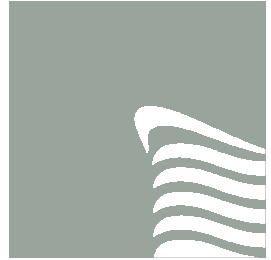


EXCELLENCE
IN
TEACHING



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The Social Market Economy – A Concept for African Countries?



Malawi

July 2011



Introductory Remarks



Social Market Economics

- › The Ordo-liberal concept of the Social Market Economy is a **market oriented** and non socialist approach.
- › The term Social Market Economy is used for three not necessarily in every detail identical concepts:
 - › for the **economic system** in Germany since 1948;
 - › for a **theoretical concept**;
 - › to describe the **European Social Model**.
- › The concept of Social Market Economy is a **dynamical** concept, which must be and can be adapted to political and economic changes. The consensus on what the word “social” means, must be redefined continuously.



01

Time for Change?



The Subprime Crisis



"I THOUGHT WE WERE JUST BUYING A HOUSE!"

19.07.2011

Slide 5

The Development of the World Economy



GDP per Capita

(five year averages in constant 2000 US\$)

Year	Latin America/ Caribbean	East Asia Pacific	Sub-Saharan Africa	Arab Countries (no oil)	Oil Export. Arab	Eastern/ Central Europe	East Asian Tigers	Western Europe
1965	2.254	3.969	539	836	1.066	1.432	153	8.537
1970	2.551	5.665	584	962	3.004	1.798	200	9.302
1975	3.055	7.246	667	1.200	3.032	2.301	262	11.385
1980	3.474	7.970	654	1.433	4.117	2.020	341	12.660
1985	3.471	7.523	558	1.623	3.955	2.220	465	13.425
1990	3.478	8.487	514	1.639	3.298	2.351	669	15.076
1995	3.646	9.100	482	1.796	3.335	1.807	946	16.268
2000	3.943	9.341	491	2.017	3.690	1.749	1.298	17.732

Source: World Development Index

Unequality in Incomes



Gini Coefficients

(five year averages)

Year	Latin America/ Caribbean	East Asia Pacific	Sub- Saharan Africa	Arab Countries (no oil)	Oil Export. Arab C.	Eastern Europe	East Asian Tigers	Western Europe
1965	43,9	44,3	46,3	45,6	46,5	33,8	30,0	34,9
1970	43,9	44,0	46,4	44,3	46,7	33,7	30,0	34,9
1975	43,7	44,0	46,8	44,4	45,3	33,2	30,0	34,7
1980	43,4	44,6	46,3	43,0	44,5	33,2	30,2	34,6
1985	43,6	44,3	45,7	43,9	40,3	33,1	31,5	35,0
1990	44,3	44,5	46,8	43,4	40,7	33,4	33,3	36,1
1995	45,9	43,5	47,8	45,5	43,7	35,8	33,1	37,0
2000	46,6	44,3	48,9	46,5	45,5	40,2	33,1	37,9

Source: University of Texas Estimated Household Income Inequality Data Project

Why should we talk about a Social Market Economy?



- In the globalised world the positive effects of a growing economy are no longer shared between all parts of the population; inequality is increasing;
⇒ **We need a (post-Washington-Consensus) concept for social development**
- The global financial crises shows the problems of a widely deregulated economy
⇒ **We need a concept for a “regulated” market economy**

The Social Market Economy includes both!

