the Pontifical Academy of Social Sciences

The Social Market Economy and the Sharing Economy in the Perspective of a Participatory Society

Our task is to study the question whether, and to which extent, a participatory society might benefit from two widely acclaimed economic practices: the sharing economy and the social market economy.

We shall start off in a first part with an outline of the political economy of participation. This will allow us to clarify the fundamental definitions and to highlight the main economic mechanisms that come here into play.

In part two, we shall focus our attention on those interventions that characterise the social-market model held in great esteem in Germany.

In part three, then, we shall discuss the economics of sharing in its relationship to the participatory society.

I. The Political Economy of a Participatory Society

In economic science, there is currently no field called "the economics of participation" or the "economics of social integration". The expression "participatory society" comes from other disciplines (theology, sociology, anthropology) and needs to be defined in such a way that the underlying phenomena can be discussed with the tools of economic analysis. As we shall see, this can conveniently be done. There are strong affinities between the economics of participation and the general theory of the division of labour.

Definitions

We shall use the word "participation" synonymously with the expression "social integration". Participation can be defined most conveniently in conjunction with its opposite, which is marginalisation respectively exclusion.

Marginalisation and exclusion are usually defined in two very different ways, both of which are useful for certain analytical purposes. One of them is larger, the other narrower. In the larger sense, to be marginalised means "not having" certain economic goods. In the narrower one, it means "being victim of other people's privileges" (see Zulu forthcoming).

The second meaning focuses on one of the possible causes of not having a desired economic good. Indeed, being the victim of another man's privilege means that one is not his equal before the law, that he may do certain things that I may not; and that he may for this reason have certain economic goods that I do not have.

From a practical point of view, the second meaning tends to be more useful than the first one. It allows for *categorical distinctions* of good practices (participation) from bad practices (marginalisation, exclusion) and thus can be translated into action. By contrast, the first meaning would lead to classify *all* social phenomena as being infused with exclusion and marginalisation, because the universal presence of scarcity implies that not all persons can realise all of their projects. There are always some projects that cannot be realised with the available economic goods. There are therefore always some people who do "not have" all that they need to achieve all that they would like to achieve.

Hence, defining exclusion in the sense of not having leads to *gradual distinctions*. Each person is more or less excluded, and also participates more or less, in activities with other people. It is then impossible to categorically distinguish good practices from bad practices. Any action and all institutional set-ups would go in hand with at least some exclusion (yet also with at least some participation). Different actions and different institutions would merely entail different forms of exclusion, without ever changing, or diminishing, exclusion *per se*.

But the biggest problem of defining exclusion in the sense of not having is that it implies value judgements that, in practical applications, can lead to grave policy errors. It presupposes to know what is worth having and what not. It neglects the crucial fact that economic goods cannot be defined by their physical characteristics. They can only be defined from the point of view of the subjective values of the persons that are concerned.

In our study, we will therefore use a variant of the first definition. Rather than defining exclusion as "not having", we will define it as "not cooperating" with other persons in a division of labour. This definition allows us to adopt the point of view of the acting persons. It avoids taking a stance on what is worth having and what not. It still leads to gradual distinctions. Each person cooperates – with some people. Each is person is excluded – from cooperation with other people. Exclusion and inclusion go hand in hand.

I cannot be simultaneously at a meeting of the Pontifical Academy *and* with my family. The packages of exclusion and inclusion result from various causes. Some are freely chosen, some result from coercion.

In a world of scarcity, inclusion and exclusion go in hand and are unavoidable. The relevant question is whether inclusion-exclusion are conducive to the common good. This would be the case if they not only allowed for, but enabled and promoted, the peaceful cooperation between all human beings. In what follows, we shall develop this idea in more detail.

Driving Forces of Participation: Division of Labour, Justice, and Solidarity

The central mechanism of social integration is the division of labour. To specialise means to produce certain economic goods in excess of one's personal needs. It means to become dependent on the productive efforts and the good will of other people. It means to become part of a larger whole. The transition from a primitive economy to the division of labour is the transition from atomistic homogeneity to organic complementarity, or "organic solidarity" as in Durkheim (2013 [1893], book I, chap. III). The activities of one hunter-gatherer are similar to those of any other hunter-gatherer. Each one cares for himself and they are all the same. Yet each member of a division of labour does something that the others do not quite do. His activities are complementary to those of the others. The various individual activities combine into a meaningful whole. Specialisation builds and shapes individual personalities.

Plato, St Thomas Aquinas, Adam Smith, David Ricardo, Emile Durkheim, Ludwig von Mises, and countless other great thinkers have underscored that human beings do associate because of the material advantages that they derive from cooperation. The classical economists have demonstrated that such material benefits exist under all conceivable circumstances. Most notably, they exist even in those cases in which weaker persons associate with stronger persons, irrespective of whether the terms weak and strong refer to physical force, intelligence, or wealth. Through specialisation and exchange, a weak and a strong can produce and use more economic goods than without specialisation and exchange.

The material well-being of the strong depends on the willingness of the weak to cooperate. They have therefore a material incentive to create conditions that maximise the willingness of the weak to take part in cooperation. Even if the strong ones are not good Christians; even if they are not people of good will; even if they regard only their narrowly conceived material interests, they have good reasons to assent to social arrangements that facilitate the division of labour.

But this is tantamount to saying that they have material incentives to create a participatory society, at least as far as their immediate associates (including business partners, employees, suppliers, and customers) are concerned.

Indeed, the division of labour needs *peace* between the associates. But true peace is the fruit of *justice*. Aristotle famously stressed the intimate relation between exchange and justice. Where social relations are asymmetric, where they are unequal, cooperation cannot develop. The weaker side to a biased trade – the exploited, the marginalised – will be reluctant to go along with the scheme. They will take part only as far as necessary, they will watch out for the opportunity of rebellion, and thus the potential for cooperation is stymied from the outset.

