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**Federal President Joachim Gauck  
at the event commemorating the 60th anniversary of  
the foundation of the Walter Eucken Institute  
on 16 January 2014  
in Freiburg**

I would like to express my warm congratulations to all members and friends of the Walter Eucken Institute on this 60th anniversary!

You will not be expecting a technical lecture from me – about the Walter Eucken Institute through the ages or about ordoliberalism in itself. Acting as Federal President in no way makes me an economist and as you know, when in office one should refrain from commenting on day to day political affairs. Nonetheless I can and want to share my stance with you. And so you can expect my tribute to the Freiburg School to be accompanied by an appeal.

Here in Freiburg – in times of totalitarian rule – independent minds conceived an order of freedom, an order which, in the aftermath of the Second World War and in times of great scepticism towards liberal economic systems, contributed to bringing Germans round to the concepts of the market economy and competition. A chapter in the history of freedom in the Federal Republic of Germany was written here.

This is because freedom was introduced to society as an important topic, in that the notion of freedom in the economy was discussed. It is because freedom in society and freedom in the economy are intrinsically linked. Indeed anyone who desires a free society should advocate markets and competition and condemn the concentration of too much power in the hands of the few. Yet he must also be aware that a free society is based on conditions which markets and competition alone are not able to provide.

Walter Eucken's thoughts and concepts can assist us in this dual task. He sought an economic and social order which "lays the ground for both economic performance and living conditions which respect human dignity", an order which is geared towards freedom of the

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individual. And he discovered much which – today as back then – threatens this freedom.

He writes that “safeguarding freedom can become a danger to freedom if it allows the accumulation of private power; it can unleash extraordinary forces, yet these forces can also be destructive to freedom”. Do these words not ring a bell, a few years after banks and political failures plunged many states’ economies, and with them millions of people, into a severe crisis, and then, “too big to fail”, had to be buttressed and bailed out by taxpayers’ billions?

At other times, when I read Eucken I learn of the dangers which threaten the individual in the modern world of division of labour. Not simply economic hardship but also the restriction or even loss of one’s freedom “be it due to private power or, in the worst case, due to the overbearing state”. How could I not let these words remind me of the decades I experienced in a “centrally planned economy”, as Eucken termed it, of nationalised production means and central management of all economic processes, of absurd planning within a shortage economy and above all, the arbitrary distribution of opportunity and thus of a regime which did not allow people to fulfil their potential and hence let their sense of ownership wither away? I remember an economy and a state both of which failed in equal measure!

When Walter Eucken formulated this, he of course did not yet have the GDR before him but the Soviet planned economy, the National Socialists’ economic control and above all what he called the “selective interventionism” of the Weimar Republic. He had witnessed the devastation of the Great Depression, the suffering of the unemployed in many countries, as well as chaos and violence. Yet he also saw the incredible media power, amassed for instance by Alfred Hugenberg, who at the time had built up a gigantic empire and had ultimately helped the National Socialists to power. That goes to show that people were accustomed to such concentrations of economic and political power in the hands of an individual at that time – something we find unbelievable nowadays. At the end of the 1920s however, there were around 3000 cartels in the industry, trade and finance sectors. State intervention in economic processes was not uncommon.

And then, one Freiburg economist, together with his colleagues, started reflecting on how to dethrone the powers that be. He conceived an order in which the state allows competition free reign as much as possible, yet under no circumstances lets it determine the rules itself. An order which subjects individuals neither to authoritarian control nor to a market in which the strong can become so powerful that it is they who dictate the rules. An order which focuses on the objective of social justice and, in an attempt to achieve this goal, strives for the highest possible level of economic efficiency.

Whoever has this in the back of their mind can in fact find it nothing other than extremely strange that the term “neoliberal” carries such negative connotations today. After all, Eucken and his colleagues, themselves so called neoliberals, turned against this pure laissez faire approach with which neoliberalism is so often associated nowadays. What I am saying is nothing new to you who are here today. Yet in our public debates I do wish for more intellectual honesty, closer scrutiny. With this I would also like to see more historical awareness and recognition of the broad spectrum of liberalism in our country – ranging from Eucken and his vision of a regulatory state to Friedrich August von Hayek, who had more faith in “spontaneous order” than the state.

