

HOW DO THE SOCIAL SYSTEMS FUNCTION? CONNECTIONS BETWEEN THE SUBSYSTEMS, SOCIAL SOLIDARITY AND SOCIAL SAFETY

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Received: March 31, 1994

Abstract

The word 'Social' in the combination with market-economy has been heavily attacked since its first presentation in 1946 in a book of Prof A. Müller-Armack with the title 'Planned economy and market-economy'. These attacks did not come from opponents to the market-economy only, but also from liberal politicians and economists.

Keywords: social systems, social policy, social-market economy.

Motto: 'The rule for the economy is the individual,
the rule for the individual is his attitude to
the Lord'

W. RÖPKE

1. Social Market Economy: Its Position Inside Liberal Conceptions

The word 'Social' in the combination with market-economy has been heavily attacked since its first presentation in 1946 in a book of Prof A. Müller-Armack with the title 'Planned economy and market-economy'. These attacks did not come from opponents to the market-economy only, but also from liberal politicians and economists. Those favouring socialist ideas pushed this concept in the direction of an efficient *advertising* of two contradicting elements. A liberal like F.A. van Hayek on the other side blamed 'social' to be a 'weasel-word'. He argued in a lecture given (1979) in Germany:

'I believe, the word 'social' is a weasel-word par excellence. What it really means, nobody knows it. Evident alone is, that a social market-economy is no market-economy'.

His idea is that the element 'social' behaves like a weasel, creeping into a chicken run taking eggs and sucking them without destroying the shell. This is a serious warning and we have to need out to what extent this scepticism is right. Many attacks can be explained as deliberate attempts to degrade this concept. Socialists tried to develop their own concepts like 'socialist market-economy' and 'market-economy from left'. They all failed because of a lack of balance between those part they tried to link ideologically. Other attacks originate from a serious lack of knowledge, mainly because they confine the term 'social' to near welfare actions which are only one part of the meaning of 'social'.

In order to understand the 'Social Market-Economy' and the differences of opinion within the liberal thinking it is necessary

- to outline the non-economic background of this concept
- to define the position of the Social-Market-Economy within the liberal contest which competes for international recognition in times of universal revitalisation of market-economies.

First of all the concept of 'Social-Market-Economy' (S-M-E) was designed with its application in mind. It is based on principles and therefore it is subject to evolution and changes in social life. The danger is that it may be misunderstood and misused. This concept must take cognizance of its principles and adjust to evolution. The S-M-E is by design not a pure economic concept. It considers in a very special sense the interdependence between political and economic systems, between political (individual) freedom and economic freedom, and the balance between individual responsibility, political subsidiarity and social solidarity.

A look at the different views of liberal orders demonstrates this specially German view. S-M-E and ORDO-Liberalism are German concepts and German contributions to the theoretical discussion about optimal economic systems. The political concern the design of liberal economic systems. My personal view is that it is not a concept only to be practised in Germany. The main ideas, principles and indications can be adjusted to other economic and sociological situations.

As a rough approach we can distinguish between two sets of liberal economic orders: (i) the individually-oriented variants and (ii) the socially-oriented variants. Both have common roots because liberalism has always been a reaction or counter-position.

- to totalitarian and authoritarian political and economic systems and
- to philosophies which have their bases on social pessimism and where the elite claim to possess the way to truth.

They also have in common a better understanding of the rules of a market-economy, than the theorists of the 18th and 19th century had.

Their main differences lay in:

- their view about social affairs and the tasks of public authorities
- and the recognition of the interdependence and even complementarity of the political, economic, legal and social orders.

The approach represented by Friedman/Nozick is more inclined to individual freedom and cuts the state back to its 'classical' tasks (ie. the production of internal and external security and the production of public goods). The missioning of this concept is the idea of an order which goes beyond purely economic ideas and means. Even its attitude towards competition is more-or-less based on the optimistic idea of countervailing power (Chicago-School).

The approach of Buchanan/Tullock on the other-hand is the transfer of economic means to the political and legal field (public choice). The contract-oriented constitutionalism tries to explain the rationality of a social contract based on individually rational decisions. These means were applied to check necessity and the efficiency of all public institutions. The deficiency of this variant lies in the narrow economic view of human activities and the disregard of non-rational areas in real life. The Austrian variant is more-or-less an utilitarian approach, weighing all activities according to these rules.

