

THE TOPICALITY OF SOCIAL MARKET ECONOMY IN TIME OR GLOBALIZATION (POSSIBILITIES AND LIMITS OF ECONOMIC AND SOCIAL POLICY)²²

Lisý Ján, prof. Ing. PhD.

University of Economics in Bratislava, Faculty of National Economy,

Department of Economics

Dolnozemská cesta 1, 852 35 Bratislava

email: jan.lisy@euba.sk

Abstract. The model of social market economy represents one alternative for market economy functioning. This model is based on traditional Christian ideas and values and these are typically linked with the free initiative and activity of individuals and social solidarity. The efficiency and prosperity of the market economy are based on fulfilling social goals. The state assumes the responsibility just in case that individual or market structure fails. State actions in the social area should be consistent with the market to develop the market economy instead threatening it. Neoliberals are enforcing the minimalization of state intervention. They concede that the state should be active in the optimization of macroeconomic proportions, the macroeconomic cycle and inflation regulation. It should emphasize optimal economical growth and optimal income redistribution. The state should protect, support and develop competition and restrict monopolies.

Key words: neoliberalism, ideal kind of economy, model of social market economy, ordoliberalism, competition and monopoly

Introduction

Model of social market economy represents one of the alternative ways of functioning of an economy which was realised after World War II in western Germany and some Scandinavian countries. Several transforming economies including Slovakia have been inspired by its basic principles. Under the conditions of globalization, its characteristic features significantly influence dynamics of socio-economic process in our country and abroad. Model of social market economy is based on theoretical concepts and policy ideas of neoliberalism. Initially, neoliberalism was not paid much attention even by economic science mainly because of dominant position of Keynesianism in 50s and 60s. Neoliberal theoretical concept evolved, improved and adapted to policy needs. Influence of neoliberalism on socio-economic thinking in 70s and 80s was evident. Renaissance of liberal and conservative concepts took place in every area of social and economic life. We know by experience that rise or fall of interest in neoliberalism is closely related with the tendencies of development of market economy even under the conditions of globalization of current world economy.

„Even if it seemed that freedom and equality of people are politically and legally ensured, industrial workers were not economically and socially free. There were dependent and felt that they are subject to domination of ‘capital’. Bad living conditions, insufficient wages and other

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compensations, long working hours, health damage, children work and existential insecurity [...] represented social questions of those times. [...] Conflicts have remained, insecurity mainly in the periods of crisis threatened workers [...] what threatened new social question. New problem has appeared: insecurity in the form of long-term unemployment. [...] This new social question is not the question only of industrial workers, but it is related to all employments. Everybody is threatened by this development. [...] Nowadays, social question is not of private character what corresponds to the fact that private character of life is gradually disappearing.” (Eucken, 2004, p.258-261).

Social market economy is a system in which economic freedom is united with social certitude. This model is based on ordo-theory of Freiburg school of neoliberalism in Germany. According to W. Eucken, notion of capitalism does not characterise the essence of western economy. Therefore, neoliberals proposed to substitute term capitalism by new, neutral and not deformed term. They proposed to denote economy of FRG by eloquent term ‘social market economy’. Model of social market economy has been practically realized mainly by Ludwig Erhard, the first after-war western German Secretary for Economy Affaires.

According to neoliberals, social market economy is such social and economic order which unifies economic and social certitude. According to neoliberals, notion of social economic economy is deeply embedded in spiritual history of European Christianity in which individual has right to human dignity and free development of his/her personality. Neoliberals understand social market economy as a system based on traditional values and ideas for which unification of free initiative and activity of individual and social solidarity is typical. Social market economy is based on securing and protection of individual liberty. “State has to be subordinate to law. [...] Because of that it has to respect and protect area of liberty of its inhabitants in two ways: against compulsive power of state administrative authorities which have in entire history more or less tendency to violate personal liberty allegedly in public interest, and at the same time against mutual endangering of inhabitants. Idea of rule of law as opposed to compulsory power of state is permanent.”²³

Model of social market economy is characterised by principles of individuality, solidarity and subsidiary. According to Erhard, personal responsibility should go above all. It results from the essence of individual freedom. Political and economic order has to provide individual freedom. Principle of solidarity means that individual has right to free choice and decision making in pursue

²³ Eucken, p. 102 - 103

of his/her economic interests, on the other hand he/she respects principle of solidarity which expresses mutual interdependence and responsibility of people. Solidarity means that people are existentially connected together to each other and because of that they have mutual responsibility. It also means that in resolving of mutual conflicts, interests of individuals cannot be violated.