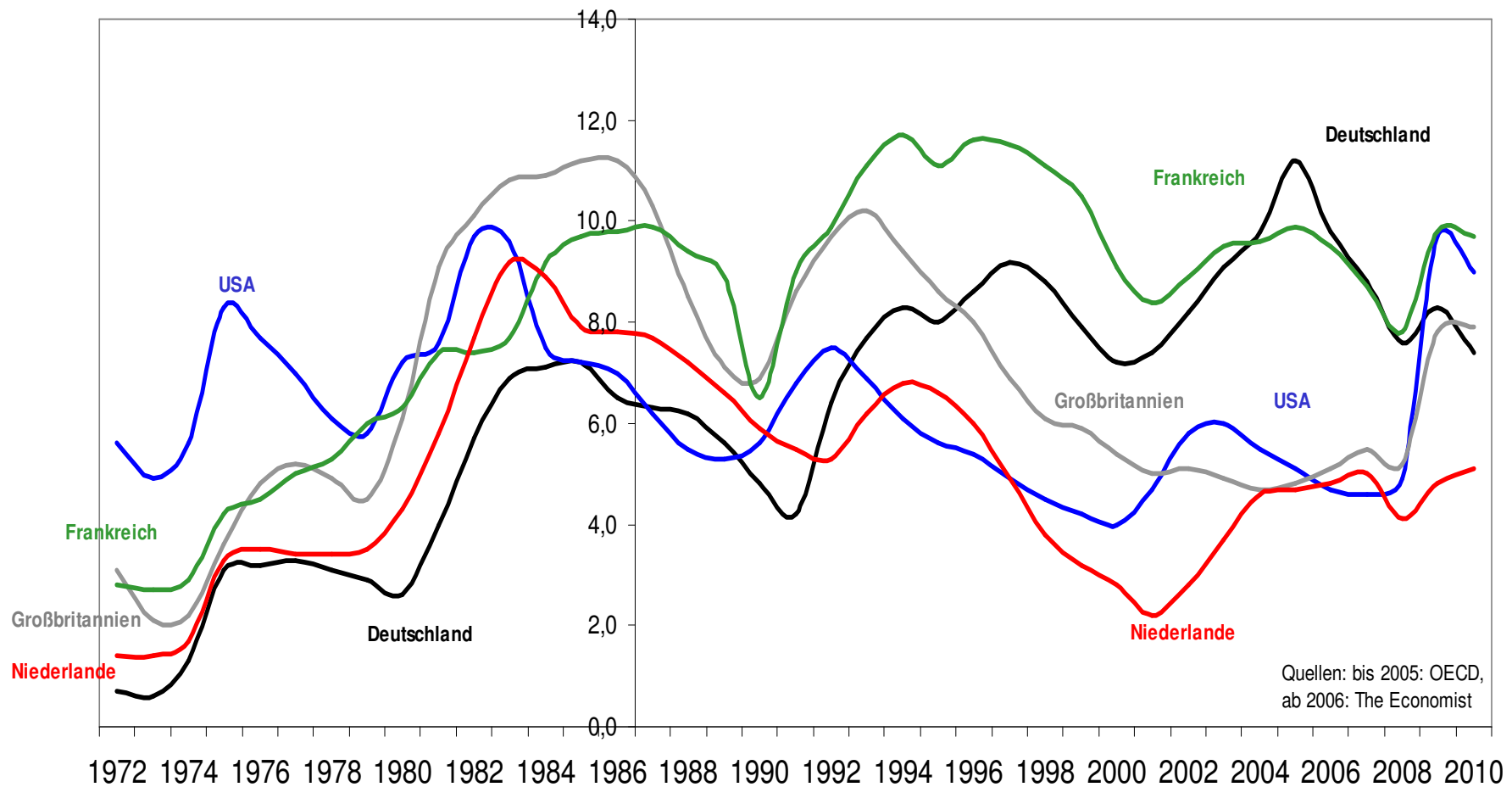


02

Why Social Market
Economics?



Unemployment in OECD Countries



Values and Objectives of the Social Market Economy



... is a value oriented approach

- > developed by **humanism** and **Christian tradition** (freedom, peace, equality, justice, welfare);
- > according to the principles of
 - > **solidarity** and
 - > **subsidiarity** and
 - > in the belief, that the **individual is the nucleus of the society.**

The Idea of Social Justice



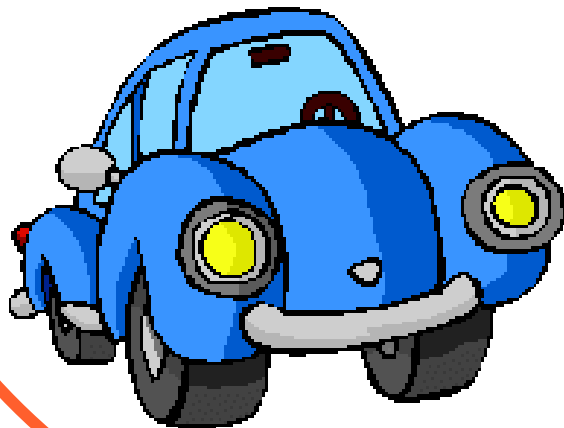
Social justice is (today) the philosophical idea of giving any individual in the society the same **rights** and to **share wealth and income** between individuals in a “just” way