The main differences between the two sets lay in the recognition of an interdependence between political and economic orders. The ORDO variant is nearer to the individualistic approach but it emphasizes the task of the SA government in establishing and maintaining efficient competition, also to establish a monetary order which guarantees price stability as a constituent of market-economy.

The S-M-E accepts completely the market-economy ideas of the ORDO approach but it adds two important elements:

- it proposes to accept that there exists not only an interdependence between the political and economic order, but also that social aspects have to be an integral part of any liberal order
- it embraces the idea of 'subsidiarity' and 'solidarity' as part of the whole order. Social responsibility and welfare policies are two complementary parts which improve the efficiency of the market-economy especially in times of crisis.

Considering these distinctions we can define S-M-E in order to elaborate the genuine 'social elements'. S-M-E aims at linking the free initiative of an economic order based on competition with social progress which is insured by the efficiency of the market-economy. Market-economy is a prerequisite and a means so S-M-E combines

- economic efficiency

- social justice
- and individual freedom. This interdependence can be shown by the enclosed figure.

2. The Social Elements in the Concept of the S-M-E.

This digression explains the principle differences within liberal economic orders. Knowledge of these principles serve to weigh the approach of the S-M-E. If we look at the social elements we have to distinguish between two sets:

- the economic components of the social elements,
- and the components which go beyond pure economic logic concerning social justice,
- the welfare component,
- and the society-oriented components.

2.1. *The Meaning of Social Policy*

'Social Policy' means different things in many nations. There is no one correct or all-embracing definition. Here we define as 'social policy' government interventions that are designed to affect individual behaviour or command over resource or to influence the economic system where the motive is to shape society in one way. No clear-cut boundaries can be drawn (see BULMER, LEWIS AND PIACHAUD, 1989), but we include in or definition of social policy two broad components:

Social Provisions or Services: Health, Education, Housing, Personal Social Services and Social Security.

Interventions for Social Purposes: Regional Policy, Agricultural and Industrial Policies, Environmental Policy (including both physical and social environment), Sex Equality, and Community Policies and Race Relations.

Social Policy, on this definition, involves government intervention but this may take one of several forms-principally, regulation, finance or subsidy, and direct provision. The issue of what level of government is appropriate is clearly one of the key issues concerning European Social Policy. But, before considering this, the rationale for intervention needs to be clarified.

2.2 The Grounds for Government Intervention

Free markets do not produce the good that we call 'social policy'. Social policies only come into existence through the intervention of the state. In this section we set out the grounds on which governments can justify appropriating part of the income of households and firms in order to 'produce' social policy. The grounds for intervention can be grouped into three main categories, based on arguments about efficiency, about equity and about solidarity.

There are two senses in which social policy may be deemed to be necessary on efficiency grounds. The first refers to the level of supply of particular social policies, such as health care or education. For any given society, there is a socially efficient level of provision of each of these services, this point is reached when social benefits and social costs are equated at the margin. The provision of social services is characterised by phenomena such as pervasive externalities, imperfect information, supply inelasticities and market failures associated with adverse selection and moral hazard (Barr 1987). As a result, the free play of market forces will lead to sub-optimal equilibria. There will therefore be under-provision of health or educational services, and a need for social policy intervention in order that the correct level is provided.

There is a second sense in which social policy can be justified on efficiency grounds. In this sense, efficiency refers not to the optimum level of provision of welfare services themselves in relation to societal preferences, but to the effect that sub-optimum social policy provision has on productivity and output in the economy in general. Modern economies require a well-trained, healthy manpower — which implies adequate education and health provision. Dynamic post-industrial cities cannot function without service workers, who will need to live relatively close to city-centre places of employment, implying housing policies to ensure an adequate supply of affordable housing in urban areas. Perhaps most importantly, achieving potential output — that is maximising national product subject only to the technical capacity constraints of the economy — requires a high and stable level of effective demand. This in turn implies stabilisation policies including a social security system that maintains household incomes (and hence demand) during periods of unemployment and non-employment. In other words, efficient economies require effective education, health, housing, and social security policies. Underprovision of social policy — that is, too low a level of 'social overhead capital' — lowers the productivity of industrial capital, and thereby leads to both output and profits being below what is technically feasible.

