

The social market economy as a model for sustainable growth in developing and emerging economies

Ralph M. WROBEL
Westsexon University of Applied Science, Zwickau, Germany

Abstract: After the fall of state socialism about two decades ago, democracy and market economies were assumed to diffuse worldwide. However, the American financial crisis of 2008, leading to a worldwide economic crisis caused increasing criticism of capitalism. As laissez-faire capitalism, Keynesianism and state socialism have failed during the last decades, economic policy makers are searching for alternative approaches. The author recommends the Social Market Economy, based on the thoughts of the German economist Walter Eucken and being introduced in West Germany after WW II. In this article, first the scientific framework of a Social Market Economy will be briefly described. Then, it will be discussed whether and how the seven constitutive principles defined by Eucken can be transferred adaptively to developing and emerging economies. Use will be made of North's institutional approach as well as the new approach of an Open Access Order by North / Wallis / Weingast. The question will be addressed whether the Social Market Economy can be a model for sustainable growth in developing and emerging economies.

Keywords: Social Market Economy, sustainable growth, institutional systems, New Institutional Economics, Open Access Order, Walter Eucken

1. Introduction

In 1989 state socialism failed and scientists like Francis Fukuyama (1992) declared the end of history. Democracy and market economies were assumed to diffuse throughout the world. About twenty years later the American financial crisis developed into a fundamental worldwide economic crisis. Therefore, nowadays critique of capitalism is on the increase. As a result, many

economic policy makers are searching for alternative approaches of economic development. As a special kind of regulated capitalism the author recommends the approved conception of the Social Market Economy. The idea of the Social Market Economy is based on the principles of economic order by the German economist Walter Eucken and was introduced in West Germany after WW II by Minister of Economic Affairs Ludwig Erhard (Wünsche 2001: 72-84). While the world was talking about an “Economic Miracle,” the author argues that the positive economic development in West Germany was to a large extent the result of this special economic approach.(Wünsche 2001: 107-108) Obviously, in the globalised world the conception must be revised and modernised. Also adaptation and implementation problems must be taken in consideration.

The main aim of this paper is to discuss benefits as well as implementation restraints of a Social Market Economy, especially for less developed but emerging societies. First, the scientific framework of a Social Market Economy will be described in brief. Focus will be on the basic idea of an economic order in the Eucken sense, characterized by seven constitutive principles. Then, it will be discussed whether and how these principles can be transferred adaptively to developing and emerging countries. Use will be made of the theoretical approach of formal and informal institutions by Douglas C. North (1990) as well as the new approach of an Open Access Order by North / Wallis / Weingast (2009). The question will be addressed whether the Social Market Economy may be a model for sustainable growth in developing and emerging countries.

2. The Social Market Economy as a Development Model

2.1 Theory of Social Market Economy

2.1.1 Basic Ideas

The Social Market Economy seeks for a market economic system, rejecting socialism and the central planned economy on the one hand and on the other hand “laissez-faire capitalism” as well as “monopolistic capitalism and gigantism (Röpke 1944/82: 187).” In contrast to these approaches, it is combining private enterprise with measures of the state to establish fair

competition, low inflation, and social welfare. This is also called the “ordo-liberal” approach. Ordo-liberalism is a school of liberalism that emphasizes the need for the state to ensure that free market produces results close to its theoretical potential. The theory was developed by different German economists and legal scholars such as Walter Eucken and Franz Böhm in the period 1930 - 1950. As a basic theoretical approach, the market economy order in the sense of Walter Eucken (1952/90) is useful. It includes a regulatory framework of a functioning price system, monetary stability, freedom of contract and private property, open markets but also the principle of liability and the principle of constancy and coherence of economic policy. These constitutive principles are accompanied by so-called regulative principles like the necessity of a strict competition policy, internalisation of external effects and some social measures (Eucken 1952/90: 254-304 and Röpke 1944/82: 189). Walter Eucken’s ideals (including modifications) drove the creation of the post-World War II German Social Market Economy and its attendant economic miracle. In concrete, the Social Market Economy was created and implemented in West Germany by Ludwig Erhard, first director of economics of the western occupation zones, then Minister of Economics, and later in the 1960s chancellor of the Federal Republic of Germany – by development of the ordo-liberal approach (Wünsche, 2001: 61).

