

# Concepts of *Gemeinwirtschaft* and public missions of state owned enterprises

EUsers Workshop, University of Rouen, 8 June 2017

Thomas Kostal & Gabriel Obermann

# Introduction and aim of the paper

- In German speaking countries the use of the notion *Gemeinwirtschaft* has a long tradition with manifold meanings.
- After World War II “modern” concepts of German *Gemeinwirtschaftslehre* played a remarkable role in the governance of public owned enterprises, primarily in Germany and Austria, but also in other European countries.
- The so called *Instrumentalthese* perceived a state owned enterprises as a kind of economic policy instrument which can be controlled by political authorities and utilized to contribute directly to desired social and economic goals.
- During these times *Gemeinwirtschaftslehre* was almost not recognized in the international (English-written) scientific literature; however, its concepts were fundamentally criticized and rejected by main-stream economists.
- In order to shed light on some core ideas we present in our contribution the roots of *Gemeinwirtschaft*; we show the impact of important elements of the theory of *Gemeinwirtschaft* on the practical role of state owned enterprises after World War II and reasons for its decline of significance since the 1980s.

# Roots of German *Gemeinwirtschaftslehre*: the precursors

- Already the first economic activities are based on social economic elements (labor as joint work, use of common goods in antiquity, co-operative organizations in the Middle Ages, etc.).
- After the destruction of the medieval order, the transition from common to private properties, the emergence of the modern state, a change in the form of social economy followed with greater emphasis on macro economic aspects (state owned enterprises as instruments of economic policy in mercantilism).
- First reception of social economy in the economic literature by German classical economists (primarily Friedrich Benedikt Wilhelm von Hermann and Karl Heinrich Rau).
- Overall, the beginning of *Gemeinwirtschaftslehre* is, on the one hand, based on the (German) classical economic theory, but on the other hand also on a fundamental critique of this theory (in the sense of the older historical school).

# Roots of German *Gemeinwirtschaftslehre*: the founders (1)

- Foundation of the (German) *Gemeinwirtschaftslehre* in the second half of the nineteenth century by three economists: Albert Schäffle, Adolph Wagner and Emil Sax
- **Albert Schäffle** (1831-1903)
  - First representative of a closed social-economic system
  - Economic system is in principle based on a free market economy
  - “Stop-gap” function of the social economy for realization of economic policy objectives (dualistic conception of the economic system)
  - Principle of subsidiarity (especially regarding the private sector)
  - Criterion of demarcation the sector is the organizational form (and not the social-economic interest)
  - In the long term, the market economy will prevail

# Roots of German *Gemeinwirtschaftslehre*: the founders (2)

- **Adolph Wagner** (1835-1917)
  - Opponent of economic liberalism, but also of (radical) socialism
  - Representative of the so-called “state socialism” (the state can and has to secure social justice and social progress; continuation of the mercantilist tradition)
  - Distinguishes three allocation principles: as basis free competition and as supplement the social economic and the charitable principle (dualistic/trialistic economic conception with superiority of the socio-economic principle)
  - Distinguishes compulsory social-economic institutions (state owned economy) and independent social-economic institutions (non-governmental associations)
  - Assumes an increasing importance of the social-economic/public sector (“Wagner's law”)

# Roots of German *Gemeinwirtschaftslehre*: the founders (3) and the continuation (1)

- **Emil Sax (1845-1927)**
  - Representative of the Viennese marginal utility school
  - Assumes “stop-gap” function of the social economy and principle of subsidiarity
  - Engaged primarily in publicly-regulated private enterprises (“public binding”) as an instrument to fulfill social-economic goals
  - Findings are primarily based on analysis of the railway sector (“Government railroad controversy” with Wagner)
- **Continuation of German *Gemeinwirtschaftslehre***
  - At the time of World War I, the focus shifted more to command-economy concepts of the social economy (“war-state socialism” as a monistic conception).

# Roots of German *Gemeinwirtschaftslehre*: the continuation (2)

- In the interwar period revival of the German *Gemeinwirtschaftslehre* in the sense of Wagner primarily by Hans Ritschl (1897-1993) and other German economists (Fritz Naphtali, Gerhard Weisser and Margit Cassel).
- With the increasing focus on market-based allocation, especially in the theoretical economic literature after World War II, however, the *Gemeinwirtschaftslehre* lost its importance.
- On the other hand at the same times until the 1980s, (social economic) union enterprises had gained in size and importance primarily in the sectors of insurance, banking and housing (union social-economy as a phenomenon of post-war prosperity); they became an increasing instrument of economic policy (e.g., for competition stimulation).

