

Social Market Economy

Oktay NAR

Seyfettin Caner KUZUCU

Selçuk University

Beyşehir Ali Akkanat Vocational School, Konya/Turkey

oktaynar@selcuk.edu.tr

sckuzucu@selcuk.edu.tr

ABSTRACT

This study examines the economic order which is called “*Social Market Economy*”, pioneered by economists and jurists who lectured in Albert Ludwigs University of Freiburg in Germany during 1930s and 1940s, and the “*Ordoliberal School*”, the advocate of this order.

During the Second World War, particularly towards the end of 1940s, a type of or a program of economic order was developed under the leadership of A. Müller-Armack, originating from the theory of economic order. The first chapter describes the Social Market Economy. To ensure better understanding of the Social Market Economy, this chapter provides description and characteristics of the Social Market Economy, which are followed by a recount of its implementation in Germany and its critique.

The founders of the Freiburg School of Law and Economics, which are examined within the framework of Law and Economics, are economist Walter Eucken and jurist Franz Böhm. The members of the mentioned school conducted studies within the scope of Economic Constitutional Law and Economic Order. The members of the Freiburg School essentially studied the appropriate rules for smooth functioning of a free market economy. The second chapter provides an outline of the Freiburg School, followed by the relationship of the School with the Economic Order and Social Market Economy.

This study aims to help introduce the “*Social Market Economy*”, developed by the Ordoliberals from the Freiburg School, which I believe is not sufficiently familiarized with in our country.

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1. Introduction

Social Market Economy is an economic system, in which the principles of freedom and social equality principles, based on competition, are combined. This concept is based on the thoughts that emerge and that is developed as a result of experiences related to war economy during 2nd World War

The concept of Social Market Economy was first used by Alfred Müller-Armack. This concept, as explanatory of all concepts of economic policy, was developed by Ludwig Erhard, State Ministry, who is responsible for economy.

A.Müller-Armack (1901-1978) developed Social Market Economy (Soziale Marktwirtschaft), utilizing the opinions of W. Eucken and F. Böhm, the founders of Freiburg School, and ORDO liberals. Social Market Economy is a program toward forming an economic order. According to Müller-Armack, the main objective of Social Market Economy is to find a synthesis between the social relations of human behaviors with the purpose of individual freedom. As understood from these expressions, there are primarily two dimensions of Social Market Economy:

- *Economic dimension:* Social Market Economy is accepted as a type or model of “economic order”. The major main principles of this economic order are market freedom and competition.
- *Social dimension:* The second important dimension of social market economy is indicated as “sociality”. Social equality principle of Müller-Armack, expressed above, is one of the main principles, considered within its social dimension.

It is necessary to present the fundamentals of Social Market Economy, based on these two dimensions. As a matter of fact, the scientific bases of “economic” dimension of Social Market Economy were developed, based on the theory of economic order of Freiburg School, while “social” dimension of Social Market Economy is based on Christian, Catholic, Protestant, and Lutheran social ethics. Especially, the thoughts of Protestantism regarding installation of professional solidarity, mutual assistance, and business ethics became effective on the formation of “social” dimension of Social Market Economy (Aktan, 2008:132-133).

2. Definition of Social Market Economy

Social Market Economy is a system of market economy, consciously designed and original in global area. It was aimed that competition is especially to be economic coordination. This is based on understanding of that a competitive economy may historically have very different forms and, in the systems, where there is free competition, modern society can make its social duties better than the past. From this aspect, the new aim is different from that of socialism, which attempts to develop social reform by means of a system, based on the central control. The advocates of Social Market Economies, after a central control system is formed, think of the sufficient reasons to suspect whether or not system will resist against free consumer preferences and free job preferences. From this point of view, the concept of social market economy can be defined as a regulative policy targeting to combine the free enterprise and social improvement (Alfred, 1956:2)

3. The Main Principles and Features of Social Market Economy

We can summarize the main principles and features, developed by AlfredMüller-Armack and the other Ordo liberals, as follows:

1.Freedom: Individual freedoms must be protected for human being and “Market Freedom” for market. Market Freedom expresses the freedom entrepreneurs have and freedom in the preferences of consumers.