True justice requires to recognise each current and each potential associate as a person equal in dignity, rights, and obligations. The material incentives resulting from the division of labour drive this recognition. They tend to make it global, if there are no opposing forces.

The division of labour is not only the driving force of the market economy. It is also the foundation of all non-commercial human communities – most notably families, churches, cultural associations, and nations – insofar as these communities need economic goods to nourish and perpetuate themselves.

This implies that the material advantages resulting from the division of labour are also a cause of the *solidarity* that reigns between the members of the different communities. Solidarity is rooted in real community of shared experiences and shared aspirations. To some extend it is prior to the division of labour. There can be no cooperation if there is not from the outset a modicum of peace and trust. Some "originary solidarity" is therefore the foundation on which the division of labour is built. But this does not alter the fact that solidarity is also a consequence of the division of labour. Individuals merge into communities because the division of labour in which they are engaged creates a common past and a common future with the other associates. Community and solidarity with these associates are the consequence of joint production.

Private Property and Participation

The market economy is a most important manifestation of the division of labour, rivalled and complemented only by the non-profit activities of the civil society. As a historical fact, this needs no further elaboration. The socialist movement of the 19th century has raised the question whether it would be possible to replace the market by government-imposed central planning. The attempts to do so have been abysmal failures. The reasons are twofold.

One, coercion of any kind invariably creates incentive problems. Those who do not agree with the government tend to become discouraged and cease or slow down their own efforts. Those who are lazy are likely to do the same. And the leading cadres represent a formidable moral hazard for the rest of society. They reap all the glory if their decisions turn out to be right, while they bear just a small part of the loss if their decisions are wrong – a recipe for large-scale waste.

Two, a coercively organised top-down economy would lack the essential intellectual tool for entrepreneurial decision-making. It would lack money-prices for the factors of production. Without money-prices it is impossible to carry out two types of comparisons that are central for the allocation of resources in a complex economy: (a) the comparison between the value of results and the value of the means used to achieve the results; and (b) the comparison between the rates of return on different activities. This problem cannot be overcome by any clever amendment to central planning. It is enshrined in the very nature of central planning: the absence of private property of capital goods.

This leads to the conclusion that private property is the indispensable foundation of a large-scale and complex division of labour, and thus of social integration. Or, in the words of Carl Menger (1976 [1871], p. 97):

Property, therefore, like human economy, is not an arbitrary invention but rather the only practically possible solution of the problem that is, in the nature of things, imposed upon us by the disparity between the requirements for, and available quantities of, all economic goods.

Now this conclusion might appear to be paradoxical. How can it be that private property promotes a participatory society? After all, the very nature of private property is to *deny* other people access to the economic goods that are privately owned, and to reserve this access to the sole owners.

The paradox is easily resolved, though, once it is appreciated that in this case, as in many others, the macroeconomic or global effects are different from the microeconomic ones. It is true that private property prevents unauthorised participation from outsiders. More precisely, it makes their participation contingent on the agreement of the current owners. But *indirectly* it promotes social integration to a very significant extent. Without venturing into a full-blown discussion (see Mises, Rothbard, Reisman), let us highlight six relevant considerations.

One, private property plays an important role in pre-emptive conflict resolution (Hoppe). If the rules for acquiring property are the same for all, then this takes a major source of conflict out of the picture. It also greatly alleviates all conflicts surrounding the legitimacy of existing property rights, insofar as unjustified expropriations are ruled out from the outset.

Two, private property reinforces responsibility. Costs and benefits (but especially costs) are *concentrated* on the owner. Waste is penalised. Frivolous and selfish uses of land and capital are also discouraged, as they represent an opportunity cost for the owner. Creative thinking, investment, and hard work relating to the privately held resource are encouraged, as the benefits will eventually fall on the owner.

Three, private property naturally focuses the attention of the owners on the protection and development of the economic goods that they control. They naturally slip into the role of caretakers and stewards. This role is very clear as far as depletable natural resources are concerned. But it is not less important when it comes to the preservation and fructification of capital and personal savings.

Four, the concentration of profits in the hand of owners means that more capital is available to the persons who have wisely used their resources to the benefit of other people (their clients). The concentration of losses on incompetent owners withdraws resources from their control. This feedback mechanism facilitates the accumulation of capital and limits waste.

Five, private property greatly facilitates decision-making in the context of painful tradeoffs which might divide the opinions of the members of any larger community.

Six, private property greatly facilitates choices that relegate short-run interests behind long-run objectives. Such choices often go in hand with significant short-run sacrifices, and their future outcomes are uncertain. Without strong owners, such choices are rarely made. Among "stakeholders" there is usually a bias in favour of carrying on with current practice. Private property helps to correct this bias because the long-run benefits are concentrated in few hands and can therefore tip the balance in favour of longer-run considerations.

The offshoot of these considerations is that private property, from a purely material point of view, could be seen as a stumbling block to a participatory society only in the very short run, because it makes access to all kinds of resources contingent on the consent of the present owners, and the latter may be disinclined to share. But the picture is completely different in a longer-run perspective. Private property greatly facilitates the accumulation and allocation of capital. This gives a strong impetus to a participatory society.

The picture is also different if justice is brought into purview. Why should newcomers have the right to acquire access to any resource by other means and other rules than those that apply to all other members of society? Whatever the material needs of the newcomers, the bending of rules undermines the basic principles of justice on which peace and the division of labour are built.

