

Social Market Economy – Origins and Perspectives –

For an Economy of Values:
Presentation of the Arabic Version
“Encyclopedia of Social Market Economy”

Cairo, November 30, 2008

Rules of the game vs. Playing of the game



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Ludwig Erhard – Prosperity through Competition

„In a good game of football it is to be noted that the game follows definite rules; these are decided in advance. What I am aiming at with a market economy policy is – to continue with the same illustration – to lay down the order and the rules of the game. The spectators of a game of football would deeply resent the players coming on an agreement about the number of goals this or that side was to be credited with, and then not playing a fair and interesting game as expected and paid for with gate money. In the same manner I conceive it to be the basis of any market economy to retain freedom of competition. This can only exist where nothing is permitted to suppress freedom, but where freedom is guaranteed by statute and is one of the most prized things in the community.“

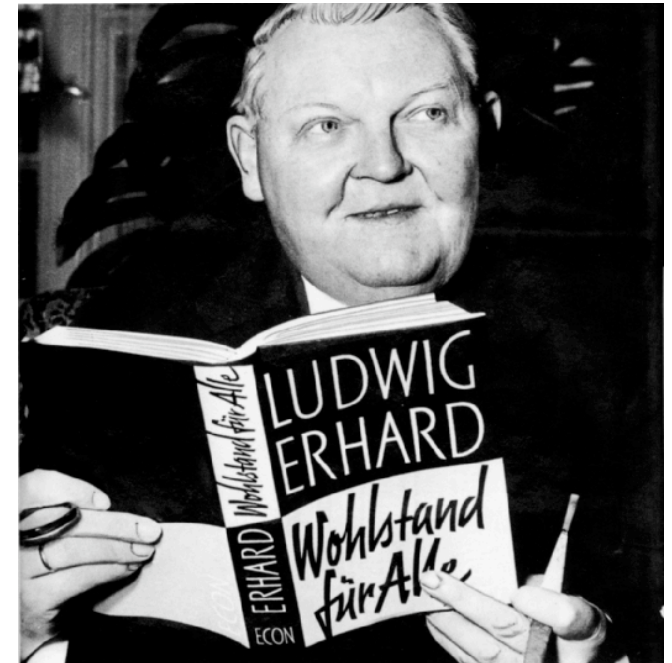
Ludwig Erhard, *Prosperity through competition*, 1957.



Ludwig Erhard – Prosperity through Competition

„Determined to overcome the old conservative social structure once and for all, I planned for a broadly based mass-purchasing power. (...) Along the road of competition, the socialization – in the best sense of the word – of progress and profit is best realized. In addition, personal incentive for higher productivity will remain alive.”

Ludwig Erhard, *Prosperity through competition*, 1957.



Ludwig Erhard – Prosperity through Competition

Three main goals of a **Social** Market Economy

1. A **structural reformation of society**. The aim is a **privilege-free order**, where neither feudal or party elites nor economic power groups like monopolies, cartels or trusts influence markets and society, but where all members of a society have in principle the **same opportunity to develop individually** beyond any barriers of class.
2. Prosperity means more than opportunities for consumption, but **distribution of wealth** within a society. Only a ruled-based market order allows **mobility and redistribution of income over time by the forces of the market** (without governmental intervention) and partaking of economic and technical development. In this sense, the **socialization of progress and profit** is a central concern of a **Social** Market Economy.
3. Focusing on **personal incentives** does not primarily mean „pressure to perform“ but opening up opportunities for individual development. Everyone should get the chance to get involved in economic and societal processes **according to his or her personal abilities**.