- > according to the **individual needs** (socialism)
- > according to the **individual performance** (capitalism)
- > by realizing **equal opportunities** (Social Market Economy)

Elements of a Social Market Economy

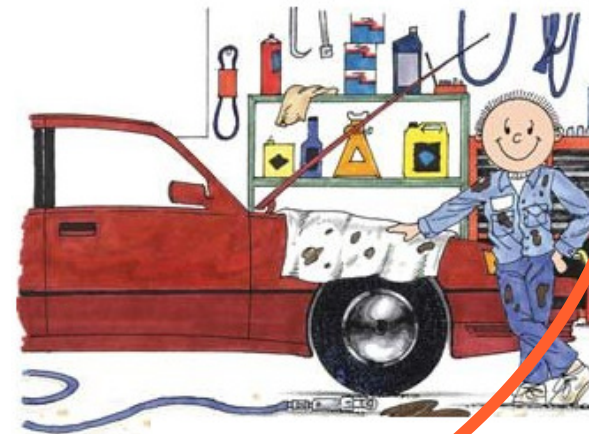


Constitutive Elements



+

Regulatory Elements



Social Market Economy



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 (“Ordnungspolitik”)
- › Private property
- › Liability (Responsibility for own decisions)
- › Long-term orientated economic policy

Social Market Economy



Regulatory Principles

- › Antitrust regulation
- › Social redistribution
(Taxation, social contributions, role of the social partners)
- › Treatment of external costs
(environment, climate)
- › Arrangements on labour markets which avoid abnormal behavior
(institutional arrangements with independent actors)





03

The Role of the State



Economic Policy in a Social Market Economy



- › has to create and adjust the **framework** for the economic process in a way, that market mechanisms can achieve optimal results, (long term oriented),
- › means to influence the economic process (if it remains necessary) in a **non-discriminating** way and **neutral** to economic structures,
- › means to act upon the markets in a way that does not hinder the mechanisms of a Social Market Economy (**the price-mechanism**).

The Social Aspects of the Social Market Economy



- › a **competition policy** that minimizes the success of rent seeking strategies;
- › a **tax system** based on a progressive income tax;
- › **systems of social security** protecting against the risks of unemployment, diseases and ageing;
- › **independent organizations** organizing the labor market;
- › an **educational system** based on the equality of chances;
- › **Price stability.**

Competition Policy



The state must **control monopolies** and – with an **anti-trust legislation** – avoid that companies or groups of companies try to misuse their power on the markets to increase prices.

An economic structure with big and **medium size companies** (“Mittelstand”) makes the competition workable and combines the flexibility to adapt to market changes with the necessity for inventions and investments.

Tax System



The heart of the tax system is a **progressive income tax** that forces people with higher incomes to finance a bigger share of public expenditures.

The income tax is the **main instrument for the redistribution** of incomes.

Systems of Social Security



Individuals use to underestimate their personal risk of and costs of social security. This makes political measures necessary

- › to create an **unemployment insurance**;
- › to create a (compulsory) **health insurance**;
- › to create a **pension scheme**.

According to the principle of the individual subsidies for the poorest people are necessary (negative income tax) to realize a minimal standard of living.

The Organisation of Labour Markets



The labour market is a market on which a special good is bargained. It must therefore be organized in a specific way to avoid negative effects.

- › **Labour unions** and **employers associations** decide autonomously on the conditions and wages on the markets.
- › No necessity and no possibility for political influences.

The System of Education



In a country with very little natural resources **a skilled workforce is a precondition for competitiveness**. A high-quality public schooling system without tuition fees is needed to maximize the population's knowledge.

To realize the equality of chances, for families with low incomes **education should be subsidized** to make an entry into universities possible.

Price Stability



Negative effects of inflationary processes:

- › Redistribution from poor to rich;
- › Reduction of efficiency of market processes.

An independent central bank must be responsible for monetary policy that only focuses on price stability (not exchange rate stability).

