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SOCIAL MARKET ECONOMY

(These explanatory notes are associated with the presentation of the same title)

1.- DEFINITIONS OF THE SOCIAL MARKET ECONOMY:

Social market economy is balancing both the market economy, presented as an indisputable and unsurpassable universal concept, and the concern for social justice.

This economic model, implemented in 1948 by the Federal Republic of Germany, is the result of the synthesis of some economic analysis made in the 1930 and the political will of the founding fathers of the FRG. Thus, the social market economy is not a sort of third way between capitalism without limits and collectivist communism, but aims to combine, on the basis of a competitive economy, private initiative and social progress.

In this model, it is the state that explicitly guarantees the social and economic order, the former based on liberalism, which requires a state with a strong regulatory authority. This will to reconcile the apparently contradictory elements may appear as the major innovative essence of the social market economy.

The social market economy is not a completed system, but an evolving concept which remains an important factor in political and social cohesion of the European Union.

2.- SOCIAL ECONOMIC MARKET: AN EVOLVING CONCEPT

In 1949, Ludwig Erhard becomes minister of economy and forges the concept of social market economy (Soziale Marktwirtschaft). The social market economy became, in the early 1950s, the main idea of the politics of FRG. Initially a simple idea, the concept was progressively implemented in the German economy, and even became one of the key elements.



From the beginning, and progressively more clearly, the European Union is built and evolves under the influence of the social market economy, taking up the old dream of continental domination against the English-speaking world on one hand and Slavic world on the other.

The concept of the social market economy links the principle of free markets and the one of social compensation. Thus the advantages of market economy, such as economic freedom and technological progress, are combined with social objectives such as high employment rate. In contrast, many economic disadvantages of ultra liberal Anglo-Saxon economy, such as abuse of free markets, are erased.

The State has a strong position, is involved in making economic decisions in the public interest and acts as co-organizer of social and economic policies. The principle of coordination and competition is the basis of the system; formation of monopolies is prevented. The personality is the basic idea of the social economic market; man is not considered as a purely economic agent here, but as a social actor as well (everyone has to assume responsibility of themselves and of the others). The state provides assistance only if man cannot help himself (principle of subsidiarity).

3.- SOCIAL MARKET ECONOMY : A HYBRID SYSTEM

At the current end of its evolution for over half a century, we can see that the European social market economy remains a hybrid system, combining a certain economic liberalism with a certain social model. One may ask whether these two components are complementary or, on the contrary, incompatible in long term. However, under the influence of persistent economic and social crisis and the concomitant evolution of ideas, at present we can definitely observe deep questioning of the social component of the system and returning to a more regulated economy.

The social market economy is not the first stage of the welfare state, it has never been designed as a "third way" between socialism and capitalism, or as a convergence of systems but as a sophisticated and effective market economy. The market institutions, which are in competition, protecting freedom and instigating well-being, are those that can reach most of the social objectives. Social progress requires the establishment of a popular capitalism based on the encouragement of individual responsibility by setting up a personal wealth obtained through work.

