

THE SOCIAL MARKET ECONOMY IN EASTERN EUROPE – AN UNDERESTIMATED OPTION?

Marc Stegherr

1. ABSTRACT

After the fall of the Berlin wall, the former Communist-ruled Eastern European countries did not set up a Social Market Economy according to the successful German model, but one which was “without attributes”, according to the current Czech president, Václav Klaus. As the victor of the Cold War, the United States and their unregulated market economy model were seen as a role model for the new rulers in Central and Eastern Europe, and also in the former Yugoslavia. For ideological reasons, Russia could not acknowledge the USA as a role model. However it moved towards an extensive free market economy with the considerable restriction that its laws placed on the small social stratum of the so-called oligarchs, while the middle stratum was left empty-handed. On the one hand the excessive social state influenced by Germany is a deterrent, on the other hand the social problems of an unregulated economic system are becoming increasingly clear, especially in the light of the financial crisis. The only way out is through reflection upon the actual nature of the Social Market Economy. This is currently on the agenda in Germany.

2. INTRODUCTION

Critics of the Social Market Economy, whether in their own countries or in other eastern European countries, see this as an outmoded model. After the collapse of communism and the end of the system debate, it was not German ordoliberalism which succeeded, but “liberalism without a prefix” and the “market economy without an adjective”, as the current president of the Czech Republic, Václav Klaus, called it. As Klaus had so passionately fought against the dictatorship of the Czech communists, any meddling of the state in things which in his opinion should regulate themselves was suspect. This definitely applied to the economy. In this respect it is not insignificant that the radically free-market Klaus completed his economic education at the University of Chicago; from a European point of view a Mecca for conservative, free market economics. Due to his experience under the communist dictatorship – which painted a picture of social security and equality through accumulating enormous national debt – and his schooling in economics, to him the Social Market Economy way of thinking which underpins the economies of Germany, Austria, and also France is highly suspect, and he is working with all his might against the extension of the power of the “regulation-mad” EU, as he sees it. The failure of the Social Market Economy in Eastern European history would appear to prove Klaus right. After the collapse of the communist regime in Eastern Europe, German and French politicians expected the Social Market Economy to conquer Eastern Europe, which unfortunately proved to be a misjudgement. Jacques Attali, adviser to Mitterand and President of the European Bank for Reconstruction and Development, saw exporting the values of old Europe to Eastern Europe as his bank’s task. He was a fierce opponent of radical reforms, like those being attempted in Russia at the time and popular elsewhere too. When Attali visited Prague in the early 1990s and met with the heads of government, he found the pro-American attitude of the then still Czechoslovakian government in economic matters as vulgar and above all wrong. The French President Jacques Chirac thought the same and complained about the Eastern European support for the US-led Iraq war.

Germany and France simply underestimated the reputation that the United States had politically and economically in the transition states in Central and Eastern Europe. In the late phase of the Soviet Union, later Russian reformers such as Yegor Gaidar or Anatoly Chubais were especially interested in the classic American national economy as they

believed that the secret to the success of their ideological opponent was to be found there. This moment is important if one wishes to understand why almost all communist nations opted for a pure market economy. As early as 1990, the current Czech President and then Finance Minister, Václav Klaus predicted that the majority of the Eastern European countries would reject the German-style Social Market Economy and instead opt for a pure market economy. It is of note that left-wing intellectuals in the Czech Republic as well as in other Eastern European countries thought this. Václav Havel, Klaus' presidential predecessor in the Czech Republic and certainly not a radically free-market thinker, wrote in 1992 that "Though my heart may be left of center, I have always known that the only economic system that works is a market economy... It is the only one that leads to prosperity, because it is the only one that reflects the nature of life itself." Although it is the commitment of a left-wing politician to the market economy, it is not commitment to an absolutely free market, as Wolfgang Münchau writes in his book, *Das Ende der sozialen Marktwirtschaft*.¹ It is the commitment to an end to the nannyism which led to the bankruptcy of both the economy and society and whose effects have still not been overcome today, as Ondřej Matějka from the Prague network, "Anti-Komplex" notes – The main problem of the post communist nations is that society still hasn't entered into real dialogue with those in power. If parties in Poland such as the Kaczyński brothers' "Law and Justice" party are depicted as universal providers, while at the same time those democrats who were in power before them are seen as corrupt, then they are simply exemplifying the old, undemocratic world view: Those communists were bad, but at least they could provide for us. Instead of the provision mentality, Havel put his hopes in the independence of the individual, without forgetting the interests of society. Klaus took a huge step forwards and left it to its own devices. The fact that something fundamental was neglected is criticized not only by Matějka. The Czechs did not accept any responsibility for the common good. The promotion of education was not seen as a public issue for example. Society seemed to be split, and the individual left to his/her own devices. According to Matějka's conclusion, "Marxist materialism was simply transferred to Capitalist materialism."²