“Price stability is not everything. But without price stability, all is nothing.” (Ludwig Erhard)

Principles in the German Constitution (Art. 20 III) and their Interpretation



Principle of the Constitutional State

Every Citizen has the right to take care of his own life. The state can and has only to become active in cases, in which the citizens are not able to take care. (Subsidiarity)

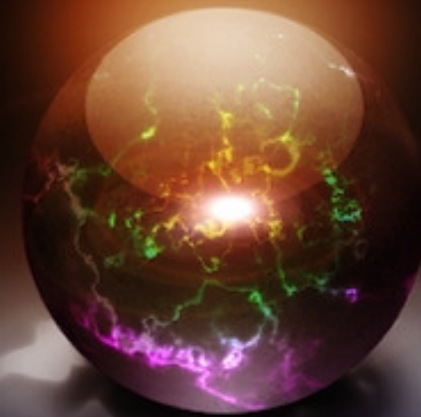
Principle of the Welfare (Social) State

The state must subsidize those citizens, who are not able to achieve a functional income (wage, lease, rent, interest). (Solidarity)

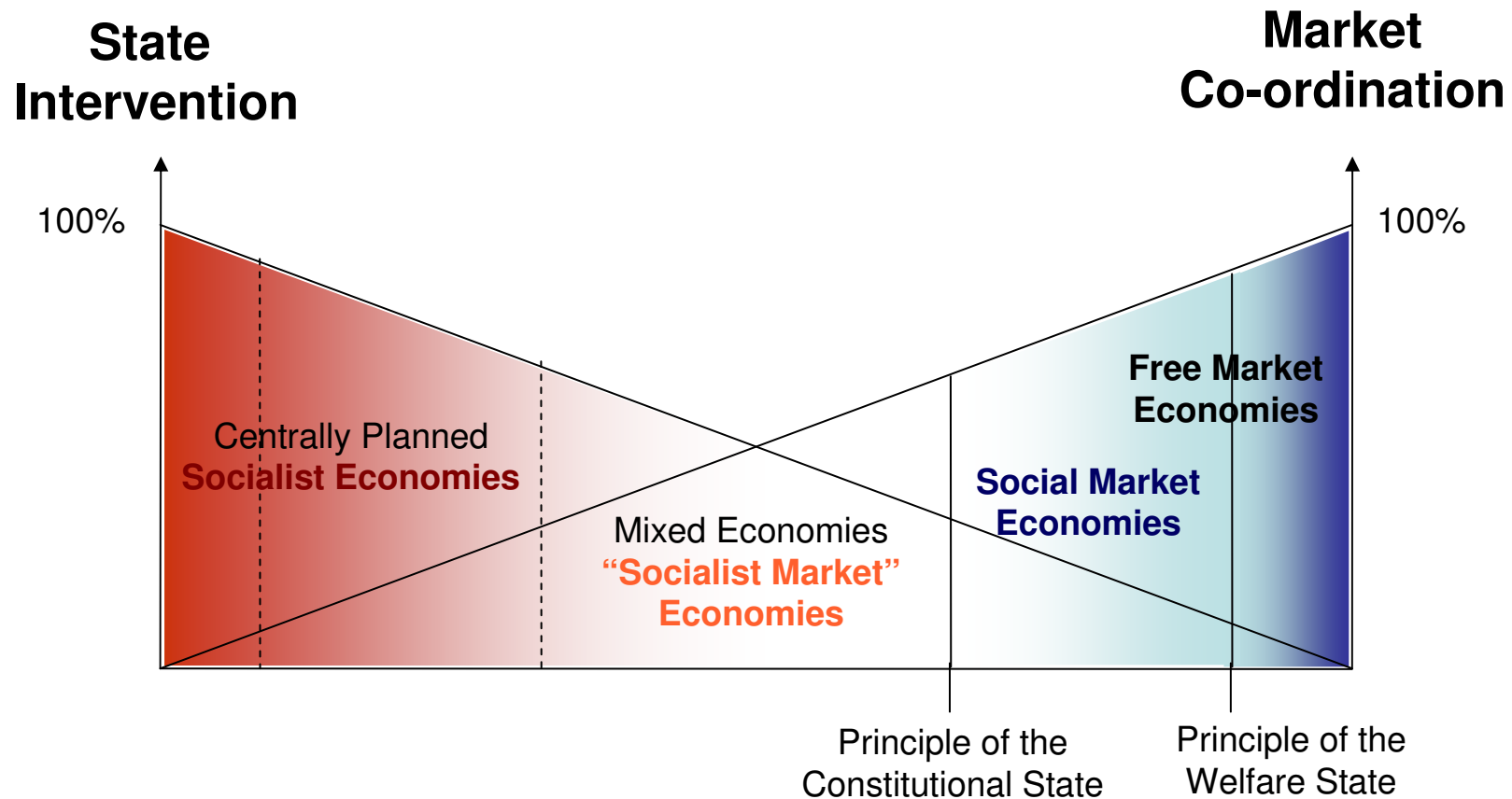


04

Social Market Economy – A Model for African Countries?