To sum up, then, the relationship between private property and the participatory society is a dialectical one. Apparently, social cooperation increases *even though* resources are owned privately. But in fact, social cooperation increases *precisely because* they are owned privately.

The Dynamics of Participation in a Free Society

Let us now highlight the economic factors that promote social integration. We have seen that the central driving force of the latter is the division of labour, both within and without the market economy. The division of labour depends in particular on (a) the quantity and quality of capital goods; (b) entrepreneurship, respectively the ingenuity of the allocation of the available factors of production, and (c) the opportunity cost of social integration through the division of labour.

Adam Smith famously observed that the division of labour is limited by the extent of the market. It is less frequently remembered that he also stressed that the extent of the market depends on the part of revenue that is saved and invested. He was right on this point, too. A century after him, W.S. Jevons and Eugen von Böhm-Bawerk pointed out that increased savings make it possible to invest in ever more roundabout production processes. In other words, more savings do not just lead to a multiplication of existing types of firms. They make it possible to produce new and often unheard-of goods and services. This concerns producers' goods even more so than consumers. Thanks to capital accumulation, it is possible to build entirely new industries and professions. New forms of cooperation and specialisation arise. They provide increasing opportunities to develop personal talents.

A savings-driven growth process leads to an extension of the division of labour within the market economy. But an increasing volume of savings eventually also spills over into the non-profit sector. The reason is that the increased supply of savings tends to drive down the return on capital. There are ever-less incentives to use the available wealth in for-profit activities. And as the funding of non-profit activities grows, more and more people find employment in the organisations running churches, clubs, schools, etc.

The Participatory Society Under Government Interventionism

So far, we have discussed the basic mechanics of social integration under the tacit hypothesis that no economic good is acquired without the consent of the previous owner. Now we shall drop this hypothesis and consider the consequences that follow from violations of private property rights. We will focus on the most relevant scenario, in which such violations are perpetrated by the government, and we shall call them government interventions or, in short, interventions.

There are repressive interventions and there are permissive ones. The former limit the ability of current owners to use their property as they see fit. Such interventions are manifest most notably in prohibitions, regulations, and forced payments (taxes). Permissive interventions enable the beneficiaries to do certain things that they would not have able to do under the common law. They do so most notably by bending the rules (creating privileges for certain people) and also by subsidising them at the expense of the taxpayers.

Permissive interventions are always based on repressive ones. In order to bend the rules of the common law, it is necessary that the government first monopolise the court services (outlaw recourse to private arbitration). In order to pay subsidies, it first has to tax the population.

All interventions hamper the division of labour. But they do so in different ways. The harmful impact of repressive interventions is more obvious, in that they stifle social cooperation. By contrast, permissive interventions seem to benefit social participation, but they do so by changing the nature and forms of participation. Let us study some of the main mechanisms that come here into play.

Repressive Interventions

Prohibitions, regulations, and taxes have one thing in common: they raise costs. When firms are subject to additional repressive interventions, the costs of doing business increase, which means that profit margins shrink. This implies diminished incentives to save, and diminished incentives to deploy the available savings as capital. The division of labour is therefore stifled, upward social mobility is hampered, the participatory society is to some extent compromised.

Regulatory interventions deserve special notice, not only because they are more difficult to measure than government tax revenues and government spending, but also because their impact is even more asymmetrical (non-neutral) than the impact of taxation.

Indeed, most taxes are proportional to some monetary variable like capital, profit, wages, or wealth. This does not mean that they do not privilege one type of business relative to another. No taxation can be neutral in this sense (see Rothbard 1970). However, because it is proportional, taxation does not create any systematic bias in favour of large companies, or large agglomerations, or politically connected businesses.

Things are very different in the case of regulations. They usually come one-size-fits-all and affect all firms and households to the same extent. That is, they do not just entail relative increases of business costs, but absolute ones. This tends to create a particularly strong negative impact on “marginal” market participants – firms that just barely make it, employees that are just good enough to find a job, etc.

Usually regulations are motivated by good intentions, especially when they concern labour relations and the protection of consumers. But a time-honoured adage tells us that the road to hell, too, is paved with good intentions.

Minimum-wage laws do not create living wages for all people seeking employment. They might increase the wages of certain people, who keep their jobs because they happen to be sufficiently productive. But “marginal” people are by definition not sufficiently productive. They are too young and inexperienced, too old and frail, handicapped, immigrants, and so on. The labour-market statistics in all countries illustrate the hard fact that such people lose their jobs or will never get one thanks to minimum-wage laws.

In the country where I live, France, labour-market regulations are particularly stringent. As a consequence, few start-up businesses ever grow to a significant size because few entrepreneurs can afford the costs of the present regulation, and even fewer are willing to accept the risk of more stringent regulations in the future. This is great for the people who own the firms that already dominate the market. But is it bad far almost all others.

France is also one of those countries that suffer from the economic desertification of its rural provinces. There are many causes of this phenomenon, but one of them is the regulatory state. Historically the economy of the countryside has been able to thrive against competition from the metropolitan centres by its ability to produce at lower cost. But regulations take this option off the menu. National regulations (labour, buildings, tax compliance, etc.) raise costs across the country, thus squeezing profits and discouraging investments wherever they are not justified by higher top lines, as they can be made in the centres. European regulations tend to produce the same sort of effect on a larger scale.

In short, repressive regulations not only slow down the development of the division of labour, and thus of the participatory society. They also change the *structure* of cooperation.

Permissive Interventions: The Welfare State

Let us now turn to permissive interventions such as the bending of rules and government spending.