In any case Eucken’s ideas were just as against the laissez-faire approach of the 19th century as they were against the totalitarian encroachments of the 20th century. At the time this not only meant taking issue with the zeitgeist. It was extremely brave, as Walter Eucken was in fact challenging the National Socialists’ claim to rule. He deeply loathed their ideology, something which, by all accounts, he appeared to make no secret of. He stood up for Jewish colleagues, protested against the subjugation of the university to political uniformity – Martin Heidegger was President there from 1933. Later on Eucken made contact with resistance movements in Freiburg and, together with others, developed economic blueprints for the “afterwards” they hoped for. He did so at great personal risk. After the attack on Hitler on 20 July 1944, Eucken was arrested and interrogated by the Gestapo, and other colleagues of his were interned in concentration camps. Walter Eucken showed something which others were lacking then: composure and humanity at a time when so many were turning a blind eye to inhumanity.

This very composure also helped him give direction to young people in the years following the war. A wonderful example of this is the speech given by one of his students at his memorial service in 1950. The student said: “By showing us that and how a truly humane social and economic order is possible, he sowed the seeds of order in the hearts of his students”. And back when all sense of direction had been lost, that was hugely important!

The term regulatory policy may have been well received by post war Germans, yet the concept behind it, not a state run economy but rather an order of as much free competition as possible, was viewed sceptically. In the years following the war trade unions and of course alongside them many citizens hoped for nationalisation. Industry representatives hoped for a return to the cartels that they had grown fond of. It was thus a resounding success when in the end if not all then at least a significant part of the ordoliberal’s ideas could be put into practice.

I do not want to go into the individual merits, details and stages now – into Erhard's boldness, the man who lifted price controls in 1948, into the people marvelling at shop windows stuffed to the brim on the day following the currency reform or into the long battle over anti cartel legislation. In the end the fantastic compromise which came in the form of a social market economy, devised by Alfred Müller Armack, proved effective. Yet not everything that thrived in the economic miracle came about entirely without assistance. We should remember the loans provided under the Marshall Plan and the steady stream of workers coming in from the East.

Yet in hindsight we can say that what happened was not only an economic miracle, it was also a miracle for freedom. The Germans, at least in the West, were able to embrace the market and competition. The Freiburg School contributed to this!

This could now be the happy ending – the social market economy came through, and that's that! And indeed it is true that German companies successfully sell their products around the world and thanks to this economic success we do not only enjoy material wealth but also social standards matched by few other countries in the world.

Nonetheless many Germans consider the order of the social market economy to be efficient yet unjust. According to current polls, they associate the social market economy with "good provision of goods" and "prosperity" but also with "greed" and "ruthlessness". This is of course nothing new. Similar studies which delved into the minds of the Germans revealed that a relatively consistent penchant for state intervention in the economy has existed for decades. Federal President Heuss spoke of the Germans' "emotional anti capitalism" which he rightly viewed as "rash anti-liberalism".

I conclude from this that not everything is getting worse. Roughly speaking: you need not despair if you, as I, consider the social market economy to be an achievement. But of course there are also grounds to ask what so many people so constantly despair at – not so as to follow them into despair ourselves, but rather to counter them!

Some people find the very need to freely determine their own lives more of an imposition than good fortune. There is more to freedom than its positive side, where it opens up opportunities. It also dissolves ties, awakens insecurity and fears. The early days of freedom are always accompanied by powerful fears. The very word 'freedom' sounds threatening to someone, for example, who yearns not for openness but for simplicity. Add to that the constant pressure to defend what you have achieved from others! Many people are frustrated by the competitiveness that characterises our lives. It starts at school, if not before, and stays with us not only in our careers and at work but also in the sporting, artistic and cultural spheres. Democracy itself is impossible to imagine without competition. As a

country, we are competing with other nations not only with our economy but also with our model of society.