As both Czech politicians pronounced themselves in favour of the market economy, they had the example of the counter model of a planned economy before them as a deterrent, which is why Klaus labelled the Social Market Economy as "soft socialism". Less dirigisme, a lower public spend-

ing ratio, flaws which brought the Eastern European Social Market Economy into disrepute, would certainly increase market dynamism, reminds Münchau. But outside the successful Eastern European economic circles there are clear doubts that the free market is the solution for everything, as Matějka's quote highlights. In Russia, too, the "market radicals" were victorious, dividing the raw material market up amongst themselves with the blessing of the Kremlin, and taking away society's responsibility. They made light of the critics of the "Westernisation" and the uncritical takeover of the Western free society and economic model. The same criticisms by Matějka on the transition of Marxist to Capitalist materialism are formulated by representatives of the national Orthodox churches. Astonishingly, they refer to the patron of the Social Market Economy, Alfred Müller-Armack, who perceived Nazi totalitarianism to be a replacement religion at a time of a drop in religious belief. Today Russian and Serbian orthodox bishops and theologists suspect that neoliberalism and limitless capitalism are the replacement religions of today. With the help of Müller-Armack, one could interpret the radical about-face of the absolute dirigisme of the former planned-economy nations to market liberalism. Müller-Armack studied the repercussions of cultural concepts on the economy alongside many others. In his opinion, religious legacies proved to have left a deep impression on culture which could also have a large influence in a largely secular society on fundamental values and world views.³ One might ask Müller-Armack whether it is a coincidence⁴ that the cultural border which runs between the Orthodox countries on the one side and the Protestant and Catholic countries on the other are almost identical to the EU's Eastern border today.⁵ It also marks the dividing line between a group of largely successful and another less successful group of transition countries up to now. Looking at the economy, but also the politics of the Orthodox countries, it is a decisive moment for pronounced holism.⁶ The organic integrated feature of the Orthodox view of the world was not unknown to the western Catholic world either, until the age of industrialization. An organic interdependence of the economy and society was aimed at.⁷ While the secular model gained acceptance throughout Western Europe, Russia above all maintained a close interconnection not only between the church and society, but also in all areas of society which held common interest. This carried on after the 1917 Revolution. Communism used the traditional leaning towards Holism to prevent the economy working freely (and not only this). So it comes as no great surprise that the pendulum swung to the exact opposite direction after the collapse of the dictator-

ship in Russia. The “unexpected” free market economy, as its critics label it, was a holistic, whole, closed model, whereas the Social Market Economy presents a compromise, a “soft Socialism”, to borrow Václav Klaus’ exaggerated term. This compromise, which attempted to keep the interpretation of the economy by society, just as the emancipation of society itself far away, is closest to Catholic social doctrine and was also accepted by Orthodoxy. According to Müller-Armack, the trend-setting sense of the Social Market Economy is “to join the principle of market freedom with the principle of social balance”.⁸ The remarks by Patriarch Kirill of Moscow and the whole of Russia on the outgrowth of market liberalism in his country could fall under this compromise formula, with a pinch of salt. Also those of his predecessor Alexij II, who when asked in 1991 what the Church thought of the market economy said, “the market economy is not so new for us. But when we return to market conditions, we must make sure that souls and fates are not flattened. We will work for more social protection, but that too is still overtaxing us.”