The bending of rules, the creation of special private laws (privileges) is today a pervasive practice. It is used in favour of the political elites and their allies in the business world and (to a lesser extent) in civil society. It concerns both the institutional level (monopoly status of central banks) and personal benefits. To name just a few random examples of the latter: US Senators are not subject to insider-trading regulations; the employees of international organisations such as the OECD or the European Commission do not pay national income taxes; and the employees of most central banks, of the Bank for International Settlement, and of too-big-to-fail commercial banks are immune from arrest or imprisonment and not subject to national jurisdiction “for acts carried out in discharge of their duties” (BIS 2013, §12).

Welfare-state spending has created significant and well-known incentive problems that undermine the division of labour. Consider the case of government-sponsored unemployment relief. The recipient of government handouts has an incentive to refuse job offers that are low-paid relative to the *dole*. Even more perniciously, he has an incentive not to make any effort to look for, or prepare himself for, such a low-paid job.[1] Low-skill persons eventually lose touch with the world of labour and become unemployable even at minimum wage.

The immediate consequence of generously-funded unemployment relief is permanent and massive unemployment. But the long-run consequences are even more detrimental to the flourishing of the participatory society. Long-term welfare beneficiaries, by excluding themselves from the workplace community, compromise the spontaneous solidarity of that community. Their covenant with the State supplants and replaces all other communities arising spontaneously out of the division of labour. The State gives great material relief to the unemployed, to single mothers, and various other groups confronting difficult challenges. But it thereby destroys some of the material incentives to seek social integration and to cultivate attitudes and abilities that facilitate social integration, from work ethic and honesty to family and religion (see Murray 2012).

Permissive Interventions: Fiat Money, Central Banks, and Financialisation

The welfare state is not the most important area of permissive interventionism. The first rank is held by the monetary and financial sector. Monopolies are contested in all walks of business life, socialism is long since discredited. But the monopoly of central banks is today an article of faith and “money socialism” (Baader 2012) a matter of course.

This state of affairs reflects the sorry state of mainstream economic thinking on almost all issues related to money, banking, and finance. Most economists are convinced of the expediency of central banks, of fiat money, of ex-nihilo money creation, of cheap credits out of the printing press, of a flexible money supply, and of expansionary monetary policy. The present writer disagrees very thoroughly with these ill-held convictions. But this is not the place to discuss this issue. Our present concern is the relationship between monetary interventionism and social integration.

Monetary interventionism is the quintessence of permissive interventions. Today all central banks create fiat money out of nothing. There is no technical or commercial limitation to the production of fiat money. The remaining legal limitations are few in number and constantly tested before the courts.

As from the Genoa conference of 1922, central banks have coordinated themselves in order to facilitate expansionary monetary policies. After WWII, these policies have produced near-uninterrupted price inflation. The consequence has been the phenomenon of financialisation.

Indeed, when the level of money prices rises permanently and predictably, households and non-financial firms have strong incentives to behave like financial agents. They start to leverage their investments and hold a large part of their wealth in the form of financial assets. To leverage an investment means to finance it with credits (most notably with credits coming from *ex nihilo* money creation). Credit is particularly cheap and alluring when the interest rate is lower than the expected price-inflation rate.[2] This has been the case in most countries of the Western hemisphere most of the time after WWII. With rising debt comes the necessity of risk management to avoid default. The simplest way to increase one’s liquidity is to hold more wealth in the form of financial titles, rather than in the form of real estate or of industrial property.

Financialisation and Social Integration

Financialisation has four momentous implications for the participatory society.

The first one is the disengagement of property owners, especially the owners of industrial property. Schumpeter (1942) noticed the “evaporation of the substance of property” many years ago. He saw it rooted in the rise of shareholder capitalism, which in those years had supplanted the model of owner-entrepreneurs. His observation is right on target, but it deserves to be pointed out that shareholder capitalism is premised on permissive interventions. There would be no significant market for shares in commercial enterprise in the absence of limited liability for civil responsibility. And most of the corporations could not have grown very fast without the cheap credit out of ex nihilo money production.

Today, the evaporation of the substance of property is manifest in the blatant disinterest of many start-up entrepreneurs in their firms. And the heirs of many established industrial firms are just as indifferent. They see their industrial property above all as collateral needed to obtain cheap credit, with which they grow the firm to a larger scale before selling off and cashing in.

Clearly, such an attitude undermines the long-run potential of any industrial enterprise. It is one thing to be tied to a firm, often handed down from one generation to the next, with all of one’s emotional and material fortune. It is another thing to be a temporary user trying to maximise profits over seven years. The demise of the owner-entrepreneur drastically reduces the entrepreneur’s decision-making horizon, both intellectually and in as far as investments are concerned. It reduces the efforts made to cultivate strategic long-run human resources. It subverts the community between the owner, the employees, the suppliers, and the customers.

Second, financialisation draws great numbers of the most gifted and well-trained young people into the financial sector. Their behaviour is entirely rational and acceptable from a microeconomic perspective. They make the best use of their talents to provide for themselves, for their families, and for all the causes they cherish. But from a macroeconomic perspective it seems to be rather disastrous if, year after year, thousands of young mathematicians and engineering graduates use their time and ingenuity to find ways to leverage investments ever more. It is one of the most wasteful internal brain-drains ever devised.

The foregoing consideration can be generalised into a third remark. Financialisation entails a thoroughgoing revolution of priorities and values as they bear on economic organisation. The factors that have the greatest impact on the bottom-line within seven years are not the same that are most relevant over a lifetime or over several generations.