The Social Market economy has to be understood as a privilege-free order, where neither feudal or party elites nor powerful economic interest groups like monopolies, cartels or trusts influence markets and society. All members of a society shall, in principle, have the same opportunity to develop individually beyond any barriers of class. The result will be prosperity or “welfare for everyone” (see Erhard, 1957 and 1959). This means more than opportunities for consumption. It also implies a distribution of wealth within a society by the rule-based market order. Through the channels of mobility and redistribution of income over time by the forces of the market (without governmental intervention) a socialisation of progress and profit will take place. Or, as Erhard pointed out:

Determined to overcome the old conservative social structure once and for all, I planned for a broadly based mass-purchasing power. Along the road of competition, the socialisation – in the best sense of the word – of progress and profit is best realised. In such an economic system personal incentives for higher productivity remain alive. However they are not primarily „pressure to perform,“ but opening up opportunities for individual development. Everyone should get the chance to get involved in economic and societal processes according to his or her personal abilities (Erhard, 1992: 339).

In this way, a Social Market Economy requires a functioning, reliable and democratically legitimate legal system. Eucken (1952/90: 304-308) postulates an interdependency of each economic order with the social, juridical and political order. As he mentions, all orders within a society affect each other. Therefore, a strong state accepting the principles of solidarity and subsidiarity is precondition for a Social Market Economy. Only if rules and laws can be enforced by the state, the regulative framework of a Social Market Economy can work well. Supervision of economic actors and penalising violations of rules ensure that rules are adhered and incentives benefits society.

2.1.2 Principles

The fundamental principle of a Social Market Economy is the functioning or flexible price system. The optimising of allocation of scarce resources shall be done by flexible prices. Therefore Eucken (1952/90: 254-255) sees the necessity to implement an order for free competition. That includes a rejection or limitation of all subsidies, monopolies, price limits, or import restraints. Only prices reflecting scarcities of goods fulfil the functioning of a market system. This can only be achieved by a genuinely free competitive system insisting on uniform starting conditions “in the struggle for the best performance (Röpke 1950/82: 43).” Because the free competitive systems react sensitively to unstable currencies, Eucken (1952/90: 255) claimed monetary stability as most important for the market economic system. Only in a mainly non-inflationary setting a functioning of the market economy is secured, because only then, prices can fulfil their informational and coordinating function. (for discussion see Machlup 1978) As we know nowadays, monetary stability can be attained by different institutions like an independent central bank, a currency board or simple money supply rules. While an independent central bank can act without political influence a Currency Board obligates monetary policy makers to tie money supply to foreign currency supply. Also monetary rules like the output-orientated Taylor-rule can restrict inflationary behaviour of central banks. (Seliger 2002, Taylor 2008). Therefore, there is no single way to attain the goal of monetary stability. But as the current financial crisis shows, monetary policy is misused as an economic policy plaything. Money supply is blown up by the western central banks (FED and ECB) to overcome the financial, economic and debt crises

of the last years. As result, monetary policy cannot fulfil the function as monetary stabilizer any more. (Wrobel 2012)

However, monetary stability cannot be attained without fiscal stability. As the Greek debt and Euro crisis since 2010 have shown, one of the main economic problems of our time is that of reducing budget deficits as these deficits destabilise the currency. In this context, in recent years an increased interest in institutional constraints on fiscal policy makers could be witnessed. In particular “balanced budget” requirements should be mentioned. For example, in the United States weak forms of balanced budget rules are implemented in most states (Niepelt, 2007: 145). Since the early 1980s, several European countries have adopted fiscal consolidation programmes aimed at stabilising their public debt-to-GDP ratios (Drudi/Prati, 2000: 1897). In the European Union the “Stability and Growth Pact” should reduce deficit spending and government debts. (Belke 2010) Although the Pacts’ success is questionable, together with the other examples it shows that fiscal stability rules should be included into a modern conception of a Social Market Economy.

As is well known among economists, private property places the power of entrepreneurial disposition over goods as well as the incapacity to restrict power of disposition of all others in society. The existence of private property provides incentives to work, motivates entrepreneurs to innovate, creates new jobs, and in this way should lead to economic growth and welfare. It is the basis for self-responsibility and initiative as well as a main reason for efficiency in use of economic resources like raw materials, goods and services, or the own potentials of the people (Eucken, 1952/90: 270-275) However, those who benefit from something must also be prepared to bear a loss! While the freedom to profit by the own performance gives a positive incentive, liability rules must enforce responsible decision making. They are limiting irresponsible high-risk behaviour. As Eucken has pointed out:

The one who benefits also has to carry the detriments (...) Investments are made the more carefully as the responsible is liable for those (Eucken 1952/90: 279).

This means on the one hand, that enterprises, who mismanaged, have to bear the consequences. It also may have as a consequence that they leave the market and make room for more efficient enterprises.