3. RUSSIA AND THE MARKET ECONOMY

Behind this are the experiences of renowned Perestroika reformers such as Gaidar or Chubais, who adhered to the radical liberal American model. Free prices, free external trade, guaranteed property rights and monetary equilibrium – the rest was taken care of by the market. Distribution of income or policies for medium-sized businesses did not form part of this model. The situation of medium-sized businesses in Russia is a classic example of the liberalisation of the Russian market, which was only shared by a very few super and mega rich, politically reliable people on the wishes of the government. The problems that enterprising small and medium-sized businesses need to deal with have not changed a great deal in recent years. In 2006 the Russian government actually declared that they wanted to promote medium-sized businesses and to increase their share of business, and they offered some help in the form of low-interest loans, micro-credit and venture capital. Critics believed, however, that this would not change the biggest problems, i.e. bureaucracy, corruption and abuse of authority. Russian medium-sized enterprises are still a long way from being in a strong position. Growth and innovation are only seen in large companies. Large companies such as Gazprom, Lukoil, Rusal, Sual, Evraz Holding and Severstal dominate the Russian economy. Russian politics, which equates diversification with lack of control, is consciously leaning increasingly towards large companies or

industry conglomerates, especially in strategically important sectors such as aircraft construction or in areas of engineering⁹ – which obviously fundamentally contradicts the basis of the Social Market Economy.

This and similar flaws have provoked not only religious and cultural criticism, but has also drawn criticism from economists, even when they initially appear to be champions of the free market economy. The critics' voices became louder after Klaus lost parliamentary majority in the Czech Republic. His radical "crash model" transition from the planned to market economy swiftly led to unemployment and created social problems. In Russia, liberalization of prices and privatization of state-run businesses did breed entrepreneurial talent who were able to support the market economy, although many had strong doubts about this. The concentration of market powers, which neither Yeltsin nor his successor Putin promoted, worsened the social problems. However there were no political remonstrations. According to commentators, what was responsible was the fact that civil participation and social partnerships were things which after decades of Communism were yet to be accepted. Something which was not particularly easy in a political landscape which was often labeled a "controlled democracy". It would only be then that the concept of a Russian Social Market Economy would stand a chance. As previously stated, at the end of the Soviet Union, Russia aligned itself with its predominant economic and political main rival, rather than with its small neighbor Germany, and with its social and economic order. The Social Market Economy of the United States and that of the Anglo-Saxon countries in general was and is considered a serious economic and political concept, much more than the German post-war situation.

As a consequence, the Soviet Union successor states – an irony of history in itself – did not assume the Western European compromise model of the Social Market Economy, but instead the free market model of their ideological opponent which had won the Cold War, had been vilified for decades, and which was by no means problem-free. This schizophrenia, which is even more distinctive when one looks at the failures of Russian patriots compared with the degenerate Western social structure has its critics, not only in Russia. Serbia feels joined to Russia through its history and culture and has already become closer to Russia economically through cooperation agreements. The Serbian Orthodox bishop Irinej (Dobrijević), who grew up in America, gave a speech during a seminar on "Orthodox ethics and the spirit of capitalism" in April 2009 which one

would not have expected from a Western bishop. He said that Orthodox Christianity could not approve of an economic system which rewarded laziness and gave the poor the alms of the state to live on, and that productive work was an essential part of human life. While Orthodoxy condemned the unbridled, unregulated capitalist (*laissez-faire*) system, they approved of a “socially responsible free market system.”¹⁰ This could be seen as a criticism of both the western-influenced excessive social state, and of the unbridled free market liberalism which had entered Eastern Europe.

But the discussion in Serbia also shows that the situation is closer to a “watered down” version today, than to Müller-Armack and Erhard’s social market model. The Serbian economist, Miroslav Prokopijević is critical of the Social Market Economy in Germany. However less so in its beginnings in the 1950’s and 1960’s when the concept was still balanced and the needs of companies as well as employees were satisfied, than in its later phase. The changes in the 1980’s and 1990’s watered down the concept and transformed social security into a burden for the economy. In the light of a constantly changing population and a growing number of unemployed, clear limits were set by the Social Market Economy. Social expenditure had to be arranged using existing financial resources, according to the Serbian political scientist, Zoran Stojiljković.¹¹ The acceptance of the Social Market Economy would not only impede structural deficit, but also a socialist mentality, which did not want to reject the old system outright, or which reacted allergically to every new supposed leaning towards new state intervention, popular “socialism” – see Václav Klaus or Yegor Gaidar. As for structural deficit, the reformed nations of Eastern Europe were in a fundamentally different situation to Germany in 1945. Russia had over 70 years of state economy behind it, without private property or a free market, nor any of the characteristics of a civil society. In Germany by the end of the war, despite all of the failures due to the war, there was still a market economy structure.

