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Left-Wing and Right-Wing Approaches to the Market Economy*

by

Franz Böhm**

An article has recently been published under the title „A Market Economy of the Left?“ („Marktwirtschaft von Links?”) in which it is asserted that there can be no such thing as a “left-wing”, or a “right-wing” market economy: there can simply be a market economy, full stop. One might be inclined to agree with this assertion if one had in mind, not any actual market economy which has existed, or exists, in the real world, but rather a model of a pure or perfect market economy. But the reality of such a concept simply cannot be admitted, for the following reasons:

When one tries to imagine a pure or perfect market economy one finds that it must be based on a particular distribution of income, which can only take account of those who, in one way or another, participate in the productive

* Note by translator: This essay by Franz Böhm, dating from 1953, was stimulated by an article in the “Industriekurier” (No. 47 of March 26th, 1953) entitled „Marktwirtschaft von Links?”, a widely discussed issue at that time.

I have tried to give the sense of what Böhm was saying in reasonably idiomatic English, – which is, of course, incompatible with providing a literal, word-for-word translation. For the original German text see FRANZ BÖHM, Reden und Schriften, Hrsg. E.J. Mestmäcker, Karlsruhe 1960. [T.W. Hutchison, Birmingham].

** Note by the editor: Franz Böhm (1895-1977), Professor of Law, from 1948–1977 one of the editors of this Journal, formed together with Walter Eucken, Friedrich Lutz, Hans Großmann-Dörth, and others the nucleus of the Freiburg School. After the war, Böhm taught at the Faculty of Law of the Johann Wolfgang Goethe University in Frankfurt (Main). He was a member of the West German Parliament (Deutscher Bundestag) from 1953 until 1965. As one of the most prominent representatives of neoclassical he advocated ardently the establishment of an effective legal framework for the newly established social market economy of this country. This article quite nicely reflects Böhm’s balanced, undogmatic style of reasoning. (See e.g. the article by W. F. STOLPER and K. W. ROSKAMP in this issue, especially pp. 377ff.).

In the early years after the war (1945/46) none of the political programs of the major parties of West Germany were outspokenly in favor of the principles of a free market economy. Much more emphasis was laid upon social tendencies of different sorts, and there were also varying nationalization programs. On this last point the Social Democrats were quite specific (Hannover, May 11, 1946), but the Christian Democrats (in the British zone at least) also demanded nationalization of the coal mines (Neheim-Hüsten, March 1, 1946). Only later the major political parties began to champion the principles of a free market economy. The Social Democrats were hesitant and had difficulty in making a U turn. A comparatively clear ‘Yes’ regarding the free market, “wherever economic competition rules”, is to be found only in their Godesberg Program of November 13/14, 1959, six years after the publication of the above article by Franz Böhm. (Cf. W. TREUE, Deutsche Parteiprogramme 1861–1961, 3. erw. Auflage, Göttingen 1961). For more on this point cf. the contribution by J. DOMES and M. WOLFFSOHN in this issue, pp. 332–351.
process, whether as owners of land or capital, or as entrepreneurs (carrying out economic plans at their own risk), or as workers. This distribution of income through markets has the sole purpose of directing economic goods, and the services of entrepreneurs, technicians, and organisers, to where they are most needed. (As to where goods and services are most needed, this is decided, according to market principles, by the entirety of consumers through their daily individual decisions about what to demand, the effects of which emerge publicly in the form of market prices). Because the production process in a market economy depends on the voluntary, independent plans of the individuals taking part, a motive force is needed to act on individuals so that they shape their individual plans in accordance with the demands of their fellow participants in the economy, and so combine with one another in a rational process of labour and production which transcends the individuals themselves.

The Distribution of Income in the Real World

In the real world there is a very large number of people who do not contribute to the economic process of the market economy: children, housewives, the old, the sick and infirm – (apart from the unemployed whom, for the moment, we shall disregard). All these people receive no income from the market process. In addition to these large groups of people, there are others who perform necessary or useful work but who, nevertheless, receive no income through the market, being remunerated in a different way: for example, officials, teachers and public employees.