Alternative Economic Systems



The Role of the State in Social Market Economics



In opposite to neo-liberalists (Anglo-American) Ordo-Liberalism counts on a **strong role of the state** inside the economic system, mostly

- > to protect competition;
- > to increase the efficiency of a market economy by a policy of social balancing;
- > to create and establish a system of checks and balances between the different political and economic actors.

But: there is no role at all for the state in driving the economy and being active as an entrepreneur

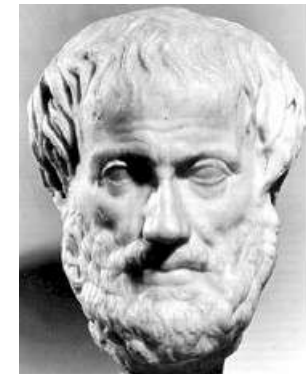
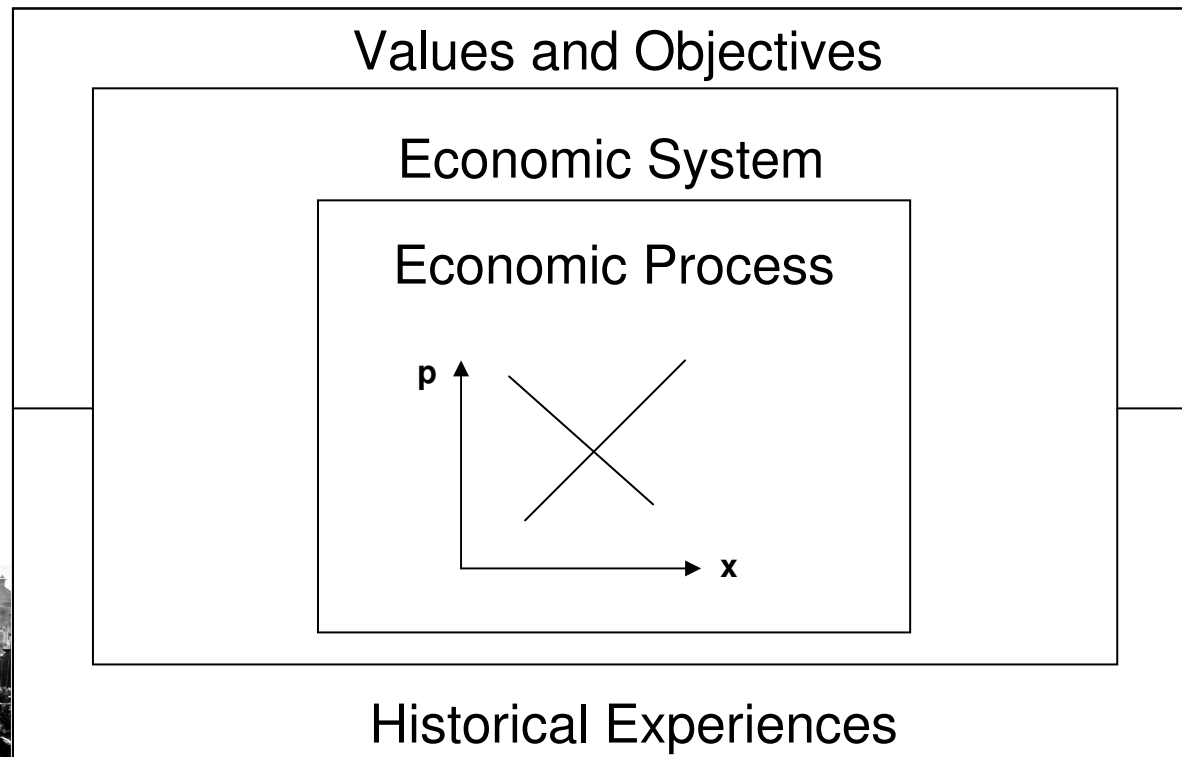
The state is the referee and the guardian of social justice!

„The most social with the Social Market Economy is that it creates efficient markets and makes the biggest possible number of people independent of the welfare state.“

Prof. Ludwig Erhard
Minister of Economic Affairs
(1949 - 1963)



A Model for African Countries?





**THANK YOU
FOR YOUR ATTENTION**

Neo- versus Ordo-Liberalism