In the twelve years under Hitler’s dictatorship the economy was controlled through compulsory cartels, but the companies were not nationalized. So the only thing missing was the monetary reform and the price approval of 1948 to get farmers, bakers, butchers, goods manufacturers and business people back on track. In contrast, in the eastern European reform countries, and especially in Russia, there were no companies still intact. First the central planning authorities had to be broken up and

made independent economic entities through privatisation. In post-war Germany, the allies made sure that the old ruling class was repressed. On the other hand in Russia and other eastern European reform countries, the old monopoly structures still ruled and obstructed market economy newcomers. As an economic area, Russia was not a blank slate to be revitalized by owners with guaranteed property rights à la Chicago under the motto, "The market will regulate itself!" as a commentator in the Russian financial paper "Kommersant" wrote. The military-industrial complex was weakened, but above all the raw material monopoly maintained its position and influence over politics so that market economy innovation was practically closed off. In such circumstances, a Social Market Economy was almost unthinkable.

The "large-scale" privatisation which began on October 1, 1992 expressly excluded natural resources, power generation plants, the aerospace and nuclear power industries. So these were the natural resources which were to later form the basis of the raw material monopoly of the "oligarch system". State-owned enterprises were transformed into stock corporations by presidential decree. Every Russian citizen received a free stock certificate for national property to the value of 10,000 rubles. The people were supposed to have the possibility to buy privatised national property such as stocks, accommodation or pieces of land. The stock certificate could be sold, exchanged, given away or traded on the stock market. The stock certificate could also be taken over by investment funds. The basis of the Russian economic reform was the floating of most consumer and capital goods prices from January 1, 1992. This decision by the Russian government under Gaidar was as courageous as it was risky. Because there was no appropriate range of goods at this time, the reformers had to estimate that prices would rocket and inflation would escalate. Between July 1, 1992 and November 30, 1994 the ruble/dollar exchange rate on the Moscow currency exchange rose from 125 ruble/dollar to 3,200 ruble/dollar. Gaidar was ejected from the government as early as December 1992, as a scapegoat for the price rises. He was replaced by Viktor Chernomyrdin. Nevertheless, the price liberalization was necessary. Without this there would have been no chance to increase the offer of consumer goods through imports from the West. In addition, this decision gave the reform process in the west credibility and made it irreversible for Russia. Alongside the price liberalization, the rapid start of privatization was the core of the Russian way from a planned to a market economy.

4. CROATIA AND THE TRANSITION TO MARKET ECONOMY

After the end of socialism the conditions for entry into the Social Market Economy were more advantageous for the transition nations of South Eastern Europe than for Russia. Although Yugoslavia was centrally governed, it was a non-aligned nation, which had freed itself from the COMINTERN and it had elements of self-governance, especially in the economy. Upon its independence, Croatia introduced an economic model which the European Union recognized in the light of the accession process. The transformation of the economic system in Croatia from "real socialism" to a Social Market Economy with a private structure was relatively successful. Before this there were however great upheavals. The first state president of Croatia after independence was Franjo Tudjman, who still thought in the outdated national and national economic categories. His time in government was plagued by pronounced clientelism and considerably reduced freedom of opinion and press.

He ratcheted up the state share in companies, which meant that the successive government under Prime Minister Ivo Sanader was forced to press ahead with privatisation of the companies the national share of which was 40 per cent at the time. Structural reforms such as the improvement of financial administration, monitoring of banks, development of the financial market and the reduction of tax burdens followed. Income tax was set at 15 per cent and tax on profits at 20 per cent. With the reform of Croatian procurement, the government challenged the black economy, by trying to limit the "uncontrolled public contracts". Thanks to restrictive credit, finance and income policies, the inflation mentality which had prevailed for years was successfully destroyed, which could be seen through the stability of the Croatian currency, the Kuna, whose inflation rate in the 1990's was between four to six per cent. However, the reform policies were less successful on a micro-economic level, especially in strengthening the private sector. Political power struggles meant that there was no constant line which was followed. The process of property transformation was not transparent, favoured insiders and impeded the influx of foreign capital. Companies were rarely pressed to modernise, which damaged the competitiveness of the Croatian export economy and led to a growing trade balance deficit. However the Croatian government under Prime Minister Ivo Sanader did manage to move the country towards stability in the following years, with accession to the European Union already in mind, which