All these people have to be maintained out of the incomes of those who take part in the productive process. For these people the market economy makes no direct provision and can make no direct provision. The obligation to provide for them rests partly on their families, and also, to an ever growing extent, on the community and the state. It arises from the constitution of the market economy itself that the task of providing incomes for those who are not directly remunerated through the market should come to fall increasingly on the community and the state, and that, therefore, this task passes increasingly to political bodies. As contrasted with the self-sufficient household or feudal economy, the market economy is not well suited to the fulfillment of distributational responsibilities through the family, the church, or private charity; it cannot readily accommodate the intervention of these particular kinds of distributive agency. It is, therefore, political and not economic processes which, to an important degree, decide what quota of the incomes earned in the market is to be transferred to those groups who are not directly remunerated through markets, and as to how these transfers shall be distributed between particular individuals and categories.

Transfers of income have further consequences. Through transfers, incomes
are distributed to many more individuals than they are through purely market processes. Moreover, this occurs in a way which can be anticipated by the recipients of non-market incomes, who are provided with purchasing-power and thus take part in the decisions regarding consumption, saving, and hoarding, which guide production and the sectoral and temporal structures of industry.

The wider distribution of incomes makes possible the general participation in the education and political life of a free society, while for broad classes of the population standards of culture and consciousness can be achieved which a purely market economy does not bring about. In this way a large reservoir of highly qualified workers and entrepreneurs may be made available to the market economy. The market economy may, to some extent, be supported and supplemented by, or via, the incomes of the non-market sector. But the existence of this supplementary sector creates problems in spite of the fact that it may improve, to some extent, the performance of the market economy: for in other respects it endangers or threatens the market economy.

Providing for and maintaining this supplementary sector, insofar as this is not done by the family, is a political task. But the scope for political intervention is certainly limited, if a necessary regard is to be observed for the regulative functions of the market economy; though a significant political scope remains. The idea that the structure of a market economy inherently comprehends, in itself, a complete political and social order fails to recognise that the instruments of such an economy are limited to the guidance of production, and possess only a technical role within an overriding political and social division of functions and responsibilities. The immense significance is also overlooked of this overall division of responsibilities for the technical functioning of the market economic order. On the other hand, there is the contrasting notion, according to which intervention in the market system of distribution, and decisions regarding the overall political and social division of functions and responsibilities, need have no regard to the autonomous working of the market economy. This is to overlook the mutual interdependence between the economic order and the distribution of income, as well as between the specifically market and specifically political aspects of the economic order. The political “right” tends to make the first of the two above-mentioned mistakes and the political “left” the second. The political “right” is inclined to assume that the market economy necessarily reacts undesirably and unhealthily to political intervention; while the “left” assumes that the market economy is robust enough to absorb any interventionist mishandling, or to digest any foreign bodies which are fed into it.

It is clear, therefore, that insofar as the political “right” or “left” recognise or uphold the functions of the market economy there is plenty of scope for a full range of “right-wing” or “left-wing” political attitudes. The slogan “A Market Economy of the Left” is by no means confused, or absurd, or erroneous theoretically, but contains much significance and sense. A society which
upholds a market economy can contain parties with differing economic, social, and political views. Arguments and conflicts between political parties which recognise the functions of the market economy are absolutely necessary. They can contribute significantly to improving the understanding, and to refining the functioning, of the market economy, within the overall economic and social order. For those devoted to the Holy Grail of the pure market economy are no less one-sided and blind than those devoted to the Holy Grail of "Socialism", who concentrate their attention on the framework of economic data described as "the legal and social order", and from this altitude look down with contempt on such humdrum questions as those of the institutional regulation of the market mechanism.

