



Principles and Core Values of the Social Market Economy

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Principles and Core Values of the Social Market Economy

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Principles and Core Values of the Social Market Economy

1. Historical Background

- Deep mistrust in Capitalism and Socialism as economical and social systems (“historical aberrations” – Walter Eucken)
- Bad experience with powerful industries, social partnership and welfare state during the „Weimarer Republic“ (e.g. missing antitrust regulation)
- Bad experience with strongly intervening state economic policy during the Hitler Regime
- Upcoming German Democratic Republic under influence of the Soviet Union
- Dramatic “Winters of famine” in 1947/48;
- Strong shadow economy after World War II
- Complete decline of moral and ethic basics of Germany Civil Society during World War II



Principles and Core Values of the Social Market Economy

1. Historical Background

Conclusion

There was the need to search for a „Third Way“ (Wilhelm Röpke) beyond capitalism and socialism, that could give back the chance of rebuilding Germany not only in an economical and social way, but also in a moral way – a new way of liberalism („Neo-Liberalism“, in Germany: Ordoliberalism).

Consequence of „Great Depression“

Two new „Schools of Economic Thought“:

Keynesianism: State Intervention is needed to stabilize markets

Vs.

Ordoliberalism: State Regulation of market order (framework), but rejection of state intervention



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1. Historical Background

Founding fathers of the Social Market Economy

Politicians

Ludwig Erhard (Director of the department of Economics in the British-American Zone in 1947, later on Minister of Economics (1949-1963) and Federal Chancellor)

Alfred Müller-Armack (State Secretary of Ludwig Erhard)

Academics

Walter Eucken (Founder of the „Freiburger Schule“ and „Ordoliberalism“)

Wilhelm Röpke (Cofounder of the „Freiburger Schule“, asylum in Switzerland)

Alexander Rüstow (Cofounder of the „Freiburger Schule“, asylum in Istanbul)



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2. Theoretical concepts of the Social Market Economy

- „Freiburger Schule“ und Ordoliberalism

Ordoliberalism (German notion for „Neoliberalism“) focuses on the powerful role of the state to ensure functioning competition.

- „German Resistance“ against Hitler

1938-1943: Some members of the „Freiburger Schule“ were in contact with different groups of the „German Resistance“ (Carl Goerdeler or Dietrich Bonhoeffer)



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2. Theoretical concepts of the Social Market Economy

- Philosophical roots of the Greek period (Platon) (so called Virtues of the Middle Age)

Wisdom

Justice

courage/boldness

moderation/modesty

- Christian Social Rules

The Role of the human being

1891: Sozialenzyklika „Rerum Novarum“ (Pope Leo XIII.)

1920: „Die protestantische Ethik und der „Geist“ des Kapitalismus“ [„The protestant ethic and the spirit of capitalism“] (Max Weber)



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3. Principles behind the Social Market Economy

Personality: individual liberty

Social justice: stresses equal chances by participation and not equal results by redistribution

Solidarity: rights and responsibilities balanced on mutuality; mixture of individual and social (collective) responsibility

Subsidiarity: responsibilities start at the level of the individual (family, municipality)

The formula created by Alfred Müller-Armack to integrate these values was:

„The Social Market Economy aims to combine freedom on the markets with social stability“.



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4. The rule of competition – Principles of Ordoliberalism (Walter Eucken)

Constitutive Principles

- Free markets and personal rights
- Relative price system built by supply and demand (not by public intervention)
- Sound money and sound public finance
- Rule of law
- Private property
- Liability (Responsibility for own decisions)
- Midterm orientated economical policy



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4. The rule of competition – Principles of Ordoliberalism (Walter Eucken)

Regulatory Principles

- Antitrust regulation
- Social redistribution (Taxation, Social Contributions, Role of the social partners)
- Treatment of external costs (environment, climate)



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5. Characteristics and core values of the Social Market Economy

The main principles that link economic growth and social stability in the Social Market Economy:

- Economic freedom and competition
 - enables consumers to decide according to their needs
 - forces companies to act according to the needs of consumers and to strive for excellence
 - reduces the influence of public institutions on individual life course
 - strengthens individual/local responsibility: "subsidiarity"
- Functional price system/Monetary stability/Fiscal stability
- Self responsibility and solidarity
 - enables individuals to participate/compete (education, employability, make work pay)
 - protects the weak (freedom by guaranteed social existence minimum)



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5. Characteristics and core values of the Social Market Economy

What distinguishes the Social Market Economy from socialism?

