



GUIDELINES FOR PROSPERITY,
SOCIAL JUSTICE AND
SUSTAINABLE ECONOMIC ACTIVITY



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Overcoming the global financial and economic crisis calls for international rules. The social market economy is a model providing an appropriate framework of orientation. Its value in the national context has been proven. The countries of the European Union have undertaken in the Treaty of Lisbon to work towards a “competitive social market economy”. The institutions of the European Union, notably the European Parliament, have demonstrated, especially in the last few months, that they are responding to this mission. Now those principles need to be placed on an international footing. Leading representatives of the political and academic communities in the European Union formulate what is at stake in the following Guidelines.

PREAMBLE

Increased economic and political interconnectedness has led to greater growth and competition in many countries around the world. It has improved education opportunities, strengthened the social infrastructure and reduced poverty. And yet, peace, freedom and justice are all under threat. The unequal distribution of global prosperity is a contributing factor for increasing political and social tensions. The only way to overcome the current financial and economic crisis is to have international rules for the financial markets. This requires a shared commitment to sustainable economic activity. We need an international consensus to enable prosperity, social justice and sustainable economic activity based on shared principles and values. Even at times of crisis, the positive effects of globalisation must not be put at risk by national or regional protectionism. Taking into account variations between cultures and societies, an orientation to the common good, democratic legitimacy and the inviolability of human dignity are the foundations upon which such a consensus shall be built.

GUIDING PRINCIPLES

The guiding principles are solidarity and subsidiarity. Solidarity ensures that the market economy is continually legitimised by its orientation to the common good, while subsidiarity creates and guarantees the space for individual responsibility and initiative.

1. Legal framework

A functioning, reliable and democratically legitimate legal system is the basis for efficient and sustainable economic activity. It creates the preconditions for a strong economy, an efficient and citizen-friendly state administration, and compliance with the principles of good governance. Regulating elements and consistent supervision ensure that rules are adhered to and violations penalised. This is not an end in itself. Regulation is the appropriate and correct approach to shape incentives in a competitive economy in such a way that decentralised competitive activity benefits society.

2. Property ownership and employment

An efficient economic structure geared to sustainability must be based on a system of private property ownership that places the power of disposal over goods in the hands of private enterprises and households. Private ownership provides the critical incentive for generating income through work and is the basis of innovative entrepreneurship. Only an economic system that is based on private property can safeguard employment on a sustainable basis. This is the basis upon which individual responsibility and initiative can develop, without which an effective use of one's own potential and of education, innovation, growth and prosperity is unimaginable. Private ownership characterises a competitive system in which a multitude of owners of small and medium-sized enterprises are liable for their economic activity through their personal property. Ownership entails social ob-

ligations. Making use of it must serve the common good. This ensures careful and sustainable business activity and protects against a one-sided concentration on short-term profit-seeking.

3. Competition as the basis

A global competitive system based on the free determination of prices optimises the allocation of scarce resources. Fully functional competition is the engine that drives sustained economic activity. It fosters efficiency and progress, reinforces responsible behaviour and prevents the establishment of one-sided market power. A competitive system requires open markets, both nationally and internationally, and control of market power as well as concentration by the state and the international community. Competition is rooted in performance and equality of opportunity.

4. Application of the principle of liability

Freedom of competition requires the application of the principle of liability by which competitive performance is tied to the responsible conduct of each participating player. The prospects for profits stimulate competition, while personal liability in the event of losses curbs irresponsible and excessively risky behaviour.

5. Stability of the economic environment

A market economy needs a long-term economic policy and the greatest possible macroeconomic stability. This applies particularly to national and international financial markets. Confidence in a stable economic framework is a prerequisite for investments and long-term consumption decisions. Such confidence also requires the rejection of protectionist measures and of a monetary policy geared only to short-term national economic and growth targets.

6. Provision of public goods by the state

In a market economy, the state must ensure the provision of public goods if the market is unable to provide these goods or can only do so inadequately. An efficient infrastructure, fundamental educational opportunities, and access to comprehensive healthcare provision are all areas that the

state must be involved in shaping. The need for state involvement is particularly great where there is social disadvantage. However, there should be a limit to state intervention.

7. Solidarity and social security

Economic growth facilitates poverty reduction. The market economy cannot, however, prevent the development of income disparities and the disadvantaging of certain sections of the population. Therefore a market economy needs effective, broad-based social security systems functioning in line with market conditions, mechanisms for regional redistribution and a performance-oriented system of taxation in order to safeguard social peace and to enable appropriate levels of participation by broad sections of the population in the development of the economy and society.

8. Incentive compatibility

A market economy requires an incentive-oriented system of levies to finance state tasks. These taxes must be designed in such a way that they neither minimise performance incentives nor lead to allocative distortions.

9. Sustainability

Every economic system must be judged also by its long-term results. In ecological, social and fiscal terms, sustainability is one of the most important criteria for success and an expression of intergenerational justice. A legal system based on responsibility and liability facilitates sustainability. In particular, an active climate protection policy is an economic and moral obligation towards safeguarding the natural basis of existence for future generations.

10. Open markets

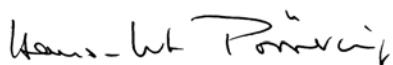
Going it alone does not represent a cure for individual countries in the current crisis. On the contrary, it can exacerbate the global impacts of the economic crisis. What is crucial is a coordinated policy of open markets and respect for the rules of fair play. The relevant international institutions must be further strengthened to counter protectionism and economic nationalism.

CONDITIONS OF SUCCESS FOR A GLOBAL SOCIAL AND MARKET-ORIENTED ECONOMIC ORDER

An open, global economy requires an international framework. Principles and rules which have proved themselves at both national and European level within the framework of a social and market-oriented system of values and economic rules must also be applied internationally. These principles establish a link between freedom and responsibility for the benefit of all. They must be improved, particularly in the area of the financial markets, and reinforced within the system of global trade. What is required is the expansion of

the legitimacy, functioning and cooperation of international institutions as well as the creation of integrative forums for cooperation. A reliable legal system and a democratic order geared to subsidiarity are the basis for this. Political competition and political participation within nations promote economic development and a stable international social and economic order. Only a framework of this kind can ensure the supply of essential information by independent media and associations. Consensus and commitment by the political, economic and social actors to the reconciliation of interests in both the national and international context are the prerequisites for "prosperity for all".

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