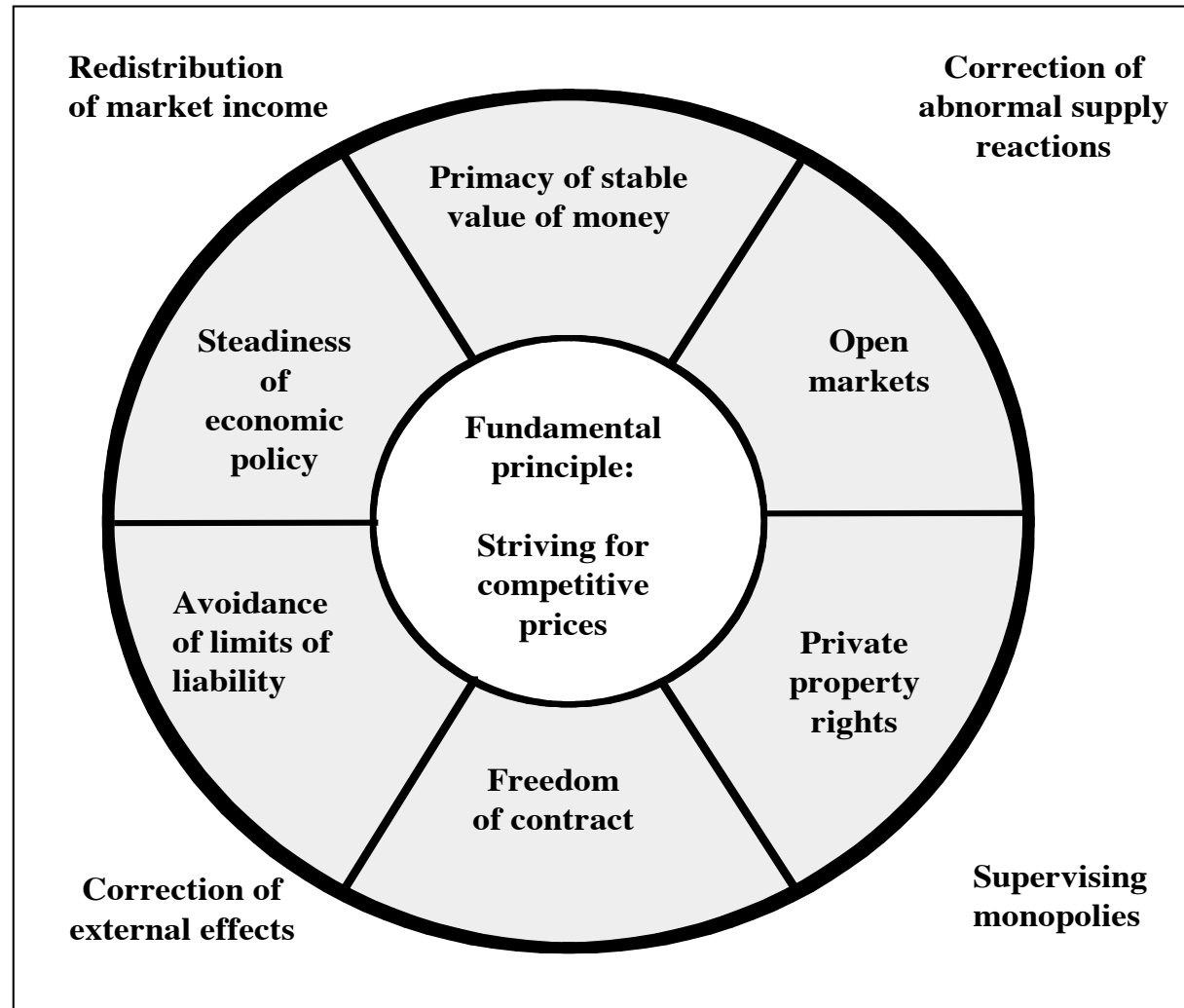
Walter Eucken – Ordoliberalism

„By **constitutive principles**, we mean those principles making up a country’s economic constitution whose joint application at a specific point in history **establishes a certain envisaged economic system**. This is done by creating conditions which serve to bring that system into being. Hence, all the principles in question help to promote the adoption of **an overall economic decision** and also represent the instruments used in practice to enforce that overall decision.”

Walter Eucken, *Principles of Economic Policy*, 1952.



Walter Eucken – Constitutive and regulative Principles

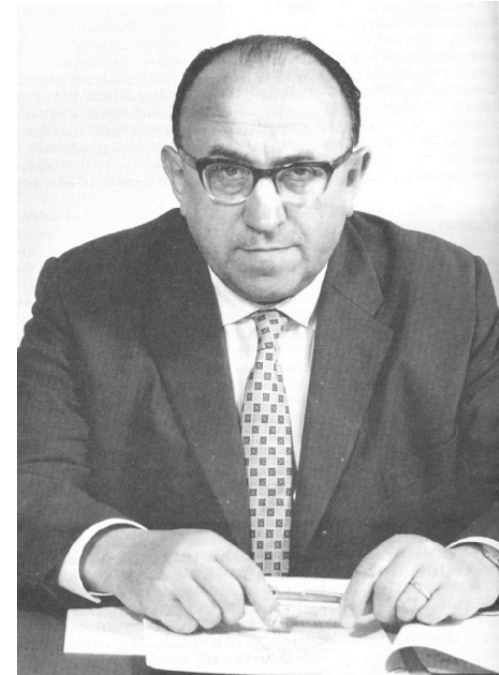


Alfred Müller-Armack – Social Irenics

Social Irenics seeks on „establishing a social concept embracing different creeds and ideologies”.

Alfred Müller-Armack, *Social Irenics*, 1950.

- The process of building a social and humane order will bring together the society as a whole – an integrated society where the theories of economic order and economic policy are in harmony with its culture and its cultural policy, social policy and other fields of policy.



Social Market Economy – Perspectives

- A Social Market Economy is **more than an economic approach**. It is connected to the development of the society as a whole and aims at the well-being of individuals instead of pure economic efficiency. Consequently, the main focus of the Social Market Economy is the **normative postulate of a “good life”**.
- A Social Market Economy is grounded on the social, i.e. historical and cultural processes of a society. **Changes over time will changes the structure of Social Market Economy itself** (as can be observed in Germany).
- Because of its **“cultural sensitivity”** Social Market Economy is especially adequate to implement economic freedom and competition also in the context of different regions around the world. Instead of hoping that some economic principles alone will lead to the path of development (“Washington consensus”), Social Market Economy takes care of the different circumstances one will find in different countries. – **The rules of the game are rules which have to consider the specific economic as well as societal situations.**

Social Market Economy – Conclusions

“All we are asking for is the creation of an **economic and social order which equally guarantees economic activity and humane living conditions.** We call for competition because it can be utilized to reach this goal – in fact, the goal cannot be reached without it. **It is a means, not an end in itself.**“ (Ordo, 1948).