Goal:

The human being is at the center of all measures and instruments.

Characteristics:

- Sovereignty of consumers, not of producers
- Market economy and free private sector, not centralized economy and public sector
- Order policy, not interventionism („The state is the referee, he is not the playmaker“)



Principles and Core Values of the Social Market Economy

5. Characteristics and core values of the Social Market Economy

What distinguishes Social Market Economy from socialism?

Instruments:

- Rule of law
- Human rights
- Order of competition

The best way to give power to the people (consumers) is fair competition. These instruments prevent any power (either from public or from big business/industry – private – side) from reducing the possibilities of choice and freedom of the individual.



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5. Characteristics of the Social Market Economy

Some Quotations

„ I want to make it according to my own initiative, want to bear the risk of life myself, want to master my destiny on my own. You, State, enable me to behave like that“.

„,Prosperity for all` and ,Prosperity through competition` are inseparably linked; the first names the goal, the second names the way to achieve the goal“.

Ludwig Erhard, 1957



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5. Characteristics of the Social Market Economy

Some Quotations

„A powerful state is not the one that takes care of everything. On the contrary, the state in the Social Market Economy is the one that clearly separates its agenda from its „non“-agenda.“

„The state is a powerful referee, but not the playmaker ... who strictly cares about the players to respect the rules of the game.“

Wilhelm Röpke, 1942



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6. The German model – past and present

The „German Model“ – Some historical steps

Freedom on the market

1948 New Currency and free price system

1948 Central Bank (Bank deutscher Länder)

1949 Constitution (Grundgesetz)

1958 Antitrust regulation

1958 European Economic Community (Common Market)

1990 Euro-Currency-Union (First step)

Social Stability

1881 Bismarck's Social Security Reform

1891 Progressive Income tax system

1951 Participation (Mitbestimmung)

1951 Dismissal law protection

1957 Dynamic Pension reform

1969 Welfare Reform



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6. The German model – past and present

The „German Model“ (also managed capitalism, Rhineland Model) meant:

- Labor market participation is the key to wealth and personal responsibility
- Common responsibility for the risks of life by social security system (Bismarck, not Beveridge)

Pensions

Health Care

Unemployment

- Strong Role of Social partners (corporatism/bi-partnership)



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6. The German model – past and present

- Social Welfare system as lowest level of security
- Strong market regulation (labor market, tax system, environment)
- Progressive taxation



Principles and Core Values of the Social Market Economy

6. The German model – Past and Present

Past

Focus on wealth creation

Individual responsibility (subsidiarity)

Balance of rights and responsibilities

Low level of regulation

Strong role of social partners

Present

Focus on (re)distribution policy

Collective responsibility (centrality)

Unilateral Entitlements against welfare state

High level of regulation

Weak role of social partners



Principles and Core Values of the Social Market Economy

6. The German model – Past and present

Past

Full employment

Low public debt

High growth rate

Demographic stability

Present

High long term unemployment

High public debt

Low growth rate

Demographic change



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6. The German model – past and present

The current German Model today is the result of a process that undermined important principles of the Social Market Economy:

- High labor market regulation (hinders *competition*) combined with high unemployment benefits and high withdrawal rates (hinders individual *incentive* to work)
- Powerful trade unions and centralized social partnership
- Promise of Bismarckian welfare state, that social security systems guarantee high living standards in case of unemployment, disease or retirement (dominance of *public institutions*)
- Different public systems stress corporate solidarity (rearrangement policy), rather than the personal strive for excellence or *personal responsibility* (education system, tax system, social security system)
- Federal system does not enhance competition, but rewards worst practice by leveling best practice (no competitive federalism)



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Thank you very much for your attention!