will not be until after the slump due to the financial crisis has come to an end. The Croatian economy sank by 6.7 per cent in the first quarter of 2009. The Croatian Central Bank predicted a decrease in the Gross Domestic Product of four per cent for the whole year. As a consequence there were mass demonstrations and several calls for a stronger state engagement against the self-importance and egoism of individual market participants. Prime Minister Sanader stepped down, officially for personal reasons and Jadranka Kosor (like Sanader a member of the Croatian Democratic Union – HDZ) took over the post with the promise to even out social inequalities in Croatia, which had become more apparent during the crisis. In Serbia, too, there were many victims of the transition, the fast changeover to the market economy and not least the financial crisis.¹² President Boris Tadić as well as the new Prime Minister Mirko Cvetković said that the interests of individual participants should not be put before those of society as a whole.

5. MODEL EXAMPLE OF SLOVENIA

Unlike the Czech Republic and Hungary and like Croatia, Slovenia did not opt for shock therapy to transform the centrally planned system into a market economy. Slovenia proved to be a champion of gradualism,¹³ which was especially apparent in the privatization of state companies. The privatization concept was shared out among employees and management, which however virtually shut out shareholders from abroad. Slovenia thus proved that although privatization of banks and infrastructure is still ongoing today, it is the only new EU member state which still has an astonishingly high government share of GDP. Through direct and indirect shares the state holds around 40 per cent of the companies in the country. After the attempt to privatise the second largest bank in Slovenia “Nova Kreditna Banka Maribor (NKBM)”, with foreign shareholders failed, a 49 per cent share was floated on the stock exchange in 2007.

When Slovenia declared its independence in 1991, the question was often asked as to whether the small country with only two million inhabitants could even survive economically – fears which soon proved to be unfounded. Today Slovenia is the most economically successful country among the central and eastern European countries which joined the European Union (EU) in 2004 and 2007. If you look at the Gross Domestic Product (GDP) per head, the country has reached an economic level

which is higher than that of Greece and Portugal. Unemployment is around five per cent under the EU average and the budget deficit amounts to less than one per cent of the GDP. Already at the beginning of 2007 Slovenia became the first new EU member state to join the Eurozone. Slovenia was aided by its more auspicious starting position which differentiated it from those of the other transition nations. On the one hand, the economy was significantly higher and on the other hand it already had well-developed business relationships in Western Europe. While it was still part of the former Yugoslavia, Slovenia benefited from a trade and cooperation agreement with the European Community (EC) which came into force in 1980. One thing which was significant for the economic power of the small constituent republic was that in 1990, with only eight per cent of the entire Yugoslav population, almost 30 per cent Yugoslav exports came from Slovenia. For foreign investors it was possible to invest early on in the former Yugoslavia. The constituent republic Slovenia, which specialized in the manufacturing industry above all and had an industrial structure similar to that in Western Europe, which was closely interlinked with the other constituent republics. After the breakup of Yugoslavia these trade relationships were largely ruptured. Many large companies which had previously been Yugoslav market leaders went bankrupt. The collapse of the Soviet Union, one of its most important foreign trade partners led to serious changes.

The system transformation brought with it a fundamental change from industry, which had dominated in the 1990's to the service sector which makes up two thirds of the gross value added. Agriculture was also driven back. It shrank to around two per cent, whereas before it had played an important role with around nine per cent. With its employment share of around 55 per cent, the service sector, in particular in banking and finance services and tax consulting, is far below the Western European level of 73 per cent. The influx of direct foreign investment is low in comparison with other new EU member states, because as already mentioned, the Slovenian privatisation model previously almost completely shut out foreign investment. Secondly, the long transformation process did not encourage private businesses to look for strategic partners abroad. And thirdly, the Slovenian authorities are very hesitant in privatizing financial services and infrastructure companies.¹⁴ In total only around one third of the Slovenian banking sector is in foreign hands, while in other new EU member states the banking sector is majority controlled by foreign banks. In neighbouring Croatia this is as much as

90 per cent. Until the end of 2006, the portfolio of direct foreign investments amounted to 6.8 billion Euros, where companies with shares in the export industry above all played an important role. Although only five per cent of all companies fall under this category, they make up more than one third of all exports. Until the end of 2006, Slovenian companies invested around 3.5 billion Euros abroad, especially in Serbia and Croatia, which represent almost half of all Slovenian foreign investment.

