals are now on the defensive and Keynes's doctrines are being rediscovered. His theories explain this severe crisis and point towards possible ways out of it.

Keynes's relevance is not mere coincidence: ultimately, his major work – the *General Theory of Employment, Interest and Money* – is the offspring of the global economic crisis of the 1930s, which in a number of ways resembles the current situation. Then, as now, arising from financial market disruption, economies worldwide slumped simultaneously, setting in motion a downward spiral. Due to a lack of purchasing power and worries about the possible advent of an even deeper crisis households are consuming less, enterprises are postponing investment and the banks are still barely lending. Less is being produced, as a result of which jobs are being lost and consumption sinking even further. The crisis of the 1930s was ended initially by an extension of market regulation and state investment programmes based on Keynes's ideas.

How can the origins of the crisis on the US real estate market in 2007 be explained? A gigantic speculative bubble had built up which brought the international banking system to the brink of collapse. Keynes's pupil Hyman Minsky had a plausible explanation for this, based on the work of his teacher (Minsky

1986). During long periods of economic growth greed and an appetite for risk increase. In pursuit of higher profits ever greater risks are taken. Competition between banks tempts them into circumventing regulations with new financial products in order to fund risky investments. When too much risk accumulates the whole house of cards collapses, as we have seen. Minsky's solution is state regulation to protect the market from itself and to avoid financial crises. Keynes called for an end to unregulated global financial markets as early as 1926 in his essay »The End of Laisser Faire« (Keynes 1926). He was also involved in the practical development of regulations for the world market. Among other things, he participated in the Bretton Woods conference, at which a regime for world financial markets was drawn up, which led to several decades of stability. Now this topic is once more on the international agenda. The G20 summit in London in April 2009 has also been described as an attempt at a second Bretton Woods. Small, but important steps were taken in this direction: the global regulation of hedge funds and rating agencies was agreed and a forum for financial stability set up at the International Monetary Fund.

But what ways out of the current crisis might we discern in Keynes? Economic cycles are usually managed by interest rate policy. Accordingly, central banks worldwide lowered interest rates in response to the 2008 crisis. Because of the severity of the crisis, however, these measures did not have their customary effect. Money was hoarded, as Keynes had predicted would happen in particularly grave crises. In order to make up for absent private investment and consumption Keynes called for debt-financed state investment. Numerous countries reacted in 2008 and 2009 with a classic Keynesian policy of demand stimulus by increasing public spending and boosting household purchasing power to an unprecedented extent. After sizable economic stimulus packages had been decided in the USA, China and Europe at the G20 summit in April 2009 the world's leading economies agreed to pump 1.1 trillion US dollars into the economy worldwide. The (social democratic) then British Finance Minister Alistair Darling referred expressly to Keynes in his announcement of his government's economic stimulus package.

A classification of German economic research institutes

Economic research institutes often represent a basic school of thought (supply side- or demand side-oriented) in economic theory and orient themselves in accordance with it. The five major economic research institutes in Germany can also be classified primarily as either supply-side or demand-side oriented. Their research has a not inconsiderable influence on the economic policy debate. It is therefore important to recognise their basic economic convictions and to bear them in mind when evaluating their analyses and recommendations. All five work together, however, in particular on economic prognoses, which form the basis of public budgets and influence the planning of many firms.

- The Deutsches Institut für Wirtschaftsforschung (DIW) (German Institute for Economic Research) in Berlin, headed by Professor Gert G. Wagner (www.diw.de), is primarily demand side-oriented.
- The Institut für Wirtschaftsforschung Halle (IWH) (Halle Institute for Economic Research) in Halle/Saale, headed by Professor Ulrich Blum (www.iwh-halle.de), is primarily supply side-oriented.
- The Institut für Weltwirtschaft (IfW) (Kiel Institute for the World Economy) in Kiel, headed by Professor Dennis J. Snower (www.ifw.de), is primarily supply side-oriented.
- The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) (North Rhine-Westphalian Institute for Economic Research) in Essen, headed by Professor Christoph M. Schmidt (www.rwi-essen.de), is supply side-oriented.
- The IFO Institut für Wirtschaftsforschung e. V. (IFO) (IFO Institute for Economic Research) in Munich, headed by Professor Hans-Werner Sinn (www.ifo.de), is supply side-oriented and easily the most market-liberal of the five institutes.

In addition, there are the supply side-oriented Institut der deutschen Wirtschaft Köln (IW) (Cologne Institute for Economic Research, headed by Professor Michael Hüther: www.iwkoeln.de), which has close ties to employers; the demand side-oriented Wirtschafts- und Sozialwissenschaftliches Institut (WSI) (Institute of Economics and Social Science, headed by Professor Heide Pfarr: www.wsi.de) which is close to the trade unions; and the affiliated Institut für Makroökonomie und Konjunkturforschung (IMK) (Institute for Macroeconomics and Business Fluctuations Research, headed by Professor Gustav Horn).