However, unification of individual economic interests and solidarity is not automatic. It comes into existence by the help of the principle of subsidiarity, which protects freedom and rights of an individual. Individual by his own initiative, creativity and responsibility can develop all areas of life, while state interferes only in the extent which does not deprive individual of this responsibility. State takes over only these tasks which are beyond the possibilities of an individual.

Principle of subsidiarity is an essential part of the model of social market economy. Efficiency and prosperity as a result of working of a market economy are necessary basis for achieving social goals. Social responsibility has to be based on individuals and family who in the extent of their free choice take care of the maximum of their needs by their own. State takes over responsibility only in the case of failure of individual and market structures. Every measure taken by the state in the social field has to be in conformity with market and cannot threaten but has to strengthen market economy. Furthermore, social policy of the state cannot threaten and limit freedom of an individual, his/her creativity, initiative and entrepreneurship. Market economy is in its essence social because it leads to efficiency and prosperity.

Mechanism of functioning of the model of social market economy

Functioning of social market economy is to be secured by these conditions and assumptions: inviolability of private property, competition free from monopolies, restricted functions of state and social system, free pricing and monetary stability.

i) Protection of private property

Private property is basic condition of functioning of competitive market system because it creates conditions for free competition and free pricing as well as for independence of entrepreneurs and their responsibility for profits. Claim that private property benefits not only the proprietor but also non-proprietor is valid only within free competition. This results from the fact that different proprietors compete with each other and persons searching for employment have more opportunities and are not unilaterally dependent.

Private property being condition for effective competitive market system, this competitive market system creates conditions for private property not to bring economic and social negatives. Therefore, liberals consider protection of competition and private property to be one of the most important functions of the state. "Only competitive order will make private property within modern,

industrialized economy sustainably bearable. Private property is on the other hand the condition for free state and social order.”²⁴

ii) Competition and monopoly

Eucken warns us that if private property is realized in the form of monopoly, it can lead to great damage, because competition is absent. In this case, state can limit the scope in which monopoly can use private property.

Under the conditions of free competition, large number of producers operates on the market and their actions are not restricted. If partial monopoly or oligopoly operates in the economy, it decreases the number of market subjects and their actions are restricted. By partial monopoly, Eucken understands domination of one producer on the market, where other producers operate. By monopoly, he understands situation of the single producer on the market. As it is very rare to find only one producer on the market, neoliberals consider monopoly to be an exception. Therefore, negative attitude to monopoly is characteristic for them. This shows itself in their request to keep competition free from monopoly. According to Eucken, monopolies eliminate competition what contradicts the essence of private property and free economy. However, he did not admit the possibility of nationalizing monopolies; he proposed regulation run by state authorities. Neoliberals consider competition and monopolies as two contradictory phenomena. It is a function of state to protect and support competition. According to L. Erdhard, prosperity for everyone and prosperity through competition are inseparable. Competition is the essence of market economy. Social meaning of market economy consists in the fact, that profit or advantage that stems from rationalization or productivity rise should benefit everyone. Competition has its social dimension. Prices fall in competitive environment what enables larger and larger number of people to have their share on consumption.

According to neoliberals, to protect and support competition is one of the most important functions of the state. Because of that, they propose to establish an institution for protection of competition and ensure keeping the rules of competition and punish breaking of the rules. Eucken claims that “it is beyond the possibilities of modern state to efficiently regulate monopolies within the economic order, where great fractions of industry are turned into monopoly. Political influence of interest groups is too strong. [...] State monopolies usually behave in the same way as private monopolies. Nationalization of monopolies or control of the monopolies is not the solution.