- According to Thiemeyer, the term social economy is used in three fundamentally different meanings:
- **1. Social economy as economic and social order**
  - Monistic conception of an economic order (e.g., the “war-state socialism”)
  - Social economy as a form of command economy (nationalization or socialization of the means of production)
  - Main representatives: Walter Rathenau, Rudolf Wissel, Wichard von Moellendorf, Karl Ballod, and Otto Neurath
  - E.g., the Weimar Constitution uses the term social economy in such a way

- **2. Social economy as a specific type of a single enterprise**
  - Micro economic approach
  - Social economy as an enterprise which does not operate in the private but in the public interest (in the interest of a superior entity)
- **3. Social economy as complement to the private economy**
  - Dualistic conception
  - Social economy as sector with a “stop-gap” function for realization of economic policy objectives
  - Consists of the following subsectors:
    - State owned enterprises
    - Independent social-economic enterprises
      - Self-help organizations (co-operatives, union enterprises)
      - Non-profit enterprises (e.g., hospitals, charities)
    - Publicly-regulated/bonded (private or state owned) enterprises

# Core arguments of *Gemeinwirtschaftslehre* and the role of public enterprises after World War II (1)

- **Modern *Gemeinwirtschaftslehre*** was mainly developed in Germany in the post-World War II period. **Thiemeyer**, one of the most prominent representatives, **outlined its basic understanding with respect to the role of public enterprises in a market economy.**
- *Gemeinwirtschaftslehre* can be understood as "the theory which deals with the operation of organizations whose primary aim is not that of profit maximization. It deals with roughly the same field as public sector economics in English textbooks, but in a somewhat broader way (e.g., it discusses also co-operatives). (Thiemeyer 1983)
- Central ideas and core elements are the **stop-gap function**, the **instrumental theses**, and the **utilization of various methods of financing** public enterprises in order to contribute to social economic tasks.

# Core arguments of *Gemeinwirtschaftslehre* and the role of public enterprises after World War II (2)

- In the view of this theory, the state should become active only when and to the extent that private enterprises do not produce results which are acceptable to desired political requirements (**stop-gap thesis**).
- Public enterprises are instruments of economic policy (*sui generis*) by their own (**instrumental thesis**). Aims of public sector enterprises could refer to allocative, distributional or economic stabilization policy, as well as special regional, social or structural policies.
- **Financing** of publicly provided social economic services is also an important issue of *Gemeinwirtschaftslehre*. This requires attention to proper financial relationships between public enterprises and state or municipal budgets, the choice of an appropriate pricing policy, and the use of direct subsidies and internal cross-subsidization.

# Core arguments of *Gemeinwirtschaftslehre* and the role of public enterprises after World War II (3)

- In such a perspective the dominant regulative concept in theory and practice of the social economy is the “public interest”.
- Overall, the central elements reveal that ***Gemeinwirtschaftslehre has a comprehensive view on public enterprises (and other private or non-private enterprises) which are dedicated to serve social economic goals.***
- It is essential and indispensable that **this theory and its conclusions are applicable to reality.**

# Scholarly critics of *Gemeinwirtschaftslehre* (1)

- The **divergent perspectives between the concept of *Gemeinwirtschaftslehre* and the main-stream economic approach** became clearly visible in academic discussions in the early 1980s.
- ***Gemeinwirtschaftslehre* rejects the approach of main-stream economic theory** which argues a inherent inefficiency of public enterprises.
- Especially **Thiemeyer criticizes the attempt of reducing economic theory of public enterprises to price theory alone**; an idea put forward by many prominent main-stream (neo-liberal) economists (e.g., Blankart and Bös).
- **Main-stream arguments against *Gemeinwirtschaftslehre*** are focused primarily on the **questionable existence of operational social economic goals**, the poor suitability of **public enterprises as appropriate instruments** of economic policy making, and in general on the **lack of incentives** for the employees of public enterprises **to contribute to politically desired goals**.