Further reading:
Michael Dauderstädt (2009), Krisenzeiten: Was Schulden vermögen und was Vermögen schulden, Friedrich-Ebert-Stiftung (ed.), Bonn.

	Supply side policy	Demand side policy
Basic idea	Create the most favourable conditions possible for enterprises, enabling them to make good profits	Ensure constant demand by state support of employment and management of the economy
School of thought	Adam Smith, David Ricardo, John Stuart Mill	John Maynard Keynes
Conception of the state	Passive state	Active state
View of wages	Wages are a key cost factor	Wages are a demand factor and must increase in line with productivity
Role of the central bank	It should ensure monetary stability	It should ensure monetary stability and help to maintain employment and constant growth
Dominant influence	From the 1980s	Between the 1930s and the 1970s, and increasingly since 2008
Institute	Institut für Wirtschaftsforschung Halle (IWH) Institut für Weltwirtschaft (IfW) Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) IFO Institut für Wirtschaftsforschung e. V. (IFO) Institut der deutschen Wirtschaft Köln (IW)	Deutsches Institut für Wirtschaftsforschung (DIW) Wirtschafts- und Sozialwissenschaftliches Institut (WSI) Institut für Makroökonomie und Konjunkturforschung (IMK)

Tensions between the market, codetermination, regulation and political governance

Balance between the market, democracy and social cohesion

The question arises, after consideration of the basic economic theories, of how social democrats can build a modern value-based economic policy on their foundations. A compass is provided for this purpose by the orientations of social democracy, which are explained in the next two chapters. At this point, however, the tensions which have to be reconciled in accordance with social democratic doctrines should be presented (cf. Meyer 2005b: 67).

Growth and fairness

1. Productivity and growth versus social justice and social security

   The pursuit of personal interest and property releases enormous forces, as both Smith and Marx described. The market and competition bring it about that scarce resources go where they can be used most productively. This has proved to be much more efficient than a planned economy could ever be.

   On the other hand, the market leads to unequal distribution and, with its cyclical fluctuations and susceptibility to crisis, structurally unstable, as Keynes described. As a result, markets must be subject to a political framework in such a way that crises are contained. The welfare state must safeguard people against the risks of the market. Through progressive – that is, increasing with income – income taxes, as well as inheritance and property taxes, »fair« distribution must be achieved. Furthermore, the state must manage the economic cycle by means of spending, tax and interest rate policy. That means that in economic crises public spending should be increased in order to keep consumption stable and people's willingness to invest should be stimulated by cheap loans.

Flexibility and security

2. Flexibility and innovation versus the protection of dependent employment and comprehensive social security

   Competition leads to innovation, certainly. However, the ruptures and crises which also accompany it must be alleviated by safeguarding workers with employment protection and social benefits. Far-reaching structural transformation – for example, the decline of the coal and steel industry in the

Ruhr – can be directed towards the creation of new jobs only by means of specific structural policy.

3. Property and competition versus social integration and regulation

Property and social embeddedness

Economic systems which have attempted largely to dispense with ownership rights to the means of production and competition have always failed. Every successful economic system is based on property and competition. However, that does not exempt ownership from social responsibility. For example, Article 14 of Germany's Constitution *(Grundgesetz)* states that »Property and the right of inheritance shall be guaranteed. ... [but] [p]roperty entails obligations. Its use shall also serve the public good.« In order to try to ensure fairness in the market and to prevent the market dominance of individual actors competition must be regulated.

4. Enterprise autonomy versus codetermination and imposition of a political framework

Enterprise decision-making and codetermination

From the right to property follows the right to engage in commercial activity. However, corporate decision-making should not be confined to capital owners, but also include those who, by their labour power, contribute to the creation of value. Corporate decision-making should therefore be constrained by codetermination.

Four dimensions of economic policy

Four dimensions arise from this:

- the imposition of a political framework
- the unfolding of the logic of the market
- rights of employee involvement and codetermination
- macroeconomic regulation

Taken together this means that in an economic system based on the values of social democracy the logic of the market can unfold within a political framework. Property »entails obligations« and is also subordinate to »the public good«. This is ensured, among other things, by the participation of workers in enterprise decision-making, besides the capital owners. Overall economic stability is ensured by macroeconomic regulation: in other words, the state, by means of budgetary and interest rate policy, attempts to bring about stable growth and high employment.