The services that are most helpful in a debt economy are different from those that count most when there is no debt. A debt-ridden and highly regulated economy is a world of bewildering legal, financial, and economic complexity. Optimising short-run returns in such a setting is a daring intellectual challenge, and it is very well paid, too. This is the ideal playing field for highly trained lawyers, accountants, economists, mathematicians and so on, whether they work in politics, public administrations or private firms. Their services are needed to cope with this complexity, and they themselves relentlessly add on to it.[3]

This process feeds on itself as long as it is sustained by monetary accommodation from the central banks. In other words, there is no saturation mechanism that would diminish the value of the services provided by the aforementioned professional groups.

Yet this implies that all other services, from manual labour over product development to the simple act of plain saving become less important, at least in relative terms. The remunerations of gardeners, bakers, shoemakers, product engineers, and savers therefore diminish relative to the rewards gained by the aforementioned professions. It should be clear that this process is especially detrimental to the most fragile members of society. But it is also frustrating for all others who do not have any special training, ability, or inclination to deal with financial, accounting, investment, or regulatory matters. It pitches those that do against those who do not. It builds up conflicts without providing a safety valve.

Without pretending to come full circle on these difficult questions, let us add a fourth and final consideration. We have seen that financialisation involves an increased importance of financial assets as compared to landed property or industrial holdings. For example, in the US, households and non-profit organisations currently (Q4-2016) hold 70% of their wealth in the form of financial assets. These financial savings of more than 75 trillion dollars are used by other market participants. As a consequence, a part of these savings fund private and public consumption, while another part funds non-financial firms. The participatory society thrives on the division of labour. It thrives on the funding of nonfinancial firms. Purely consumptive uses by private and public entities only provide temporary support to social integration because these uses do not reproduce the monetary values that they destroy. Now in the US, 56% of financial savings serve to fund non-financial firms (2013 data). In Germany, it was 42% in the same year, and in Japan only 31% (2012). This implies that a large part of the available savings does not help to fund productive activities in a sustainable way.

Summary

Social integration stands and falls with the division of labour. The extent of the division of labour depends quite essentially on available savings and on private property rights to economic goods. Savings are necessary to sustain human activities that produce capital goods. Private property creates responsibility, focus, and incentives for long-run investments that are fundamental to create and sustain communities around income-generating activities. Government interventions have the vicious tendency to undermine the division of labour. Repressive interventions stifle entrepreneurial activities and entail artificial business concentration, reducing upward social mobility and fragilizing the weakest members of society. Permissive interventions are particularly pernicious because their immediate impact is very different from their long-run effect. Welfare benefits provide on-the-spot relief, but they also tend to sever the beneficiaries from the communities built around the division of labour, especially when the benefits are high relative to alternative market incomes. Monetary interventionism has produced financialisation, a socially disruptive and wasteful perversion of the market economy.

II. The Social Market Economy

Social Market Economy is the name of a model of economic and social policies that came to be applied in West Germany after WWII. It relied on the “ordo-liberal” conceptions developed in the 1930s and 1940s by a group of predominantly Catholic economists around Walter Eucken at the University of Freiburg im Breisgau. The intention of the Eucken group was to design a blueprint for economic policies in Germany after the dark years of national socialism. Their ideas inspired the economic policies of Ludwig Erhard after WWII. It was Erhard’s secretary of state, Alfred Müller-Armack, who coined the phrase *Soziale Marktwirtschaft* to designate the overarching dual policy objective of economic liberty and appeasing social conflicts.

The considerable success of the German renaissance in the 1950s and 1960s quite naturally increased the prestige of the underlying model. This association between Germany’s economic development and the prestige of the Social Market Economy continued throughout the subsequent decades, even though economic policies in Germany increasingly deviated from the original model (see Prollius 2006, 2009).

Which lessons can be derived from the Social Market Economy (henceforth SME) in the perspective of a participatory society? In what follows, we shall first give some more historical background and then provide some critical discussion.

Historical Background

In the years after the foundation of the Bismarckian central state to WWI, German economics was under the spell of an intellectual movement called the Historical School (HS). Its main protagonists were the professors Gustav Schmoller, Lujo Brentano, and Adolph Wagner. The movement arose out of dissatisfaction with the liberal policies of classical economics. These policies had received a firm theoretical foundation in the writings of Smith, Say, Ricardo, and their followers. The champions of the HS therefore attacked them head-on. Their central claim was that liberal policies had no scientific foundation because they were derived from pure theory. The HS promised to derive practical conclusion entirely from observation and historical interpretation.

These turned out to be empty promises. The tenants of the HS had a very imperfect understanding of the epistemological issues involved in economic analysis. One critic summarised the problem of their approach by saying (quoted out of memory): “They walk into working-class dwellings, measure the surface of the living room, and then conclude that the dwelling is too small”.

Because of their steadfast refusal to engage in any kind of theoretical work, they had no clue of the causes of the great social and economic transformations in *fin de siècle* Germany. They did not understand the reasons of the relentless increase of real wages. They did not understand the macroeconomic role of banking and finance. They did not understand the monetary mechanisms of the business cycle. They did not understand the rise of great trusts and monopolies. They satisfied themselves with little bits of ad-hoc explanations drawn as it were mostly from Marx and his disciples.

With the German defeat in WWI, the prestige of the HS waned. A new generation of economists arose who tried to come to grips with the recent past. These economists turned to study economic theory. The writings of Walras, Schumpeter, and Knight, the model of perfect competition had a significant impact on them. Mises (1922) had cured them from flirtations with socialism. They were looking for a new synthesis.