A further difference between Slovenia and other transition countries is political stability. Until the 2004 elections, when the Social Democrat Janez Janša came to power, the Liberal Democrat Party (LDS) was the most voted-for party throughout the course of politics, in coalition governments (with the Christian People's Party, the Slovenian People's Party and the Pensioner's Party). From the beginning of the legislative period, there were great efforts for reform, such as the introduction of a flat tax, the rapid privatization of infrastructure companies, banks and insurance, as well as reduction of social benefits. However the Slovenian public refused most of these reforms. After a report on flat tax showed more disadvantages than advantages, the idea was dropped and the tax groups were instead reduced from five to three. The unhappiness of the Slovenian people with the social and economic concepts of the liberal government were shown with the clear election of a new state president who was not the candidate from the government party, the former prime minister and later member of the European Parliament, Lojze Peterle, but the left-wing politician Danilo Türk. How much the discussion on the orientation of economic and social policy divides Slovenia can be seen not only in the fact that the former governing Liberal Party has now split into splinter parties, but also the fact that some of the leading members, including the former prime minister, Anton Rophave now moved to the Social Democrat Party.

6. POLAND AND THE SOCIAL MARKET ECONOMY

In Poland, the regulatory policy discussion on the correct political economic course included many participants who consistently adopted a central position between the very diverse stances of, on the one side, the socially-oriented critics of the transformational approach and the liberal proponents thereof on the other.¹⁵ The renowned national economist and President of the Polish Economic Society for many years,

Zdzisław Sadowski, considers the transformation to be a success because the country managed to introduce a functioning Social Market Economy and simultaneously establish democracy. However, social deficits went along with it, which is why he believes that the solution to existing economic problems lies in academic discussion and in the political economic implementation of the constitutionally binding idea of the Social Market Economy. Moreover, he believes that the state, alongside its regulatory activities, should work to create a long-term and consistent development concept for the country, which would deal with Poland's economic, social, demographic and ecological problems. In numerous articles Sadowski and other national economists from the "middle way" support the opinion that future development in Poland should not be left to the laissez-faire principle alone. The market needs correction from the state's regulatory policy as well as a developmental strategy implemented over the long-term. Jerzy Hausner's opinions are also interesting in this context: Without actually speaking of ordoliberalism and the Social Market Economy, he voiced support for market economy action being subject to strict rules which would apply to every economic agent. At the forefront he placed the organization of the institutional rules of the economy.

The demand for a transformation of the constitutional model of the Social Market Economy, so often repeated by the most important actors in regulatory policy discussion, gains even more significance when the fact that Poland's transition was of a rather asymmetrical character is taken into account. The main interest of the responsible political actors is, first and foremost, economic growth and macroeconomic stabilization, which pushes a long-term regulatory policy based on the synthesis of economic, social and ecological goals of economic activity into the background. Equally, according to academic discussion, the socio-anthropological basis of the market economy should be included in reflections on regulatory policy. Economic theory assumes that in the process of economic activity free people will use their scope of activity responsibly, yet this is not always the case in the real world. Therefore economic agents can and should learn and practice the responsible use of freedom, which is something regulatory policy can certainly promote.

7. THE FUTURE OF THE CONCEPT IN EASTERN EUROPE

In view of the costs of the transformation and the financial crisis, the world's leading national economists have strengthened their view that in the era of internationalization and globalization the market economy process needs a regulatory framework which meets market requirements. Nobel Prize Winner, Paul A. Samuelson's sentence has become classic: The market has no heart, the market has no brain, it does what it does, which is why the market needs rules and a reliable legal system. It is not only in Poland, where the realization of the Social Market Economy is laid down in Article 20 of the constitution, but also in the Czech Republic, in Croatia or in Serbia, where the transformation has led to considerable societal distortions, that there is growing support for regulatory policy being given a greater importance. A synthesis of Erhard's concept of the Social Market Economy and Walter Eucken's *Wettbewerbsordnung* (i.e. economic order based on competition) could be used as a basis for such a regulatory policy. The principles of rules on competition (for: *Wettbewerbsordnung*) not only create the best regulatory framework for all market participants, but also the concept of the Social Market Economy is aimed, above all, at strengthening and stabilizing the all too often neglected socio-anthropological basis of the market economy. With *Wettbewerbsordnung* the market economy stays within a framework appropriate to it, and one in which all citizens can freely and responsibly undertake economic activity for their own benefit and for the good of society. But it was difficult to discuss an economic model which seeks to unite growth and social equality in the countries of central and south east Europe after the fall of the iron curtain, because the main interest of the transition states was a rapid re-orientation of the planned economy model into a free market economy system.