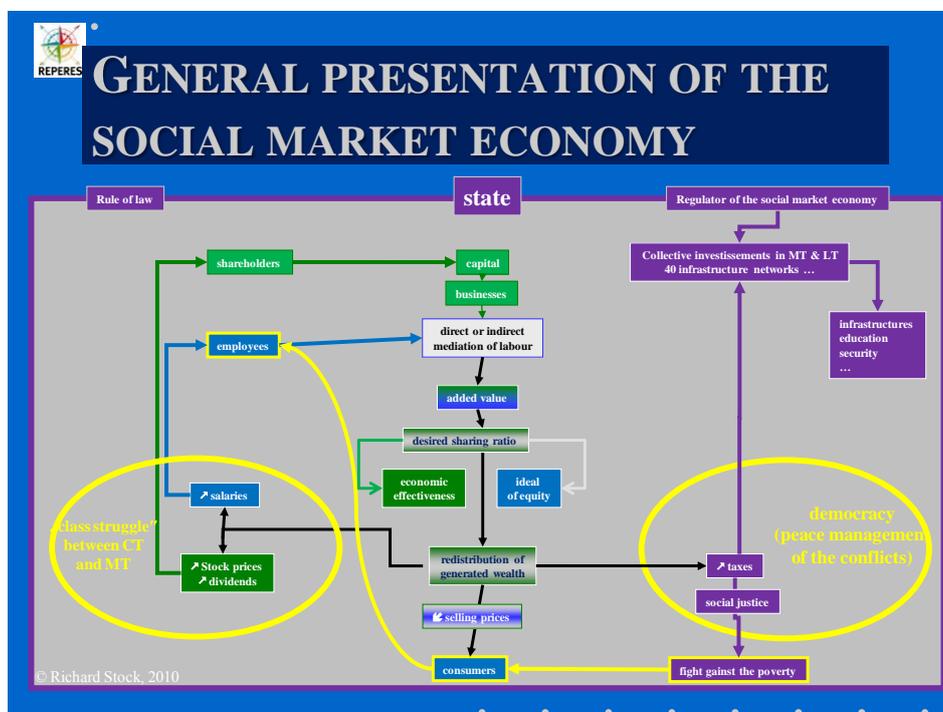
L. Erhard explained unambiguously on this point that "the terms free and social overlap (...); the freer the economy is, and the more social it is, the bigger is the profit for the national economy."

One of the difficulties of European construction is that the « German model » as a nationally organised capitalism is regarded as an ideal model, whereas European unification precisely questions it, at least because the European social dialogue is far from the formalised and binding rules of concerted action as practised in Germany.

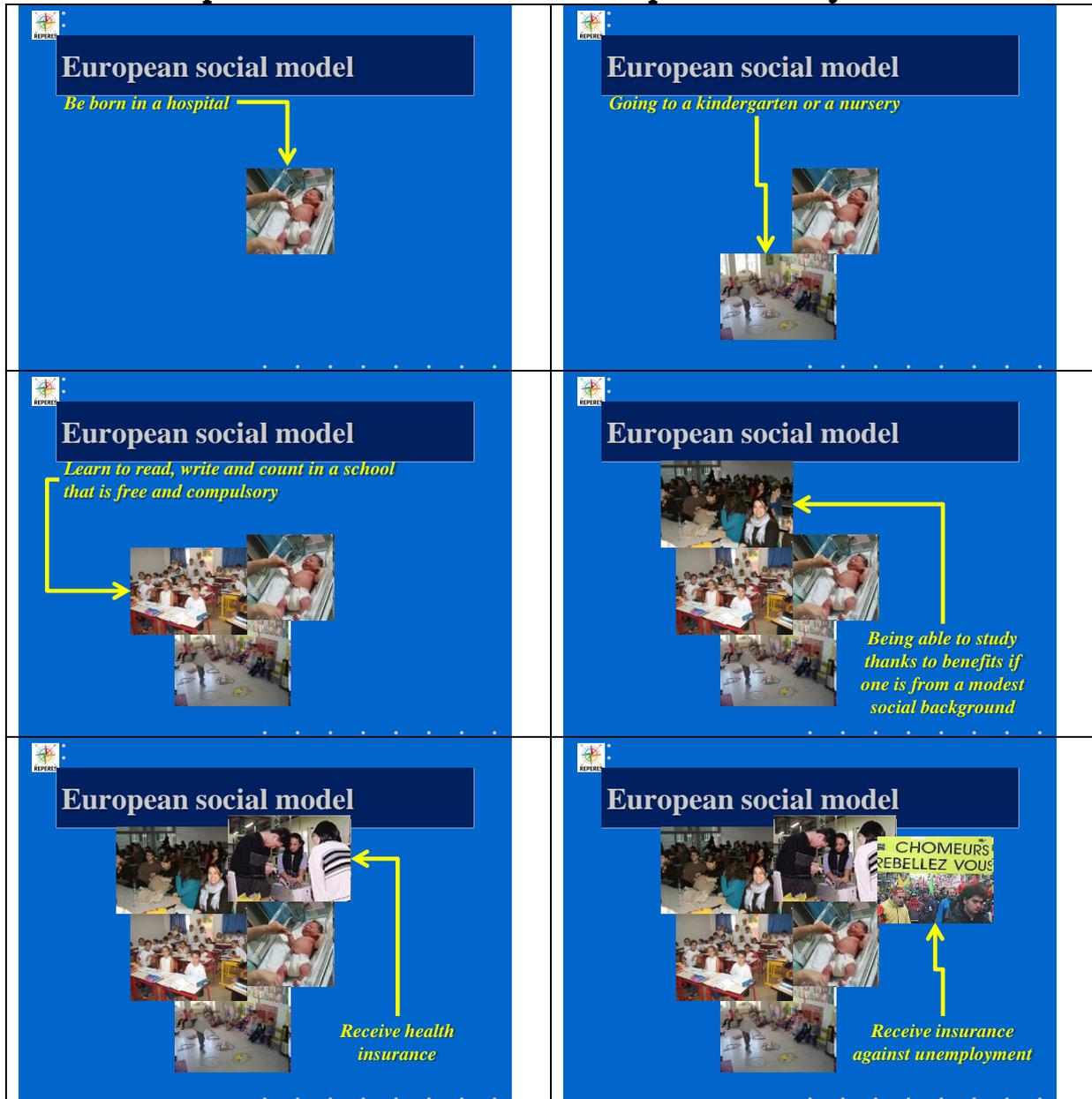
It appears that the transfer to the European level, as well as to the subnational level, is a way for German employers to offload the constraints of national bargaining as they were set in an earlier phase of the power relationship between employers and employees in which the integration into the global competition was yet not working as a lever against employees.