While modern Keynesians as well as anti- and alter-globalists demand drastic restrictions of the mobility of capital, people and goods, theoreticians of the Social Market Economy like

other neo-liberals advocate free markets, free investment and free migration. But while the promoters of the Anglo-American approach of a free market believe in the forces of the market alone, advocates of the Social Market Economy claim for free market access for everyone. Hence, they stand for free competition and performance-oriented behaviour as well as for restriction of national privileges and monopoly powers. This shall be attained by the reduction of market access barriers, a prohibition of cartels and monopolies domestically and by free trade, reduction of protectionist measures and membership in international organisations like the WTO, ASEAN, EU, etc. (Eucken, 1952/90: 264-270). Also regarding the freedom of individuals and corporations to form contracts without government restrictions differences between advocates of the free and the Social Market Economy have to be mentioned. Of course, everyone must be able to choose and examine the available opportunities and then to conclude agreements! But while promoters of the Free Market Economy are opposed to government restrictions like minimum wages, price fixing and sometimes competition laws, advocates of the Social Market Economy do not accept any kind of freedom which eliminates competition and establishes monopolistic positions (Eucken, 1952/90: 275-279).

Finally, Eucken (1952/90: 285-289) points on the importance of long-term economic policy, including macroeconomic stability. Permanent confidence of investors as well as consumers in a stable economic framework and macroeconomic stability should induce a permanent willingness of enterprises to invest. Additionally, it will improve the consumers' ability to make long-term consumption decisions. It should be emphasised that all these constitutive principles of a Social Market Economy should be enforced simultaneously. Some principles would fail in their purpose if they are applied in isolation. For instance, private property leads to excessive economic power if freedom of contract is not restricted or liability is limited.

In contrast to a Free Market Economy, the idea of the Social Market Economy accepts the existence of weaknesses and deficits within the market order which require correction. It should combine the principle of freedom with social security. The freedom of the individual is manifested by social problems which cannot be mastered through the market, and are to be solved by an appropriate social security policy (Tuchtfeldt 1973/82: 65). Eucken (1952/90: 291-299) demanded first of all the prevention of monopolisation and exploitation of consumers as well as workers by market-dominating enterprises. As he points out, a stringent competition law,

banning cartels and collusion, regulative supervision of monopolies or market-dominating enterprises and merger control are fundamentally for a functioning market economic order in course of time. An instrument to attain this goal seems to be an independent cartel authority. Ludwig Erhard was not able to establish a Competition Law in Germany before 1958 including full independence of the German cartel authority because of political restraints (Erhard, 1992: 267-275) Nevertheless the German law became, to a large extent, a model for the European regulations.

Nowadays, the necessity of sustainable economic behaviour is much better known than in the pre-war period when Walter Eucken formulated his principles. But already Eucken demanded the correction of market failures (for instance negative externalities like environmental pollution). He justified state interventions because externalities distort competition (by prices not containing costs of pollution) and harm society by suffering under “cleaning” costs (Eucken 1952/90: 301-303) Thus, Eucken can be seen as a pioneer of environmental policy. Additionally, he demanded interventions into the labour market if there are abnormal supply reactions. This principle may be neglected in the present industrialised nations. What we have to add instead of that nowadays, is the provision of public goods. An efficient infrastructure, fundamental education opportunities, and access to comprehensive healthcare provision should be provided by the state. While the need for state involvement may be great where social disadvantages exist, in many welfare states intervention must be limited already (see, e.g., Engels 1976/82 and Bonus 1979/82) Especially in less developed countries the importance of education, literacy and professional training cannot be underestimated.

In the social sphere, Eucken saw an increasing unequal distribution of income and wealth by the forces of the market. In his opinion this would violate the perceived “social justice” in a society (however, a question remains whether such justice can be measured or not). Therefore, redistribution of income and wealth is necessary to generate or maintain “social peace“ in a society (see, e.g., Müller-Armack, 1947/82; Eucken, 1948/82; Schmidt, 1957/82) This shall be done by market compliant social security systems (health, pension, etc.), regional distribution systems and a performance-oriented tax system. Of course, all these measures must be compatible with the structure of incentives in a market system. In other words, they should “not interfere with the price mechanism and with the automatism of the market derived from it (Röpke, 1950/82: 160).”

Each kind of state activity requires a system of levies to finance these tasks. However the tax system should not distort incentives for economic actors. It shall be simple, clear and effective.

It must be emphasised that most West and North European societies developed into welfare states during the last decades. Also in Germany, the fatherland of the Social Market Economy, the social budget exploded (Wünsche, 2001: 108-111) Thereby also Germany is marked by a too tight network of regulations (especially in the fields of taxes and social measures), equally to other welfare states in the world. But the Social Market Economy cannot prosper if the underlying posture will be paralysed by so-called social measures in neighbouring fields. A liberal economic order is only able to survive permanently when a high level of freedom, private initiative, and subsidiarity is guaranteed.