When we get right down to it though, all too many people find competition primarily uncomfortable. Constantly having to compare yourself to others is exhausting. And if we keep having to defend our position against other people, then there is of course a recurring chance that we might fail. That is the paradox inherent in a liberal order. I know so many people who used to fear being locked up, who were looking for freedom, yearning for it, but who are now afraid of freedom, afraid of being left behind. That is only human, but it is worth explaining what the principal essence of competition is, at least when it is fair: it is a force for greater openness. It breaks down entrenched privileges and ossified power structures, creating space for more people to take ownership and participate in society. Even when we fail, it ideally offers second and third chances. And if it is done properly, then it is also fair.

Unfairness flourishes in places where competition is restricted, whether by protectionism, corruption or state protection of individual interests – where members of a particular party decide who is allowed into what positions, or where the rich and powerful change the rules to suit themselves and thus arbitrarily determine other people's chances in life. We do not have to look too far afield to see all of this in practice in various permutations even today. Words like 'oligarchy' and 'plutocracy' spring to mind. Furthermore, when we talk about globalisation these days, we should not ignore the fact that large economic areas exist which are shaped by the exercise of state capitalism or a frankly proto-capitalist understanding of enterprise.

That very fact is the reason why Walter Eucken's basic insight packs such a punch: only when power is checked by free, fair competition will the many be able to participate. That is why it is so important to ensure that competition does not benefit a few powerful individuals but provides opportunities to as many people as possible. And that is why, when in doubt, it needs to be defended against any economic forces that seek to unilaterally change the rules of the game or establish positions of privilege under the guise of liberty. We likewise need to guard against the state skewing competition in the sometimes highly understandable desire to support development in particular groups or fields.

In the end, you cannot measure how liberal an economic system is solely by what is available in the shops; you rather need to look at whether or not it gives all citizens the chance to live their lives autonomously and provides as many people as possible with as many options as possible.

Even well-meaning state intervention can result in people being excluded, not included, in the long run. When is state provision

appropriate, for instance, and when does it lead to recipients no longer seeing any point in trying to make a living for themselves? You all know how intensively we debated such questions in the course of the Agenda 2010 reforms. We need to continue to do so. When I think of social policy that mobilises people, I imagine something like a safety net that catches people when they fall and helps people get back on their feet and stand up for themselves when they need it.

For me though, mobilisational social policy has yet another vital dimension, one that has a lot to do with equal opportunities. Taking power away from some individuals by means of competition may be an essential condition for enabling the many to take part in society, but that alone will not suffice. The many will still be far from empowered. Even if everyone is playing by the same rules, the equipment people can bring to the fray will make a difference. What would we say if a middleweight boxer had to fight a heavyweight, or an amputee runner had to compete against someone with two healthy legs? There are prerequisites to equal opportunities, that lie beyond the realm of competition.

Education is one area where we can see that particularly clearly. The children of less educated parents are five times less likely to gain university entrance qualifications than those with highly educated parents. We have become used to this state of affairs. But it cannot be the case that these children are less intelligent. They simply have much less access early on in life to all those things that would later allow them to choose from among various options. What is the point in saying we will equip all schools the same if there is such disparity between the children attending them? Some of those children do not even have someone making sure they are at school every day. Some simply lack a role model who tells them, "You need to make an effort, because you can do this and then that'll be something to be proud of." Everyone has to reach the finishing line under their own steam in the end – but we do need to do more than we have been to help people learn to walk in the first place.

We can make our market economy fairer not by reducing competition but by constructing it better. And when we talk about how we might achieve that, the name Walter Eucken is never far from the conversation, even today.

Eucken himself would presumably have been less than impressed to be claimed by one party. He used to enjoy making fun of the "ideologies and visions of all kinds" that do the rounds in everyday discussions about economic policy. He thought that "discussions about economic policy should not address doctrines but tackle specific regulatory tasks." We still have more than enough such doctrines today. But by the same token there are plenty of regulatory tasks to

be getting on with, such as regulating finance and the financial markets.