# Scholarly critics of *Gemeinwirtschaftslehre* (2)

- The critical arguments were rejected by the supporters of *Gemeinwirtschaftslehre*:
  - Publicly controlled enterprises can in reality rely on instruments available to ensure a social-economic supply (e.g., so-called catalogues of duties),
  - publicly controlled enterprises have proven its practical value to serve as effective instruments to fulfil the stated social economic policy goals, and
  - measures of political control prevailing in social economic settings could help to overcome potential incentive problems.
- ***Gemeinwirtschaftslehre provides a practical and more comprehensive approach compared to main-stream economic theory of public enterprises.***

# Paradigmatic role of public enterprises until the 1970s (1)

- Two paradigms of public economic activity can be identified in (Western-) Europe after World War II. In both paradigms the political authorities are seen responsible for a sufficient supply of politically desired public services, provided by public or private enterprises.
- In the **first period until the 1970s**, the provision of public and social economic services was organized by political authorities and produced preferably by public owned enterprises.
- This older paradigm with the dualistic structure of private and public enterprises was politically widely accepted and supported in many European countries.

# Paradigmatic role of public enterprises until the 1970s (2)

- **The concept of *Gemeinwirtschaftslehre* and the (instrumental) role of public enterprises fit well to the so called social-market economy after World War II**, especially in Germany but also in other countries with a mixed economic market structure.
- In reality, **public enterprises played therefore an important role on all federal levels**.
- **Public missions** and social-economic service obligations **were secured directly via statutes, legislation or political intervention**.

# Changed role of public enterprises since the 1980s

- Since the late 1970s **public enterprises has come under heavy pressure** to justify their existence; the main reasons are:
  - to a lesser extent, spectacular cases of **mismanagement of public enterprises** (e.g., parts of the nationalized industries in Austria) and sometimes poor service performance, and
  - mostly important, the evolution of **neo-liberal tendencies in European countries and all over the world.**
- As a consequence of liberalization, privatization, and cutting down public budgets the share of public enterprises in the economy has been reduced remarkably in many countries.

# New paradigm of public economic activities

- **Beginning from the 1980s**, a new paradigm of state economic activity evolved in many modern market economies.
- This paradigm is characterized by the **changing role of the state from a producer of public services to a guarantor of such services**. The state remains responsible for the desired provision of public services but the services should be provided by private and public enterprises in competitive markets without privileges or discrimination.
- The new paradigm affects the tasks, organization and management of public enterprises with far reaching consequences, especially regarding their instrumental function.
- In the European Union the major driving factor was the evolution of European law and competition policy. In many countries the traditional role of public owned enterprises changed dramatically.
- Similar changes occurred also in countries outside Europe, due to neo-liberal tendencies in economic policies.

# Consequences to the significance of *Gemeinwirtschaftslehre* (1)

- **The consequences of the new legal and economic framework affect the instrumental function, the stop-gap function, and the modes of financing social-economic services.**
- Politically motivated instrumentalization of public enterprises obviously violates competition rules and is therefore seriously restricted or forbidden; the instrumental function of public enterprises is no longer an economic policy option.
- The responsibility for the stop-gap function remains with the state. But service gaps are no longer filled exclusively by public enterprises with privileged rights.
- Financing of public obligations or services must be realized in a nondiscriminatory manner. E.g., the ban of internal subsidization caused serious problems for the position of municipal public enterprises.

# Consequences to the significance of *Gemeinwirtschaftslehre* (2)

- The well established internal control of public enterprises in the tradition of *Gemeinwirtschaftslehre*, has to be replaced by a new external regulation regime.
- **The state has to organize the supply of social economic services by creating regulated markets with competing private and public enterprises, legally committed to fulfil specific public service obligations.**
- **However, in countries without such legal or organizational restrictions public enterprises could still be considered as appropriate instruments** to directly contribute to allocative, distributional or macro-economic goals (e.g., Canada, Latin and South American countries).

# Future perspectives – towards a modern theory of provision of public services

- Issues of public enterprises are not highly ranked in today's scientific (economic) discussions. **Research efforts are primarily focused on the development of an empirically significant theory of provision of public services in different institutional settings.**
- A lot of research on public enterprises and public service obligations has been done in the last two decades. A considerable number of these contributions has been carried out or induced by Ciriec's international scientific bodies or published by the German section in their journals and book series.
- Only a few important topics should be mentioned here:
  - Performance of different organizational models of local social-economic services
  - Competition of institutions and social-economic regulation regimes of markets with private and public enterprises
  - Convergence of behavior of public and private enterprises
  - Governance of state owned enterprises and public value creation