Let us therefore look at the leader of the ordo-liberal group that inspired the SME. Walter Eucken’s synthesis can be summarised as follows. The 19th century had shown that unfettered capitalism does not work satisfactorily. It is true that it is a formidable engine of wealth creation. It had relieved millions of destitute people from poverty. But it has also led to business cycles and to the formation of monopolies. What should be done? Socialism and central planning are out of the question. The neoclassical model of perfect competition shows under which conditions market would produce good results. Therefore, the government should intervene in such a way as to curb market excesses. It should stabilise the economy through suitable monetary policies, and it should prevent the emergence of cartels and monopolies. But otherwise it should grant the most perfect freedom to entrepreneurial activity. The state should only provide the framework (the Order, with a capital O) for the optimal operation of the market economy. The market processes themselves should be free to function unhampered from political interference.

In the course of time, the original ordo-liberal conceptions were toned down and the “social” elements were emphasised more strongly through a vigorous growth of the welfare state as from the 1970s. Business regulations, too, were more and more reinforced. Occasionally these reforms were diametrically opposed to the ordo-liberal conception. The Rubicon was crossed in 1967, with the enactment of a law to promote economic stability and growth (StabG). The law authorised the government and the central bank to conduct Keynesian-style macroeconomic policies, that is, precisely that kind of ad-hoc intervention that Eucken had explicitly rejected. Thereafter, the SME morphed into a mushrooming regulatory and welfare state.

Critique of the SME

Stripped to its logical core, the SME is a third-way policy between pure capitalism and pure socialism, one of the countless third-ways that have been proclaimed and tried out since the 19th century.

Its underlying worldview is contestable in many ways. It is problematic to argue that “pure capitalism” produced the business cycles of the 19th century. Already in those days, governments in all developed nations had instituted permissive monetary regimes to promote financial development. This enabled and encouraged frivolous financial practices which again and again led to financial crises.

It is problematic to neglect that fact that most monopolies, and especially the most pernicious ones, directly or indirectly result from privileges granted by the state. It is also problematic to argue that all monopolies are undesirable. By what benchmark? In light of the model of pure and perfect competition? But this would be a *petitio principii*. And even if this microeconomic model were pertinent as an orientation for framework (or macro or Order) policies, one would still have to answer a few questions before one could come to the point of applying it, vexing questions concerning the definition of the relevant market, for example.

Finally, the ordo-liberal approach raises a basic philosophical question. If competitive processes are so good, why should the rule-making or Order-creating itself not be subject to such a process?

But the main point, at any rate as far as our present research question is concerned, is that the SME is *not* conducive to a participatory society. Its ordo-liberal foundation, it is true, is only moderately repressive. In practice, the anti-cartel policies of the SME have not significantly hampered the growth of successful West-German firms after WWII. And the Bundesbank was arguably the least permissive of all major central banks in the world. But this does not alter the fact that the SME boils down to a combination of (moderately) repressive and (moderately) permissive interventions.

One could argue that the SME has benefited social integration in post-war Germany at least to some extent, for psychological reasons, because the citizens felt reassured by the idea that a benevolent government was watching over them. But even then, we must raise the question whether this benefit was not another one of those short-run benefits that governments can provide (and which they do provide very eagerly to their political constituencies), but which turn out to be detrimental in the longer run.

Would it really be far-fetched to see a causal connection between the reassurance that the citizens might feel thanks to social policies on the one hand, and the many symptoms of social disintegration that plague contemporary Germany, on the other hand? Are high divorce rates and increasing refusal to get married and have children unrelated to the repression of the freedom of matrimonial contracts? Is long-term unemployment unrelated to unemployment relief? Is the single-mother epidemic unrelated to welfare payments for single parents?

A sober look at the mechanisms that are here at work leads to the conclusion that the good press that the SME enjoys, especially in Germany itself, though not perhaps completely undeserved, needs to be nuanced in many respects. We do not contest that the SME has contributed to the successful renaissance of the German economy after the disaster of national socialism. Our contention is that, whatever its contribution, it came at a price that has still not been fully paid.

III. The Sharing Economy

Let us now turn to analyse the so-called sharing economy revolving around Internet-based firms such as Airbnb or Uber. In their public relations they stress the benefits that non-professional owners of capital goods such as private vehicles and private apartment might derive from their services. Thanks to Airbnb and Uber, such goods may become a source of revenue. But, of course, they may also be shared gratuitously. In any case, the new technology allows making a resource available to a larger set of people than just their owners with their rather narrow circle of friends and relatives.

Sharing is *a* form of social integration. In a general sense, it is *the* form of social integration. The very meaning of sharing is to have something in common with other persons, and thus to be bonded to those others rather than be separate from them. All communities are based on shared experiences, shared problems, shared convictions, and shared aspirations. It is therefore natural to suppose that “the sharing economy” might provide valuable lessons for the construction of a participatory society. Some analysts have heralded it as the dawn of a new civilisation involving the “end of ownership” (Nanos 2013).

However, this hypothesis needs to be analysed carefully. Sharing is of course not new. Neither are the practices of the sharing economy fundamentally new. The expression “sharing economy” is very much a buzz word that has been invented by interested parties for marketing purposes, and which then came to lead an existence of its own (Eckhardt and Bardhi 2015, McCann 2015).

Increased sharing is not tantamount to increased social integration. Increased sharing always goes in hand with advantages for some people, as well as with disadvantages for others. It *can be a symptom of social disintegration*, and it *can even be the cause of social disintegration*.

Consider property held *en division*, as is often the case with goods received as an inheritance. The heirs who share an estate do not necessarily grow closer in friendship to one another. As many families know, such situations might entail exactly the opposite. The heirs are likely to disagree on the best use of the property and to quarrel about *usus*, *fructus*, and *abusus*. Sharing then is the cause of strife, rather than of friendship and cooperation.

It is therefore necessary to analyse the nature, forms, causes, and consequences of sharing very carefully. In what follows we shall outline the main considerations that come here into play.

