

# A Social Market Economy Perspective on Recent Economic Crises

Prepared for:

Joint The Egyptian Cabinet Information and  
Decision Support Center (IDSC) - KAS  
workshop on

Applying Social Market Economy in Egypt

Cairo, March 11, 2010

Marcus Marktanner, American University of  
Beirut

# A Social Market Economy Perspective on Recent Economic Crises

2

- Outline
- Understanding the crisis – Who is to blame?
- Social Market Economics – The Big Picture
- Social Market Economics – The Ordo-liberal Core
- Social Market Economics – Regulating what, how?
- Coming back to the crises – What went wrong?
- German Social Market Economics – Theory vs. Reality
- Reviving the Social Market Economy in Practice

# A Social Market Economy Perspective on Recent Economic Crises

3

- Understanding the crises
- Who is to blame for the housing crisis?
  - Bill Clinton
- Who is to blame for the financial crisis?
  - George Bush Jr.
- Who is to blame for the food crisis?
  - European and US subsidies (among others)
- Who is to blame for the automobile crisis?
  - Car makers
- Who is to blame for the cleaning-up-the mess crisis?
  - Ordo-liberal ignorance

# A Social Market Economy Perspective on Recent Economic Crises

4

## □ Social Market Economics – The Big Picture

1. What is the normative value system?
  - Efficiency with equal opportunity
2. How is the state supposed to be organized?
  - Subsidiarity and state-insulation from special interest groups
3. What are untouchable market fundamentals?
  - Ordo-liberal core
4. When is the state supposed to interfere?
  - Regulatory principles
5. How is the state supposed to interfere?
  - Supplementary principles

# A Social Market Economy Perspective on Recent Economic Crises

5

- Social Market Economics – The Ordo-Liberal Core
  1. Free prices
  2. Free contracts
  3. Free trade
  4. Private property rights
  5. Price stability
  6. Private liability
  7. Predictability of economic policy

# A Social Market Economy Perspective on Recent Economic Crises

6

## □ Social Market Economics – Regulating what,

| What?  | How?   |
|--|--|
| <ul style="list-style-type: none"><li>• Abnormal labor supply</li><li>• Externalities</li><li>• Market Power</li><li>• Unequal opportunities</li></ul> | <ul style="list-style-type: none"><li>• Collective bargaining (Subsidiarity)</li><li>• Market conform internalization</li><li>• Anti-trust policy</li><li>• Market conform social policy</li><li>• Abstain from sectoral interventions</li><li>• Minimize stabilization policy</li></ul> |

# A Social Market Economy Perspective on Recent Economic Crises

7

- Coming back to the crises – What went wrong?
- In build-up to crisis - violation of:
  - ▣ Governmental insulation from special interest groups
  - ▣ Supplementary principle: sectoral interventions in housing and agriculture
- Bail-outs are wrong – violation of:
  - ▣ Again: No insulation from special interest groups
  - ▣ Market constituting principles of private liability and predictability of economic policy
  - ▣ Supplementary principle: Bail-outs are sectoral
  - ▣ Supplementary principle: Moderate stabilization policy

# A Social Market Economy Perspective on Recent Economic Crises

8

- German Social Market Economics – Theory vs. Reality
- Social Market Economics is a way of thinking that combines normative and positive economics with methodology of historical school (as opposed to neoclassical economics, which is only a positive science)
- Although Social Market Economics is a German and European tradition, theory and reality are far apart
- The problems began in the 70s (macro-management) and continued in the 80s when Social Market Economics and neoliberalism became practically one.
- The sensitivity for market failures and externalities got lost (financial liberalization), special interest groups gained momentum (agriculture)

# A Social Market Economy Perspective on Recent Economic Crises

9

- German Social Market Economics – Theory vs. Reality
- Social Market Economics is a way of thinking that combines normative and positive economics with historical school (as opposed to neoclassical economics, which is only a positive science)
- Although Social Market Economics is a German and European tradition, theory and reality are far apart
- The problem were the 1980s: Social Market Economics and neoliberalism were practically one.
- The sensitivity for market failures and externalities got lost (financial liberalization), special interest groups gained momentum (agriculture)

# A Social Market Economy Perspective on Recent Economic Crises

10

- Reviving the Social Market Economy in Practice
- Let's face it: Politicians are ignorant
- Moreover: Certain policy necessities have a too long time-frame for politicians to tackle them
- Because politicians are not perfect, modern states have outsourced central banking and antitrust policy
- Institutions must therefore be developed that guarantee that economic policy is again more in line with Social Market Economic Principles (An Economic Policy Supreme Court?)
- Other mechanisms should also be considered: Politicians' liability?
- Finally, Social Market Economics is barely taught anymore at universities.

# A Social Market Economy Perspective on Recent Economic Crises

11



Thank you.