²⁴ Ibid, p. 361.

Regulation of the monopolies should be left to state institution for regulation of the monopolies. Antimonopoly office is as necessary as the highest court.

iii) Role of the state, income redistribution and social system

Neoliberals advocate the least possible amount of state interventions. They admit that state should attempt to create optimal macroeconomic conditions, to regulate economic cycle and inflation, to set needed and real rate of economic growth and within the possibilities of market system to attempt to optimal redistribution of incomes and protection and development of competition. By these activities, state should ensure free pricing and economic equilibrium. According to German neoliberals, Bismarck's system of social insurance should be the basis of social system. Eucken stresses that question of redistribution can become economic problem if proportion of redistribution is not set according to scarcity but according to the position of power on the market.

According to neoliberals, economic functions of the state have to be focused on the support existing forms of organization of economy, not on the control of particular processes. The sources of the state functions cannot interfere with market forces. State should regulate market system mainly by the instruments of monetary and credit policy. State takes over only these functions which are beyond the possibilities of individual or firm. According to Eucken, individual usually asks: "Why is my income lower than that of my neighbour? Cannot I earn more? These are for most people the most important functions of economic policy. If worker loses his/her job during the economic crisis, he/she focuses on the need of economic certitude. He/she wants to get suitable wage. For most people, primal economic problem is the problem of redistribution. [...] Redistribution policy is the essential part of economic policy. [...] Without the necessary liberties, it is not possible to solve social question. State should limit its functions to regulation and potential creation of the forms, in which economic process takes place, within the market including labour market, there has to be freedom. This is the goal."²⁵

Stability of monetary system and social certitude

Another feature of social market economy is stability of monetary circulation which according to neoliberals should be ensured by monetary and credit policy. Instruments of monetary and credit policy should create conditions for normal functioning of the competition, free pricing, economic equilibrium and thus also create conditions for social certitude. According to Eucken, all attempts to functioning of competition are useless, if stability of the value of money is not ensured.

²⁵ Ibid p. 57-57, 263.

For competitive system (order), monetary policy is primal. “However, good monetary system should be construed in such way, that value of money is kept as stable as possible. Furthermore, it should meet another requirement, [...] if possible, it should work automatically, or it will be abused to inflation.”²⁶

Eucken considers inflation to be very dangerous because it violates the principles of economic order, decreases purchasing power of money, unjustly redistributes incomes between people and thus deepens income and wealth differentiation between people. According to Alfred Müller-Armack, it can help totalitarian systems to emerge.

Monetary and price stability is one of the most important features of social market economy. It is an important precondition for sufficient amount of private savings to ensure economic growth. Monetary and price stability is best incentive to save. According to L. Erhard, good social policy requires stable value of money. On the other hand, high inflation leads to bad redistribution. Under the condition of inflation redistribution benefits those, who have lots of economic sources and possibilities to invest into real estate.

Neoliberals refuse inflation and in this respect criticize Keynesians, especially their policy of deficit funding and full employment which causes inflation. They advocate active balance of payment which has to ensure stable monetary circulation in domestic economy. Neoliberals argue against political influences in regulation of amount of money in circulation and this is why they ask for independence of central bank.

Conclusions

1. Theoretical model of social market economy is based on spiritual values characterised by principles of individuality, solidarity and subsidiarity. This creates conditions for personal and economic freedom and social certitude of people and efficient functioning of economic order. During the following periods, this model has been dynamically developing.
2. Our present experiences and practical knowledge warn that theoretical conclusions are prone to misuse and misinterpretation. As W. Eucken warns, “thinking of the mass is influenced by propaganda of political and economic parties. Powerful groups and ideologies are publicly confronted and they fill people’s heads with propagandistic mottos. Many people are into the trail of the mass. However, mass thinks in collectivistic terms and is without initiative, it loves myth, not ratio.”

²⁶ Ibid, p. 339-341.

3. The attempts for inadequate state interventions which undermine freedom of an individual, his initiative and activity as well as market competitions can be observed even now.

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