2.2 Implementation in Less Developed Countries

2.2.1 Benefits

In contrast to a socialist central planning system, every kind of market economy is favourable (see, e.g., as classics in this sphere von Mises, 1936; Hayek, 1982). Market economies are able to attain a higher GDP per capita by functioning market incentives and freedom of entrepreneurs and consumers. As mentioned, in contrast to a free market approach, the Social Market Economy takes also weaknesses and problems of the market system into consideration. Thereby, “prosperity for all,” a more equal distribution of income and wealth can be attained. The main policy instruments are not interventions into market processes but a consequent implementation of the constitutive principles including strong liability rules or open markets as well as an implementation of a strict competition policy, supervision of strong market actors and a moderate social policy. In contrast to the current welfare states, such an economic system is not threatened by financial infeasibility because most of the rules are qualitative ones. Last but not least, the Social Market Economy combines personal freedom with democracy and the rule of law. Concerning that, especially a difference to the hybrid system of the Socialist Market Economy as it has evolved in China or Vietnam can be postulated.

Within the last 20 years especially transformation economies and emerging societies have been threatened by wrong reform programs neglecting the needs of market regulation. One was

the failure of price liberalisation and privatisation in the Russian Federation due to a lack of market-oriented regulatory framework, a second dissatisfaction with economic reforms in South America following the “Washington Consensus” and neglecting the importance of safety nets and social insurance. Furthermore, the Asian banking crisis revealed that financial liberalisation without prudent regulation can have disastrous consequences (Ahrens, 2009: 114-115). These failures of the free market approach in developing societies have now been followed by the financial and economic crisis caused by a failing regulation of the international financial markets and an inflationary monetary policy in different Western states. But these disparate developments helped to reinforce the efforts to put institutions on the reform agenda of policy makers. Today, it is widely recognised that privatisation, price liberalisation and macroeconomic stabilisation are necessary components of transformation but are insufficient without implementation of adequate economic rules and regulations (e.g. Ahrens and Jünemann 2012).

Therefore, the conception of the Social Market Economy – founded on the constitutive and regulative principles by Walter Eucken – seems to be the right alternative approach of capitalism in our times. As the German example has shown impressively, the Social Market Economy can be a very successful model of development. Especially for transforming and emerging economies the approach seems to be interesting because it allows societies to transform into direction of a market economy without neglecting regulative as well as social aspects. In less developed countries which have to do large efforts in poverty reduction the Social Market Economy may be a superior approach than the free market economy on the one side or the hybrid system of a Socialist Market Economy on the other.

However, a question for discussion is whether this economic model can be established in different countries or societies worldwide. First, it is not the German model of market economy that is supposed to be implemented anywhere else. Only the abstract principles of the market order according to Walter Eucken shall be guidelines for institutional development. Each society accepting these guidelines has to choose its own characteristics of the principles. Therefore, the conception of the Social Market Economy is not a static program which should be copied within a one-to-one imitation process. In contrary, it is a collection of abstract principles which must be adapted to the regional, national and cultural circumstances. As a result, real characteristics of Social Market Economies may be very different.

While implementation problems in Western societies are not to be expected as important, in transformation economies or even more in less developed countries in the Southern hemisphere cultural as well as political constraints can be expected to be more problematic. Therefore, for the development in the poorest countries in the world economists like Jeffrey Sachs or Paul Collier have argued that free market development for the “Bottom Billion” will not work (Collier, 2007: 175). Instead, they offer technocratic, administrative solutions to the poor (e.g., Sachs, 2005; Collier, 2007). In the author’s opinion this solution is wrong. Reality shows that the richest societies in the world are market economies. Here the standard of life as well as the human development is the highest in the world. Therefore, it is not the question if a market system should be implemented in poor societies, but only which exactly, how and by which strategies. In this way, the Social Market Economy may eliminate the dilemma of development strategies between the free market and centralist solutions. This may be seen as its main benefit.

2.2.2 Political Conditions for a Successful Transfer of Institutions

A Social Market Economy cannot be simply implemented in a country. There exist political restrictions which must be taken in consideration. The new approach by North/Wallis/Weingast (2009) on violence and social order may be useful for analysing this problem. They distinguish so-called limited access orders and open access orders. While the first are growing slowly and are vulnerable to shocks, the latter enjoy a mainly positive political and economic development. Limited access orders, also called natural states, are characterised by polities without consent of the governed, a relatively small number of organisations and the predominance of social relationship organised along personal lines, including privileges and social hierarchies. As North/Wallis/Weingast (2009: 12) pointed out, most of the societies in the world are such limited access orders. In contrast, open access orders characterised by a bigger, but more decentralised government, a rich civil society with lots of organisations and widespread impersonal social relationships including rule of law, secure property rights, fairness and equality.