Nature and Forms of Sharing

Sharing means having something in common with other persons. What is shared is necessarily a good, that is, something that stands in a positive causal relation to human welfare. One would not speak of “sharing” an illness or a death threat. But one can share love, faith, hope, language, thoughts, a culture, loot, or an apartment. The sharing *economy* by its very nature revolves around *economic* goods.

Economic goods are scarce, known, and they can be controlled (Menger 1976 [1871]). The latter aspect is particularly relevant to our question. Indeed, an economic good is always controlled by someone. There is always an owner. Ownership can be legitimised according to various legal standards, or it may not be so legitimised, but there is always a person or a group of persons who control the access to, and use of, any given economic good.

Typology of Sharing Economic Goods

Economic goods may be shared intentionally or unintentionally (spontaneously). *Intentional sharing* takes one of the following three forms. Ownership itself may be shared, in which case we would speak of collective or shared ownership (1).

Irrespective of whether the ownership of an economic good is individual or shared, its owner(s) may allow other people to use it, either gratuitously or by way of a gift (2), or by way of an exchange, that is, against compensation (3). The exchange may involve the total property in the good (outright exchange) or only some of its services, as in rental agreements.

But economic goods may also be shared *unintentionally* or spontaneously. This form concerns most notably fixed capital goods. Consider the case of an industrial sewing machine. The machine is privately owned by Mr Smith, who is a textile manufacturer. Smith is free to use or not to use the machine as he wishes. But clearly the only way for him to use it is in mass production of textiles. This is of course why Smith bought (or built) the machine. He wants to produce trousers, skirts, suits, and costumes in great quantities. This is how he makes his money. However, the point here is that, irrespective of however much money Smith might earn, his machine itself essentially serves the needs of other people. He is the owner, but the only way to use his property is by sharing its products with other people.

Ludwig von Mises was the first economist to point out this particularity of fixed capital goods. He concluded his analysis with the following statement:

All means of production render services to everyone who buys or sells on the market. Hence if we are disinclined here to speak of ownership as shared between consumers and owners of the means of production, we should have to regard consumers as the true owners in the natural sense and describe those who are considered as the owners in the legal sense as administrators of other people’s property (Mises (1981 [1922], p. 31).

Sharing Economic Goods in a Free Society

Let us now study the causes and consequences of sharing.

Common-Pool Resource Ownership is Private

The collective ownership of common-pool resources is often supposed to be categorically different from private ownership. Private-property owners may join their forces to set up partnerships, joint-stock corporations, condominiums, and so on. But in all these cases, the argument goes, the property that is held in common is still private property. By contrast, there are certain resources that because of their physical characteristics *cannot* be owned privately. They have a special collective or public nature. Such common-pool resources include municipal land, lakes, seas, and waterways, as well as atmospheric air.

This conception is flawed on two accounts. One, common-pool resources usually are privately owned, and they can be preserved and developed only if they are privately held. Two, whether it is possible to *also privatise parts* of a common-pool resource does not depend on the physical characteristics of that resource, but on the economic context. Let us explain these points in a little bit more detail.

As a matter of fact, common-pool resources are usually privately owned (often by the state). This ownership does not come in the customary legal forms. There are, for example, no property titles to a lake or to a river. But it comes in the characteristic economic form of private use and private disposition. Only certain people may use the good, while others may not. Some are admitted to the restrictive circle of the beneficiaries. Others are excluded.

The reason of this state of affairs is straightforward. If access to a common-pool resource were not restricted, then the good would be quickly depleted. Few people have given more thought to the nature of common-pool resources and their efficient management than the Nobel Prize laureate, Elinor Ostrom (1990, 2010). She emphasised the need for clear definitions, both of the common-pool resource itself and of the entitled parties. She also stressed the crucial importance of effective exclusion mechanisms against unentitled parties.

In short, common-pool resources are either privately owned, or they do not last. But why does this private ownership only concern the good as a whole, rather than also its parts? Two economic considerations come into play here. The first one concerns the value of using the common-pool resource as a whole, rather than parts of it. The second one concerns the costs of dividing it into suitable parts.

A common-pool resource remains in shared ownership whenever the *cost of dividing* the resource is currently too high relative to the expected benefit. The good can then be owned efficiently only as a whole. The reason why a lake is not usually parcelled into different lots, as in the case of a piece of land, is that *with current technology* it would be exceedingly expensive to draw border lines within the water and monitor violations of these borders.

But conditions may change. Technology will change. While subdividing the water mass of a lake into privately-owned parts might be impossible today, and exceedingly expensive anyway, it may very well become feasible at reasonable cost tomorrow. In other words, there is no such thing as a common-pool resource *per se*. There are only economic goods that, *under current conditions*, cannot be efficiently divided and must therefore be owned as wholes.[4]

Sharing under the Impact of Capital Accumulation and of Capital Consumption

The foregoing considerations can be extended by studying more systematically the impact of capital accumulation – respectively of capital consumption – on the sharing of economic goods.

In a free-market setting, in which the government does not intervene into the monetary order, capital accumulation results from an increase of savings. This entails an increase of physical labour productivity while at the same time the return on capital tends to decline. The higher labour productivity leads to larger output and higher aggregate real revenues. The output increase is typically higher than the concurrent increases of the money supply. As a consequence, free-market growth processes tend to be price-deflationary growth processes (details in Hülsmann 2013).

Under these circumstances, sharing in the form of gift-making is likely to be stimulated. The population becomes wealthier (increasing real revenues), whereas the incentives to invest diminish (declining return on capital). Therefore, alternative uses of wealth will become more important. This also concerns various forms of gratuitous wealth sharing. People will tend to increase their sponsorship of sports, arts, and sciences, as well as their support of charitable institutions.