Every social system need a simple expression style, in which it can make clear the need and demands of system. With Social Market Economy, in the development of mass democracies, the first time in history, a term derived from freedom world received a great approval. Whether or not this achievement will also be valid in the future will depend on the logical consistency of economic policy and more scientific studies (Alfred, 1956:5).

2.Competition: One of the main principles of social market economy is competition. Like the founders of Freiburg School, proponents of Social Market Economy also suggest that competition is the most important principles of market economy. Proponents of Social Market Economy argues that “perfect competition ” is an utopia; that competition should essentially be encouraged by government; and that imperfect and destructive competition should be impeded. According to Social Market Economy, functional competition can be realized by government (Aktan, 2008:134).

Competition primarily serves the technological and economic improvement to be provided. In Social Market Economy, the for competition is the continuous and permanent productivity increase. In this meaning, the policies promoting economic development are essential. Due to the negative effect of economic level of a high employment on competition, even if the thought of a limitless credit system is rejected, it can be wrong to think of that it is not compatible with a free market economy. Most advocates of perfect employment policy suspect that trade policy and high employment level can be combined successfully and market flexibility and social market economy. In spite of this, in the framework of a healthy monetary institutionalization and budgetary stability, political economic dynamism certainly can be provided and sustained (Alfred, 1956:4)

3. *Sociality*: The concept sociality expressing the improvement of life standards of the humans taking place in the lowest income group in economy, and protection of all individuals in society against the economic and social norms is perhaps the most fundamental and important element of Social Market Economy. In Social Market Economy, the main social aims are:

Social Justice and Fair Income Distribution, Social Insurance, Social Security, Social Welfare, Social Participation, Social Peace, Social solidarity and helping each other, Social Democracy.

4. *Understanding of Social State*: According to the proponents of social Market Economy, social state is a state understanding, in which the principles of sociality in competition, and market freedom are integrated. According to them, state must be active, constructive, regulative, bringing functionality in competition, and functional. What the most important is that government must undertake a duty and role intervening economy in order to reach the social aims stated. This intervention must be limited and regulative.

5. *Reducing the political power of state*: In Social Market Economy, instead of collecting the power the state has in a one hand, the thought that this power and authority are shared and limited in this way is argued. When regarded from this point of view, the principle of division of powers is important for social market. According to those advocating Social Market Economy, with division of powers (horizontal and vertical), abuse of state power can be prevented. Horizontal division of powers is the share of state power between legislation, execution, and judgement. Vertical division of work, used in the meaning of decentralization

is that the authority and power under consideration is distributed between central administration and local government.

The Duties and Functions of State in Social Market Economy

The proponents of Social Market Economy advocate the application of active market economic policies and that the state should undertake the following duties and functions:

- Forming the general legal framework of economic order i.e. economic constitution.
- Function of providing the fair income and welfare distribution
- Function of providing economic growth and development
- Function of providing the effectiveness in the use and distribution of resource
- Function of providing economic stability
- Function of providing balance in payments balance

The advocates of social market economy suggest that about the role and duties of the state, two major principles have importance. These are the principles of subsidiarity and market conformity.

CONCLUSION

According to the members of Freiburg School, social order is not an order spontaneously occurring, developing and running in harmony. With this aspect of it, the members of Freiburg School are against the thought of natural order of Physiocrats and the slogan of “Let them do, Let them pass”. According to them, it is impossible to mention about the presence of order in all areas of social order. It is also impossible to say that economic order that forms a sub area of social order wholly occur spontaneously and functions in harmony. For example, market and exchange are the spontaneously formed orders. However, when the market left to its own course, undesirable results may occur.

The concept of economic order in Free Market Economy and Freiburg School expresses all of the rules, institutes, and norms determining the environmental conditions, placed in the

long period of the demission areas and activities of economic units. Economics is a scientific branch attempting to redress a balance between the scarce resources and human needs. For the scarce resources to be able to use efficiently and effectively, there is a need for a certain economic order. In market exhibiting a complex structure, for being able to utilize division of labor and specialization, providing the effective distribution and use of resources in economy, eliminating the unbalances between production and demand, reducing the injustices in the share of production as much as possible, and being able to solve the problems, it is necessary to arrange economic activities in this framework.

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