Any young job-seeker in Spain or Greece can tell you what the effect of the financial and debt crisis was. The crisis demonstrates very clearly what increases freedom and what restricts it. Mention 'crisis policy' and we all think of rescue packages for banks and states that had to be hastily agreed over a weekend and comprised considerable sums, or of reform programmes that became unavoidable. All too seldom does it mean a process of carefully weighing up arguments, seeking to gradually improve conditions, such as we would wish for in a liberal democracy. When crisis strikes, it is often too late for that kind of thing.

Why is that? It is because something was wrong before the crisis. Almost across the globe, the regulatory framework of the financial markets failed to ensure that banks limited their risks to a responsible level and accepted liability for their losses. Banks have power, because they are – or seem – too big to fail. States became dependent because they did not carry out reforms in good time, tried to serve too many different interests and let too much debt accumulate. This too is the opposite of freedom. Reform is under way in many areas now. In a lot of cases, it is guided by exemplary regulatory concerns, breaking up power structures, paring down privileges and ensuring that liability for losses lies with those who cause them – guided, in short, by the principles of competition, freedom and responsibility.

Power structures are being broken down in some places, but in others new ones are forming – albeit sometimes as a result of the very competition that is so desirable, namely in particularly innovative companies. It may be impossible in today's Germany for someone like Alfred Hugelberg to amass the kind of power he wielded, but it would not be hard to find similar cases elsewhere. In Germany, the Federal Cartel Office would be in the way, and the European Commission's competition authority guards against that kind of thing across Europe. Both bodies are certainly successful. But what about Internet companies with a global presence, for example? How can we create an environment in such a case these days that enables innovation but prevents excesses and so protects people's liberty?

Economic governance is a task that far exceeds the remit of the nation state, now more than ever. The creation of the EU internal market shows how economic success comes about in a state of competition – and how real competition can only come about once power structures have been broken up. Not for nothing is the internal market one of the most important projects of European integration. The global problem of how worldwide parameters might be set up, so that freedom might be advanced for all people, is as important as it is unsolved. This is in spite of many attempts being made: the G20, the

UN and such institutions as the WTO and the World Bank are all working on it.

The idea of the social market economy, an integral part of our country's self-image, could serve as an inspiration globally too. The good thing about this system is that it can learn and adapt; it does not set all targets, but it is consistently forward-looking. The relevant benchmark is whether it gives the individual space to decide things for him- or herself, to be active and inventive. It challenges us to see our own freedom reflected in the freedom of others. It is not a perfect model, but it does allow for openness; it brings with it potential losses but principally potential gains, and it generates social justice. And while we are on the subject, I would say this: when things do not get done due to a lack of political and social will, we should not blame the market economy but rather our own inability to regulate what can and should be regulated.

We cannot hope, I should point out, to create the right framework once and for all. After all, there is no such thing as an ideal situation which could be brought about by state planning or reform. It is also impossible to remove all risk from a market economy. Believe that you can, and you will always be disappointed; claim that you can, and you will always disappoint.

The field of economics, as Walter Eucken said, has the job of shining a light onto the "not intuitively understandable complexities of modern society". The Walter Eucken Institute dedicates itself to that job. What I would wish for from you, ladies and gentlemen, is that you very much emulate Eucken's readiness to be radical enough to question things. That admirable man wanted to be difficult, to dare to take issue, while remaining sober and objective in his arguments.

Economists should serve as a visual aid for policy-makers and society. They cannot do that if they prioritise the clarity and aesthetics of their theoretical models over the realities and complexities of society. Nor can they do it if they only have recourse to habituated dogma. They can do it, however, if they can summon the will and the courage to bring about what they consider desirable and make it relevant to policy-making.

In the end though, it is up to those in the political sphere – and, by extension, to all of us – to take responsibility for the order in which we live and want to live. That is what Walter Eucken and his colleagues did in their day – and they thus became part of our country's liberal story. Let us keep on writing that story!