Most of these ideas were already formulated by other economists. For instance, von Hayek (1960/82: 153) refers to the “classical argument” that freedom in economic affairs postulates the governance of the rule of law in all spheres of society. Also, already Eucken

(1952/90: 304-308) emphasised the problem of interdependency of orders. In his opinion, a functioning juridical system, control over the military, and the development of a civil society are important parts of the juridical respective political subsystem of a society. And as was mentioned above, the Social Market Economy itself has to be understood as a privilege-free order, where neither feudal or party elites nor economic power groups like monopolies, cartels or trusts influence markets and society. Hence, already Eucken (1952/90) brought these ideas into the scientific discussion. Also Panther (1997: 111) has to be mentioned, because he characterised the Latin West of Europe by a high degree of “civicness” what he defines as “a set of values and norms requiring actors to treat each other as equals, to be tolerant of each other and encouraging mutual solidarity.”

Nevertheless North/Wallis/Weingast (2009) do not limit their analysis to the differentiation of new ideal types of social orders. They also make some detailed investigation into the transformation process from a limited access order to an open access order. This approach is of high interest for the analysis of the obstacles to implement a Social Market Economy in less developed countries or emerging societies outside the club of developed Western states. Concrete, North/Wallis/Weingast (2009) define two steps for natural states to become an open access order. First, personal relations within the dominant coalition have to be transformed into impersonal ones. Then, three doorstep conditions have to be fulfilled. These conditions are, first of all, the implementation of the rule of law for the elites. The second condition is the existence of continuously lived forms of public and private elite organisations. This means a civil society where many organisations exist and develop. And third, the military must be come under consolidated political control, for instance the Ministry of Defence. However, this process will only occur if the members of the dominant coalition find it advantageous to transform their privileges into general, impersonal rights (North/Wallis/Weingast, 2009: 150-166) While the conditions for a development from a limited access order to an open access order is described in detail, the emergence of the monopoly of power during the transition process is hardly dealt with (Zweynert 2010: 5). Therefore, also the success of a political development is depending on the willingness and success of political entrepreneurs to implement the rules of an open access order. It can only be supposed that globalisation – understood concrete as an institutional competition process (see Hodgesson, 2007; Witt, 2008) – will reinforce these processes.

2.2.3 Cultural Incompatibility and Adaptation Necessities

Economic institutions that fit in one country may not be the right ones in other societies. The specific culture of a society seems to play an important role. It must be recognised that people, characterised by cultural differences with respect to the values and norms, influence the performance of institutions. But the range of meanings given to the term “culture” is wide. It varies from culture as the realm of the arts to the sum of the man-made sphere (Panther, 1997: 97). In economics, culture is usually defined as the informal constraints on human interactions. As North (1990: 3-12) pointed out, rules, norms and strategies which shape individual and organisational behaviour can be identified as institutions, while beside formalised rules also habits and other informal rules of society must be taken into account. Formal institutions like laws and regulations can be designed by politicians and enforced by the state administration. In contrast, informal Institutions like social conventions, ethical and religious convictions (“culture”) are evolving through time and are not enforceable by a state administration. A challenge is that formal and informal institutions may contradict, which, by creating a so-called institutional disequilibrium, hampers institutional change towards a Social Market Economy (Platje, 2011).

Driven by the historical experience of institutional change in the Central and East European transformation countries, the concept of culture has attracted attention by a growing number of economists in the recent two decades. For example, authors like Huntington (1994, 1996) or Panther (1997) introduced a “cultural division of Europe” as an argument for success in transformation dividing Europe in a (catholic or protestant) “Latin Centre” and an “Orthodox Periphery.” These approaches may be declared as mono-causal but they gain to the insight that culture matters. However, in the case of transformation to a market economy old traditions of trade and commerce, entrepreneurial activities in history and experiences with a civil society are helpful for such societies, while communist traditions like a lack of experiences with freedom and self-initiative, a passive behaviour, e.g., characterised by permanent waiting for state activities or informal networks (e.g., the Chinese *guanxi* -. Wrobel, 2007: 179-180) are negative aspects. As the experience in Europe has shown, traditional “Western” oriented nations like Poland, Hungary, the Czech Republic or the Baltic States have been very successful in their transformations processes (EBRD, 1999: 27; Wrobel, 2007). The German conception of the Social Market

Economy has even been a model for some of them in the transformation process. Eastern states like Russia, Belorussia or Ukraine have been less successful. As Panther (1997) pointed out, an obvious smaller tradition of civil society in these countries was the main reason.

