

Suvremena Magazin - Zagreba Inicijativa

**"Social Market Economy"
as an Engine for Growth and Prosperity**

Conference on: "Export – Engine of Development"

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Introductory Remarks

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Excellencies, Honourable Members of Parliament, Representatives of the Business Community, Distinguished Guests

Ladies and Gentlemen,

I would like to extend a very warm welcome to you all, on behalf of the Konrad Adenauer Foundation. a non-governmental organization from Germany, which is proud to have been assisting our partners, among them the Suvremena Magazine and the "Zagreba Inicijativa" in organizing today's event on the important and very timely question on "The Role of Exports as an engine of growth and development."

For those of you wondering what kind of organisation the Konrad Adenauer Foundation is, and why we have sponsored this conference, allow me to sketch a brief background to the German Political Foundations and outline some of the reasoning behind the involvement of the Konrad Adenauer Foundation in the Zagreba Inicijativa and this seminar.

The **German Political Foundations** are a unique feature of today's democratic culture in Germany and the move behind their creation, which dates back to the 60's (of the last century), has been the expectation that political or civic education would help develop and consolidate democracy in post-war Germany.

Both in Germany and abroad, these Political Foundations seek to further (economic) development and encourage people to play an active part in the political and economic lives of their communities. By engaging in a variety of activities, these German Foundations help strengthen the concept of human rights, assist economic development and protect the rule of law.

The **Konrad Adenauer Foundation**, which I have the honour to represent here today, is closely associated with the Christian Democratic Union of Germany. It proudly bears the name of the co-founder of the CDU Party and the first Chancellor of the Federal Republic of Germany, **Konrad Adenauer** (1876-1967).

Similar to the founder of the HDZ, **Franjo Tudjman** he –after the war - united Christian-social, conservative and liberal traditions.in one party.

His name is synonymous with the democratic reconstruction of Germany, the firm alignment of foreign policy with the Trans-Atlantic community of values, the vision of a unified Europe and an orientation towards a market economy. His intellectual heritage continues to serve both as our aim as well as our obligation today.

In our European and international cooperation efforts of today, we want people to be able to live in freedom and dignity, be economically productive and feel responsibility for their environment.

We cooperate with governmental institutions, political parties, and civil society organizations alike, building strong partnerships along the way. In particular we seek to intensify political cooperation in the area of development at the national and international levels on the basis of our objectives and values.

With more than 70 offices abroad and projects in more than 120 countries, we make a contribution to the promotion of democracy, the rule of law and a successful market economy.

In particular, we engage in what we call "policy dialogue" about economic systems, such as the German "**social market economy**". The aim of this dialogue about economic systems and policies - and I consider today's event one of those efforts - is not to transplant patterns, successfully practiced in Germany. This will not work. But at the same time, it does make sense to us, to talk about an economic system that provides a real possibility of combining the principle of economic freedom with the principle of social equality.

Ladies and Gentlemen,

the repeated failures of the welfare as much as the laissez faire state draws attention to the idea of a "social market economy" as a third way between the ideologies of socialism and capitalism. The notion of social market economy refers to an economic concept, which has formed West German economic policy since the second world war.

*When we look today for guidelines for prosperity, sustainable economic development and social justice in our societies, we believe that this "**social market economy**", defined as an economy, governed by the rules of the market but equipped with social measures and safeguards, has no parallel with regard to its capability to facilitate economic growth and social progress for all.*

The fundamental values of the social market economy are rooted in what one might call the "Christian image of humanity". Its ethical goals are to

- provide for an optimal goods supply*
- guarantee decent conditions at the workplace*
- provide solidarity with the economically weak through a system of social security*

We – in Germany – are very proud, that the countries of the European Union have in their "Treaty of Lisbon" undertaken to work towards exactly such a competitive "social market economy".

Our guiding principles in Germany 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.*

What we now need is an international consensus to enable prosperity, social justice and sustainable economic activity based on those shared principles and values.

Which are those principles and values ?

1. Legitimate Legal frameworks

A functioning, reliable and 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.

2. Property ownership and employment

An efficient economic structure must be based on a system of private property ownership. It 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. In a competitive system a multitude of owners of small and medium-sized enterprises are liable for their economic activity through their personal property. Ownership entails social obligations. Making use of it must serve the common good.

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. Competition is rooted in performance and equality of opportunity.

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.

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 macro-economic stability. 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, however, there should be a limit to state intervention.

7. Solidarity and social security

Economic growth facilitates employment and poverty reduction. The market economy cannot, however, prevent the development of income disparities. 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.

7. Incentive compatibility

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

8. Open markets

Going it alone is not a solution. 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.

An open, global economy requires an international framework. Principles and rules which have proven 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.

All those principles establish the very essential linkage between freedom and responsibility for the benefit of all!

At the same time what remains to be true is: such a social market economy does not come true through legislation but only through the thinking and acting of the individuals (Richard von Weizsäcker).

Ladies and Gentlemen,

With the collapse of communism, market economies have irrefutably proven their superiority as engines of human prosperity. The benefits of a free and social economic order are being increasingly recognized not only in the developing world, but in this region as well.

Rapid changes are about to confront the Croatian economy after its accession to the European Union. Therefore it is puzzling to me, that there are still ministers, trade unionists and party representatives, who still seem to miss the point and remain to be holding nostalgic ideas of social engineering and economic central planning in high regard.

Since independence you have been witnessing a reversal in economic policy in Croatia from a rather state driven, market-assisted to a more market-driven state-assisted Economic policy.

*Despite this **Unemployment** in Croatia seem still to be unacceptably high, therefore we can only hope that the government shall implement a liberalization policy and eventually comes to the conclusion, that only a growing successful private sector can be the key to conquer unemployment.*

A country – like Croatia - which so badly needs local and foreign direct investment can ill afford a situation, where a cumbersome buerocracy and a rigid labour market are remaining to be an effective discouragement.

You don't need to be an economist to realise that the urgently needed jobs will only be created, if a business friendly climate exists that is conducive for existing enterprises to grow their businesses and for entrepreneurs to invest their money in new enterprises.

*In the economic reality of a **Globalising World** economy, governments will no longer be able to create lasting employment, only entrepreneurs will be able to do so.*

The role of government is therefore to guarantee fiscal discipline, to help spread business ethics and to create a new entrepreneurial spirit amongst the many job seekers.

Ladies and Gentlemen,

Only one decade ago, Germany was called the "sick man of Europe". Nowadays, the same comments speak about Germany as "Europe's engine of growth". Above all supply side reforms during the last decade combined with a stringent application of the "guiding principles just mentioned have been responsible for Germany's recent economic boom, based on its regained competetiveness in foreign markets that triggered an ever increasing export surplus.

I trust we all share the conviction that the process of economic transformation that Croatia has embarked on since the process of EU accession started, will only be successful, if democracy, the rule of law, and the principle of a just participation in the economic development of the country by all segments of society are understood, accepted and continously implemented.

The Konrad Adenauer Foundation is willing to contribute to this process.

This symposium is designed to stimulate debate on how best to develop a World Class Economy in Croatia. I can only hope that you will find this conference enjoyable, interesting and worthwhile.

Thank you for your attention!