The unlocking of development in the European Union member states was supposed to be secured by strong economic growth, whereas this one-sided orientation, on the one hand, brought very strong liberalising tendencies with it and, on the other hand, plans of privatisation were in part implemented to only an unsatisfactory condition. In many states in the region the state's role in the economic process continues to be ill-defined. At the same time, a majority of countries in central and south Eastern Europe are struggling with social hardship and stark income disparities. The danger that populist tendencies in politics receive support is growing, and in Hungary, for instance, this has already led to trust in

the state declining to dangerous levels. After a transformational phase of almost 20 years things seem to have changed: Interest in possible alternative models, such as the Social Market Economy, is growing. The readiness to engage in a regulatory policy dialogue is present, now that the epithet “social” is beginning to lose the bad reputation which it received through its misuse by the communist system.

Whether the idea of the Social Market Economy can fulfill the wish for a humane third way between market radicalism and destructive socialism for Eastern Europe, is not least dependent upon how we treat Ludwig Erhard's legacy. Will we manage to preserve social partnership, solidarity, inner peace according to market conformity and without being part of a welfare state in the coming times of hard competition? Economic efficiency must not be an end in itself, rather it should always also bear in mind the common good. That could also serve as a model for Eastern Europe and the European Union having enlarged eastward, in order to prevent societal fractures and to safeguard general prosperity. The fact that the concept of the Social Market Economy in Eastern Europe has not (yet) reached the desired scale is linked to political and, as mentioned, also with cultural circumstances. The political circumstance is quite simply the fact that the United States is viewed as the pioneer and ultimately as the victor in the struggle for freedom, while Western Europeans are more often seen as hesitant stragglers.

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1/ Cf. Münchau (2006).

2/ Cf. Spielmann (2009).

3/ Cf. Zweynert (2006).

4/ Cf. Müller-Armack (1941), et al.

5/ Drawing this line is somewhat problematic only in the case of the Ukraine, as West Ukraine, which took its starting point from the "Orange Revolution", is Greek-Catholic and so in this respect belongs to the Latin cultural area.

6/ Holism is a philosophical model, according to which, all forms of existence in the universe (physical, biological, but also cultural) are joined together to make a higher, integrated whole. Holism treats given forms of existence as something complete, and not as parts of a composite whole. Orthodox theology nears reality in an integrated, coherent and extensive way.

- 7/ *The theological argument of the "Filioque" was the background to this. While the three persons of the Trinity are equal in Western Christianity, in Orthodoxy, the Holy Spirit only comes from God. This doctrine has political implications, against equal rights, but also towards the subordination of part of society such as the economy beneath everything.*
- 8/ *Müller-Armack (1956).*
- 9/ *This development can be seen in the figures. Small and medium-sized enterprises only contributed 16 percent to the Russian economic output in 2006. Others show them having only an 11 percent share of the Russian Gross Domestic Product. Only 14 percent of employees work in small and medium-sized enterprises in comparison to 70 percent of employees and 40 percent turnover in Germany.*
- 10/ *Cf. Lakičević (2009).*
- 11/ *Cf. Stojiljković (2009).*
- 12/ *Businessmen and -women, merchants and farmers saw their livelihoods destroyed and they often opted for the last resort. Small Serbia with its low population occupies the inglorious position of number 12 in Europe for the number of suicides. (Cf. Lopušina).*
- 13/ *Cf. Vidović (2008).*
- 14/ *Foreign investment in Slovenia has recently been around 500 million Euros per year. 2002, when more than one billion Euros was invested, is an exception. At the time the Swiss pharmaceutical company Novartis took over the Slovenian market leader Lek and the Belgian KBC Group acquired 34 percent of the largest Slovenian bank, "Nova Ljubljanska Banka".*
- 15/ *Cf. Pysz (2008).*