It seems to be obvious that cultural patterns influence the success of reform or transformation processes. The implementation of a Social Market Economy in transformation economics as well as emerging markets can be interpreted as a problem of transfer of institutions (see, e.g., de Jong and Mamadouh, 2002; Roland, 2004; Zweynert, 2009). Especially crucial seems to be the implementation of a Social Market Economy in less developed societies, in particular when they were socialist ruled in the past. The process of institutional development and change is hampered by a lack of knowledge on the functioning of a market system because of the tradition of a subsistence economy as well as a deep mistrust in the state, the government and the banking system.

In the original analysis of North (1990: 188), informal institutions are described as changing only slowly. Thereby, sometimes “culture” became an exogenous variable. For instance, Eggertsson pointed out:

... it is commonly believed that informal institutions, such as norms and customs, change relatively slowly, and therefore, in studies involving marginal changes in formal rules, informal institutions can often be taken for granted (Eggertsson, 1996, 13)..

But he goes on to argue that this cannot hold in a long-term analysis or in cases where a fundamental change in formal institutions occurs. All institutions, formal as well as informal, are developing through time. Therefore, we can talk about an evolutionary process of mutually linked formal and informal institutions. From this point of view, there is no place for “cultural fatalism.”

A successful transfer of a Social Market Economy implies that special foreign formal institutions grow together with given informal domestic ones. Otherwise, the imported formal institutions will be rejected sooner or later. The success of such an institutional import depends on the right selection of imported rules, their adaptation to domestic conditions, and their familiarisation in the host society. Especially the basic conception of the Social Market Economy seems to be a fitting set of formal institutions which may be successfully implemented also in other societies. Also in post-war Germany basic formal institutions were imported from the U.S. but were put into practice with significant tribute to domestic German traditions, combining market liberalism and a rather conservative vision of social life. Hence, the idea of the Social

Market Economy was born (Zweynert, 2009: 352-353). Therefore, the Social Market Economy approach may be of special interest for transforming and emerging societies searching for a pattern of development which combines the Western model of free markets, individualism and democracy with own more holistic traditions.

Obviously, a long learning and adaptation process should be assumed. Then, this process can be accelerated by politicians. It is one of the main tasks of the political entrepreneurs in developing countries, who implemented the foreign formal institutions, also to influence the informal institutions like cultural and political beliefs. They will be the more successful in doing so if they are able to 'sell' the imported institutions as compatible with the cultural heritage of the importing society (Zweynert, 2009: 341-351). At all, a transformation of formal institutions accompanied by consistent learning and adaptation processes in the transforming society may be the only way of successful institutional transfer. The opening of markets, thereby induced Foreign Direct Investment inflows and immigration can initiate such a learning process reducing inconsistencies between formal and informal institutions over time. Therefore the introduction of a Social Market Economy is possible, but is likely to be a time-consuming process. Its success is largely depending on the willingness and ability of political leaders in the country.

3. Conclusion

As the analysis above has shown the advantages of a Social Market Economic. These advantages became more obvious after the financial and economic crisis again. While American neo-liberals like Milton Friedman saw the answers to the failed Keynesianism in a total withdrawal of the state from the economy, German ordo-liberals tried to create a new connection between a strong state and a free market economy. (Friedman, 1956; Brunner, 1970) The conception of the Social Market Economy is signed by its regulatory framework and the freedom of the players to act without restrictions within that frame. Thereby, the approach is not only interesting for developed market economies as alternative but also for transforming and emerging societies searching for a new target of institutional development after the crisis of free markets nowadays. But it is hard to implement a Social Market Economy worldwide because of cultural, political and other restraints. However, this should not lead to the conviction that a Social Market Economy cannot be implemented in transforming or emerging countries. Restraints can be

removed within a learning process over time. But on the other side, one should not be too enthusiastic like advocates of a free market approach have been after the fall of communism promising a large growth payoff to free market reforms (Easterly, 2008: 13-15). Such a process will take time. Disappointments in the short-run are possible, too.