At the same time, the process of capital accumulation is likely to have a negative impact on the extent of the commons. As more savings (and thus potentially more capital) become available, and as the return on capital that is expected of any investment tends to shrink, it becomes possible to finance projects that demand comparatively high investments at comparatively low returns. This is likely to influence the cost-benefit analysis of dividing common-pool resources.

For similar reasons, the process of capital accumulation is likely to have a negative impact on commercial renting services. Many durable goods are rented rather than purchased outright. This concerns consumer goods such as vehicles, apartments, houses, and gardening equipment, and also capital goods such as tractors, drilling equipment, and scaffolds. The reason why people rent these goods, rather than buy them outright, is the limitation of their budget (both consumers and firms) and the opportunity cost of an outright investment (firms). The reason why the current owners lease them, rather than reserve their use for themselves, is that leasing provides extra income. Now under capital accumulation, the budget constraints of the renters are relieved, the return on capital diminishes, and the necessity to earn extra income declines. Therefore, outright purchases will tend to grow relative to rentals.

The bottom line of these considerations is that, in free-market setting, the tendency of capital accumulation is to give a boost to the different forms of gratuitous wealth sharing, which as we have seen is likely to reinforce social integration; while at the same time, the more conflict-laden forms of sharing (ownership of common-pool resources and rentals) are likely to diminish in importance.

Exactly the inverse tendencies result from a process of capital consumption. As the volume of savings diminishes, capital becomes scarcer and thus the return on capital tends to increase. At the same time, labour productivity diminishes, with a concomitant impact on output and real revenues. Gratuitous wealth sharing is therefore likely to diminish, whereas rentals and shared ownership of common-pool resources tend to become more prominent. Social relations as a whole become more conflictual.

Technological Progress and Sharing

There can be no technological progress without capital. It is always necessary to finance research and development, and it is always necessary to finance the application of R&D in industrial production and elsewhere. Capital is the necessary foundation for technological development.

Even if the capital endowment of an economy remains constant, technology can improve. In what follows we will consider the consequences that would follow from such a scenario.

Technological progress makes it possible to earn higher profits with a given volume of capital. In other words, the return on capital tends to increase. At the same time, technological improvements tend to increase output, with a concomitant increase in aggregate real revenues.

This is likely to produce a mixed effect on the shared ownership of common-pool resources. The increasing return on capital means increased opportunity costs for investments designed to divide common pools into separate parts. Hence, unless the technological breakthrough in question specifically concerns such investments, it is likely to slow down the division of the commons.

Technological progress also has a similarly mixed impact on rental services. The increased return on capital invested in rentals makes it more interesting for investors to specialise in leasing various durable goods, and it also increases the opportunity costs of owning such goods without using them regularly. Now the concrete progress in question might benefit rental services, as in the case of the network software provided by Airbnb and similar firms. But it might also benefit outright purchases, as in the case of 3-D printers. Thus, again, unless the progress in question is made specifically in regard to goods that would otherwise be rented, it is likely to benefit the rental market.

As far as the gratuitous sharing of wealth is concerned, the impact of technological progress is not uniform either. On the one hand, the wealth effect is likely to increase such forms of sharing. On the other hand, the increased return on capital signifies higher opportunity costs for wealth that is not used as capital. Again, we have to conclude, therefore, that unless the technological breakthrough in question facilitates specifically the gratuitous sharing of wealth, it is not likely to be particularly beneficial in this regard.

We conclude, then, that technological progress *per se* is not conducive to an increase in sharing practices, and especially not to greater social integration. The latter fact needs to be stressed in regard to the often-exaggerated claims made on behalf of the Internet-based “sharing economy” (SE). While it is true that the services provided by these firms facilitate the leasing and renting of durable goods, this is not per se likely to increase social cohesion. The experience with SE (see Slee 2015) underscores our contention.

Conclusion

In the present contribution, we have studied the question of whether, and to which extent, a participatory society might benefit from two widely acclaimed economic practices: the sharing economy and the social market economy.

We have based our analysis on a preliminary discussion of the economic mechanisms of participation and exclusion. In the light of these mechanisms, it appears that the Social Market Economy is not per se, and not categorically, conducive to a participatory society. It contains elements that are useful in this regard, but only in a short-run perspective.

Similarly, in our examination of the sharing economy, we have stressed that not all forms of sharing are susceptible to reinforce social integration. Increased sharing can be a symptom of social disintegration, and it can even be the cause of social disintegration. It is unwarranted to see in all the very diverse practices that are today designated by the term “sharing economy” a reinforcement of the participatory society. We have found that the practices that do tend to promote social integration can be reinforced through capital accumulation, whereas the impact of technological progress needs to be nuanced.

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End Notes

[1] Being deprived of something is not necessarily unbecoming, but may be an important stimulus for economic and moral improvement (Leontjeva *et al.* 2016).

[2] We limit our exposition to these cursory remarks. It should be noted, however, that debt levels could not have attained their present magnitude without the assistance of central banks. The latter have the ability and incentive to bail out systemically important market participants. This creates the perverse effect of encouraging debt levels that normally (without central-bank assistance) would be considered excessive or even fatal.

[3] The unstoppable rise of the managerial classes has been well documented, for the case of the US, by Murray (2012).

[4] Notice that these considerations only pertain to common-*pool* resources. A pool is a stock of homogeneous economic goods. The different parts of the stock can be separated from one another without affecting each other's serviceableness. Therefore, they can also be owned separately from one another. But there are also goods that need to be owned as wholes, because their parts are complementary. Such parts lose their serviceableness if they are separated from one another. It would therefore be absurd, for example, to sell the wings of an airplane during a flight and have their owner make independent decisions from the owner of the cockpit.