Addressing The Marketing Problem of the Social Market Economy

Prepared for:
KAS-Conference on 60 Years of Social Market Economy
Sankt Augustin, November 30, 2009

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Addressing the Marketing Problem of the Social Market Economy

- Outline
  - Social Market Economy – Social, Not Socialist!
  - Ordoliberalism – Law and Order for Economic Freedom and Equitable Social Development
  - Social Market Economics – Microeconomic Foundations and Limits
  - Social Market Economics – Macroeconomic Sympathies and Limits
  - Social Market Economics – Is there Empirical Evidence?
  - Conclusions
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- Social Market Economy – Social, Not Socialist!
- A third way
- Difference between socialism and unfettered capitalism
- Normative foundations

[Diagram showing a 2x2 matrix with the following quadrants:
- Neoliberalism (High Efficiency, High Washington Consensus)
- Social Market Economy (High Equality, High Social Market Economy)
- Failed states Totalitarianism (Low Efficiency, High Totalitarianism)
- Socialism (Low Equality, Low Socialism)]
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- Ordoliberalism – Law and Order for Economic Freedom and Equitable Social Development
- Five questions:
  1. What is the normative value system of the Social Market Economy?
  2. What are the state-constituting principles?
  3. What are market fundamental principles that are untouchable by the state?
  4. When is the state supposed to interfere?
  5. If the state is supposed to interfere, how is it supposed to so?
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- The Order of Social Market Economics in a Nutshell
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- Social Market Economics - Microeconomic Foundations and Limits

- Microeconomic theoretical support:
- Diminishing marginal products: \( y_i = f(k_i) \) with \( y' > 0 \) and \( y'' < 0 \)
- Utility function with preferences for equality
- Welfare of two person economy:

\[
U(C_i) = \frac{C_i^{1-e} - 1}{1 - e}
\]

\[
Welfare = U_1 + U_2 = \frac{(k^e)^{1-e} + ((1-k)^a)^{1-2}}{1-e}
\]

\[
k^e = (1-k)^e
\]
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- Social Market Economics – Macroeconomic Sympathies and Limits
- Social Market Economics and current crisis
- Great Depression vs. current crisis
- The decoupling of the financial from the real sector
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- Social Market Economics – Is there Empirical Evidence?

- A proposal for an index

\[
\text{Market Efficiency} = \frac{\text{Manufacturing Export Share (\% GDP)}}{\text{Gross Capital Formation (\% GDP)}}
\]

- Social Market Economy Index

\[
\text{Social Market Economy Index} = \frac{\text{Market Efficiency}}{\text{Inequality}}
\]
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Social Market Economics – Is there Empirical Evidence?

Top 10?

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Social Market Economics – Is there Empirical Evidence?
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- Social Market Economics – Is there Empirical Evidence?

ycapgr vs LOG10(SMEX)