Here are the sources of the serious errors which handicap the operation of the market economy to-day. Two most important problems remain unsolved. One is the problem of the aggregate instability of the market economy, which is decisively related to the problem of the monetary framework. The second problem is that of monopolies and interference by interest groups, the nature of which stems from the fact that those engaged in economic activity, either as individuals or in groups (combining the pursuit of group interests), rebel against the imposition by markets of the need constantly to adapt to changing circumstances and changing tasks, and against the heavy uncertainties thus imposed. There is a refusal to recognise that the bearing of these risks and uncertainties is an essential element in the freedom of movement and freedom to plan which the market economy provides for those taking part in the production process, and especially for entrepreneurs. Every producer wants to have his cake and eat it. He wants to limit his uncertainties and, at the same time, retain his freedom. He wants to ensure a place for his rigidly preserved vested interests within a market economy of which the first principle is mobility and strict obedience to the market. Instead of producing in accordance with effective demand, he wants to force demand to take what is produced, and, at the same time, to preserve the right for himself to decide what shall be produced and how. So far as he can manage it, the producer tries to preserve his vested interests by monopolies, cartels, restrictive practices and monopolistic economic warfare. Insofar as he is not successful, he tries to ensure that his vested interests shall be protected by political pressures and by lobbying governments and legislators.

The problems of instability and of monopoly have both become involved with political power. For even the "best" solution to these problems, according to market principles, may put in question the interests of individuals, and of strata, or sectors, of society. Certainly the state, according to the assumptions of the market economy, should remain neutral, and act as a referee for its citizens, leaving to each and everyone taking part in the economy that measure of success or failure, fortune or misfortune, which the rules of the market assign to them. But the state may not be able to preserve this kind of neutrality, because citizens, groups, and parties insist on maintaining their vested interests,
or the fruits of good fortune, against the rules of the game, by shaping the policies of the legislators and the government accordingly.

It is not simply a question of a conflict between those concerned with the functioning of the market sector and those devoted to shaping the framework, or "data" of the political and social order; or of a conflict between supporters and opponents of the market economy. What confronts us here is rather a general rebellion of the broadest sections of those engaged in the economy, whether they are supporters, or critics, or opponents, of the market system, who, at least when it comes to their own personal interests, are prepared to demand that the market system can go to hell so that special rules of the game, and a special slice of the cake, shall be cooked up for them, contrary to market principles. The agents in this process of anarchic disintegration are countless:
- workers against entrepreneurs, consumers, and the owners of land and capital;
- entrepreneurs against workers, consumers, and those not remunerated through markets;
- bureaucrats for their own vested interests against all other vested interests;
- one sector against all others;
- agriculture against the rest of the economy;
- one trade against every other possible interest.

The only people who cannot take part in this game of mutual destruction are the consumers. Although they consist of all members of society they always come off worst as compared with each and every partial interest. This whole collection of exploiting gangs is confronted simply by a deplorably small stratum of intelligent politicians, including the Minister of Economics, and a number of deputies, writers and economists. These are denounced by the whole united (or disunited) chorus of interest groups, as ideologues, remote from their subject and the real economic world, or as legal pedants, or envious "theorists".

So here too there is ample scope for "left-wing" and "right-wing" approaches to the market economy, and for those who will mutually monitor one another's activities and call attention to one another's errors. The entrepreneurs, on the other hand, in contrast with their emphatic declarations in favour of the market economy, are more inclined, at least, to contribute to its general abuse and destruction. In fact, the most radical and comprehensive socialist attacks on the market economy, such as that of Marx, do not undermine the market's authority as seriously as the unscrupulous and ignorant cynicism from inside the camp of those who are supposed to be supporting the market.