Literature

- Ahrens, J. (2009). Transition towards a Social Market Economy? – Limits and Opportunities. In: Seliger, B.; Sepp, J.; Wrobel, R. (eds). *Das Konzept der Sozialen Marktwirtschaft und seine Anwendung*. Frankfurt/M.: Peter Lang.
- Ahrens, J.; Jünemann, P. (2012). Transitional institutions, institutional complementarities and economic performance in China: a „varieties of capitalism“ approach. In: Seliger, B.; Sepp, J.; Wrobel, R. (eds). *Die Soziale Marktwirtschaft als Vorbild in internationalen Krisen. Ordnungspolitische Dialoge 3*: 223-280. Frankfurt/Main: Peter Lang.
- Belke, A. (2010). *The euro area crisis management framework : Consequences and institutional follow-ups*. German Institute for Economic Research. Discussion Paper No. 1076. Berlin: DIW.
- Bonus, H. (1979/82). Public Goods: Their Seductive Appeal and the Prisoner’s Dilemma. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 235 – 247. Stuttgart: Gustav Fischer Verlag, 1982.
- Brunner, K. (1970). Eine Neuformulierung der Quantitätstheorie des Geldes. Die Theorie der relativen Preise des Geldes, des Outputs und der Beschäftigung. *Kredit und Kapital 3*: 1-30.
- Collier, P. (2007). *The Bottom Billion: Why the poorest countries are failing and what can we be done about it*. Oxford: Oxford University Press.
- Drudi, F.; Prati, A. (2000). Signalling Fiscal Regime Sustainability. In: *European Economic Review 44*(10): 1897-1930.
- Easterly, W. (2008). Free Markets and Economic Development. In: Shiraishi, T.; Yamagata, T.; Yusuf, S. (eds). *Poverty Reduction and Beyond – Development Strategies for Low-Income-Countries*: 13-56. New York: Palgrave – Macmillan.
- EBRD (1999). *Transition Report*. London: European Bank for Reconstruction and Development.
- Eggertsson, T. (1996). A Note on the Economics of Institutions. In: Alston, L.; Eggertsson, T.; North, D.C. (eds). *Empirical Studies in Institutional Change*: 6-24. Cambridge: Cambridge University Press.
- Engels, W. (1976/82). The Efficient Production of Public Goods. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 229-233. Stuttgart: Gustav Fischer Verlag, 1982.
- Erhard, L. (1957). *Wohlstand für alle*. Düsseldorf: ECON-Verlag.
- Erhard, L. (1959). *Prosperity through Competition*. London: Thames & Hudson.
- Erhard, L. (1992). *Deutsche Wirtschaftspolitik – Der Weg der Sozialen Marktwirtschaft*. Düsseldorf: ECON-Verlag.
- Eucken, W. (1948/82). The Social Question. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 267-276. Stuttgart: Gustav Fischer Verlag, 1982.
- Eucken, W. (1952/90) *Grundsätze der Wirtschaftspolitik*. 6th ed., Tübingen.
- Friedman, M. (1956). The quantity theory of money – A restatement. In: Friedman, M. (ed.). *Studies in the quantity theory of money*: 3-21. Chicago: Chicago University Press.
- Fukuyama, F. (1992). *The End of History and the Last Man*. Free Press.
- Hayek von, F.A. (1960/82). Economic Policy and the Rule of Law. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 153-158. Stuttgart: Gustav Fischer Verlag, 1982.
- Hayek von, F.A. (1982). Two pages of fiction: the impossibility of socialist calculation. *The journal of economic affairs 2,3*: 135-142.
- Hodgson, G. (ed.) (2007). *The evolution of economic institutions: a critical reader*. Cheltenham: Elgar.
- Huntington, S. (1994). The Clash of Civilizations? In: Sakamoto, Y. (ed.). *The International System after the Collapse of the East-West Order*: 7-27. Dordrecht.
- Huntington, S. (1996). *The Clash of Civilizations*. New York: Simon & Schuster.