State intervention in terms of social policy can also be justified in equity or distributional terms. Intervention on these terms requires there to be at least one decision rule about how equity is to be defined. For example, the decision rule could be formulated in terms of minimum standards or equal access. More complex decision rules can be based on explicit principles of political theory, such as the Rawlsian 'maximin' principle.

In liberal democracies, such decision rules are arrived at, in principle at least, through the electoral process, via the mechanisms of representative government and universal suffrage. Parliamentary democracy is however neither a necessary nor a sufficient condition for equity-based social policy intervention. Benevolent dictators or enlightened aristocrats could decide to provide social policy on equity grounds, while democracies that comprised the sort of profit-maximisers posited by the rational choice school might prefer a regime that combined lower taxes with the absolute minimum level of social policy that was necessary to avoid inefficiency.

Equity may be considered generally or specifically: the concern may be with an overall distribution of income that is in some sense, 'fair' or it may be concerned with the distribution of say, health care or educational opportunities. The concern may be with opportunities or it may be with outcomes. Thus equity is opinions differ sharply. nevertheless the promotion of equity is the ground on which much, if not most, social policy is justified.

The third type of justification for social policy is in terms of solidarity. Solidarity is not a term that is widely used (yet, at least) in the English-language literature on social policy. Moreover, it is a term that is capable of a range of interpretations and applications (Specker 1991). We use it here in order to bring together a number of separate but related issues: social services as merit goods, the desire for co-operation and altruistic behaviour, and the building of a sense of community whether at local, national or European level.

If social services are considered to be merit goods, then there will be circumstances in which state provision can be justified beyond the level which consumers would freely choose in a completely decentralised system. Here the arguments usually relate to considerations such as imperfect information, the difference between private and social discount rates, and the need to take decisions on behalf of individuals, such as minors, who are in some unable to decide for themselves. For example, compulsory education, perhaps with a common curriculum, may promote a sense of solidarity.

2.3. The Level of Intervention

At what level of government should social policy interventions be made? Should it be at the local, regional, national or European Community level?

2.4. The Principle of Subsidiarity

What, however, exactly does the principle of subsidiarity mean? In seeking further illumination, I turned to two sources. The first is the public finance literature on fiscal decentralisation and the economics of multi-level governments. The second is the social teaching of the Catholic Church. (The classic reference is the encyclical *Quadragesimo Anno* (On Reconstructing the Social Order) of Pius XI, published in 1931, see also such documents as the 1986 Letter of the American Catholic Bishops.)

'Government should not replace or destroy smaller communities and individual initiative. Rather it should help them to contribute more effectively to social well-being and supplement their activity when the demands of justice exceed their capacities' (1986, para 124, cited in GANNON, 1987).

2.5. What is Meant by a Social Safety Net?

The safety net has been described above in simple terms. More complex is how this would be achieved in reality. In order to translate the idea of a targeted social security programme into operational form, a number of key decisions have to be made, as is illustrated by the examples taken in this Part.

In making these choices, the rationale for the safety net may be crucial, with the diversity of motivations described in the previous Part being reflected in different forms for the safety net. But it is also important to bear in mind that it is rarely the case that a safety net is being introduced *de novo*. Even in the case of post-war reconstruction, as with the Beveridge Plan in Britain, the proposals were heavily influenced by the existing benefit schemes. In the Eastern European economies, the starting point is not a green-field site, but an existing range of income maintenance provisions.

The existence of such provisions may work in different directions. For political reasons, the new governments may wish to dismantle the mechanisms in place under the previous regimes. The existing institutions may be discredited and not an effective vehicle for administration. Certain forms of transfer may be ruled out — even though desirable on other grounds — because of their association with the previous regime. On the other hand, a government may be constrained to work with existing administra-

tive structures, and hence be limited to modifying existing schemes rather than to starting afresh. The past may also impose a constraint on democratic governments is that electors will make comparisons with the earlier situation, it may for this reason be difficult to reduce the value of benefits or to disappoint expectations regarding future entitlements.