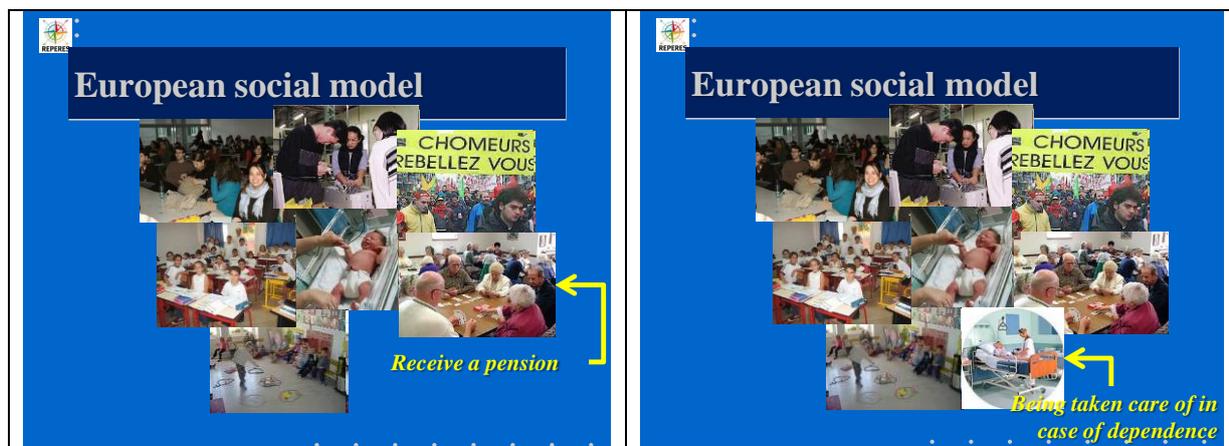
Moreover, the European integration was being realised more and more by putting the institutional systems (especially tax systems) into competition, where the very idea of the autonomy of the national consultation is being challenged by the competitive deregulation.

GENERAL PRESENTATION OF THE SOCIAL MARKET ECONOMY



4.- The European social model: a real European identity



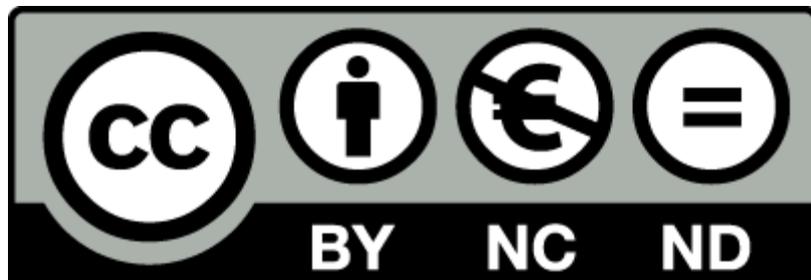


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