- Machlup, F. (1978). Different inflations have different effects on employment. *Banca Nazionale del Lavoro. Quarterly Review* 127: 291-303.
- Mises von, L. (1936). *Socialism: an economic and sociological analysis*. London: Cape.
- Müller-Armack, A. (1947/82). The Social Aspect of the Economic System. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 9-22. Stuttgart: Gustav Fischer Verlag, 1982.
- Niepelt, D. (2007). Starving the Beast?: Intra-generational Conflict and Balanced Budget Rules. *European Economic Review* 51(1): 145-159.
- North, D.C. (1990) *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.
- North, D.C.; Wallis, J.J.; Weingast, B.R. (2009). *Violence and social orders: a conceptual framework for interpreting recorded human history*. Cambridge: Cambridge University Press.
- Panther, S. (1997). Cultural Factors in the Transition Process – Latin Center, Orthodox Periphery? In: Backhaus, J.; Krause, G. (eds). *Issues in Transformation Theory*: 95-122. Marburg.
- Platje, J (2011). *Institutional Capital – creating capacity and capabilities for sustainable development*. Opole: Opole University Press.
- Roland, G. (2004). Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions. *Studies in International Development* 38(4): 109-131.
- Röpke, W. (1944/82). The Guiding Principles of the Liberal Programme. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 187-191. Stuttgart: Gustav Fischer Verlag, 1982.
- Röpke, W. (1950). *The Social Crisis of our Time*. Chicago: University of Chicago Press.
- Röpke, W. (1950/82). Is the German Economic Policy the Right One?. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 37-48. Stuttgart: Gustav Fischer Verlag, 1982.
- Sachs, J. (2005). *The end of poverty*. New York: Penguin.
- Schmidt, K. (1957/82). A Financial Policy Designed for Social Balance. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 301-310. Stuttgart: Gustav Fischer Verlag, 1982.
- Seliger, B. (2002). *Central bank independence and monetary policy after the Asian crisis: the case of South Korea*. Discussion paper No. 104. University of Witten-Herdecke. Witten: University of Witten-Herdecke.
- Taylor, J. (2008). *The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong*. Stanford University. Available at: www.stanford.edu/~johntaylor/FCPR.pdf. Accessed 5 December 2011.
- Tuchtfeldt, E. (1973/82). Social Market Economy and Demand Management: Two Experiments in Economic Policy. In: Wünsche, H. (ed.). *Standard Texts on the Social Market Economy – Two Centuries of Discussion*: 65-80. Stuttgart: Gustav Fischer Verlag, 1982.
- Wrobel, R. (2007). Culture and Economic Transformation: Economic Style in Europe, Russia and China. In: Jovanovic, M. et al. (eds). *System Transformation in Comparative Perspective: Affinity and diversity in institutional, structural and cultural patterns*: 163-185. Berlin.
- Wrobel, R. (2012). Geldpolitik und Finanzmarktkrise: Das Konzept der „unabhängigen Zentralbank“ auf dem ordnungspolitischen Prüfstand. In: Seliger, B.; Sepp, J.; Wrobel, R. (eds). *Die Soziale Marktwirtschaft als Vorbild in internationalen Krisen. Ordnungspolitische Dialoge* 3: 27-44. Frankfurt/Main: Peter Lang.
- Wünsche, H. (2001). Die Verwirklichung der Sozialen Marktwirtschaft nach dem Zweiten Weltkrieg und ihr Verfall in den sechziger und siebziger Jahren. In: Schlecht, O.; Stoltenberg, G. (eds). *Soziale Marktwirtschaft: Grundlagen, Entwicklungslinien, Perspektiven*: 61-114. Freiburg: Herder.
- Zweynert, J. (2009). Interests versus Culture in the Theory of Institutional Change. *Journal of Institutional Economics* 6(3): 339 – 360.
- Zweynert, J. (2010). The French Revolution and the Transfer of Open Access Orders to the South-Western German States and Prussia. *HWWI Research Paper* 5-10.

***Spoleczna gospodarka rynkowa jako model zrównowazonego rozwoju
w krajach rozwijajacych sie i wschodzacych***

Streszczenie

Po upadku socjalizmu państwowego, około dwóch dekad temu, przypuszczano, że demokracja i gospodarka rynkowa rozprzestrzenią się na całym świecie. Jednak amerykański kryzys finansowy z 2008 roku, który doprowadził do światowego kryzysu finansowego, wywołał falę krytyki kapitalizmu. Ponieważ w ciągu ostatnich dziesięcioleci upadły doktryny kapitalizmu laissez-faire, keynesizmu i socjalizmu, teoretycy i praktycy z zakresu polityki gospodarczej poszukują alternatywnych podejść. Autor niniejszego artykułu poleca model Społecznej Gospodarki Rynkowej, oparty o przemysłenia niemieckiego ekonomisty Waltera Euckena i wprowadzony po II wojnie światowej w Niemczech Zachodnich. W pierwszej kolejności artykuł zwięźle przedstawia naukowe i teoretyczne podstawy Społecznej Gospodarki Rynkowej. Następnie omówiono, czy i w jaki sposób można z powodzeniem wdrożyć w krajach rozwijających się i wschodzących siedem konstytutywnych zasad określonych przez Euckena. W wywodzie wykorzystano instytucjonalne podejście Northa oraz nowe podejście oparte na idei Systemu Otwartego Dostępu (ang.: Open Access Order) zaproponowane przez Northa, Wallisa i Weingasta. Artykuł podejmuje rozważania, czy Społeczna Gospodarka Rynkowa może stanowić model dla zrównowazonego rozwoju w krajach rozwijających się i wschodzących.

Słowa kluczowe: Społeczna Gospodarka Rynkowa, zrównowazony rozwój, Nowa Ekonomia Instytucjonalna, System Otwartego Dostępu, Walter Eucken