The polemic against "a market economy of the left" also has another objective. The attitude of the SPD\(^1\) is mistrusted and regarded as hypocritical vote-catching. But to the extent that the belated support of the market

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\(^1\) Sozialdemokratische Partei Deutschlands [ed.].
economy by the SPD is genuine, then the authors of such polemics are in the wrong. The impression is conveyed that the SPD, and any of those describable as holding "socialist" views, are to be denied the right of supporting a market economy. The market economy is to be regarded as the exclusive patent of employers, entrepreneurs, and the owners of land and capital, that is, of the bourgeoisie. It is demanded that the socialists, before they may support the market economy, must publicly declare the bankruptcy of socialism and perform a public, Cannossa-like, act of recantation.

We may leave on one side the question as to whether, and to what extent, there is among the SPD today [1953] a genuine commitment to the market economy. It will certainly not be doing any injustice to those socialists who are favourably inclined to the market economy, to assume that the kind of economy which they envisage is one that can be adapted to certain political objectives; and, moreover, that they may be considerably overestimating the extent to which the market economy can be thus manipulated. Nevertheless, if the market economy is going to be taken seriously, by a significant body of socialists, as a possible, discussable instrument for the purposes of a socially just order of society, this would certainly be an event of the greatest significance, both politically and for the history of ideas. Who can foresee today the consequences to which such a significant first step might lead?

The Market Economy and Socialism

It would be a complete misconception to assume that to be favourably inclined towards a market economy necessarily requires the renunciation of socialism. Historically, socialism, before and since Marx, and down to the present day, has consisted of two elements: one is a concern for humanity, and the other element has consisted of changing recipes for fulfilling this concern for humanity, – which is by no means an objective only of socialists. Their concern is for securing for everybody, especially for the most numerous classes, the greatest possible share of material goods, together with social and political freedom and independence, as well as opportunities for education, personal development, and an influence on the life of society. On the other hand, the programmes for achieving these objectives, both before and since Marx, have undergone decisive changes, and will continue to do so in the future.

The fact is that there is only a very limited number of ways, in principle, of ordering the economy of a society, and that each of this limited number of possibilities, according to its particular characteristics, is related to each of the others in various ways, which are well understood by intelligent people. Therefore, it is incomprehensible that those who profess a concern for humanity, and call themselves “socialists”, should be denied the right to choose, on the basis of experience, between different technical or instrumental possibilities: or that they should be denied the right to call themselves “socialists” if they come to the conclusion that their objectives can also be realised through the use of a
market economy. That the socialists themselves have denied this for a hundred years does not constitute a valid reason for their not ceasing to deny it today. Anyone who puts a high valuation on the power of markets to organise economic life; or anyone who appreciates the ability of markets to reduce to a minimum irrational resistance to change, inertia, and anti-social selfishness, without incurring significant administrative costs; or anyone who prizes highly their own freedom, and is convinced that the market economy can rise to decisively improved, and previously unattained levels of performance: any such people can only be delighted when a major socialist party today begins to replace its previous slogan of “Down with the Market Economy”, and the kind of denunciations of the market which they made earlier in this century, with the slogan “Market Economy of the Left”.

It was impossible to create a fully-fledged market economy in a free society so long as such a large and important part of the economically productive, including the labour force and other sections of the population, remained opposed or hostile to this kind of economic order. More especially, the degree of improvement which is attainable in this kind of economic order is ruled out. It is also impossible to bring into being politically a really successful market economy, together with its appropriate social and political framework, if it is only supported by those sections of the population who can look forward to special advantages, in terms of the distribution of income, or in terms of their own opportunities and influence – (including the possibility of managing an enterprise). For these sections of the population – as we observed above – are not, in fact, reliable supporters of the market economy. They are much more influenced by the understandable human striving to safeguard vested interests, avoid risks, and hold on to power, and so are under a constant temptation to undermine or replace the market order.

What could be more fruitful than political competition between bourgeois and labour parties regarding the best or most socially beneficial way of bringing about a market economy? “Market Economy of the Left against Market Economy of the Right”: this could be far from the worst kind of development, or conflict, which could happen in our country. Probably it is the only way of bringing about an effectively and beneficently working market economy.