

Social Market Economy and Sustainable Development

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Abstract: This paper emphasizes the fact that it is necessary to ensure a balanced use of principles harmonizing all factors of production in order to provide sustainable economic development based on them. In general, economic development means improving the systematic, lasting and wide mass of the material conditions of life, representing the consumption conditions: food, clothing, housing, housing facilities, transport, communications, access to services and others. Such a common approach is adequate as it correctly expresses people's expectations, as consumers in economy. However we can define economic development as a process resulting in the systematic growth of labour productivity or - given the circumstances in which the number of employers (or job providers) increases - the increase of the number of productive jobs. This approach does not contradict the first one; on the contrary: the systematic improvement of economic living conditions is not possible without the growth of labour productivity. The advantage of the second approach is that it refers to the most important force leading to the improvement of the living conditions for people as consumers and it forces us to consider phenomena this force depends on.

Social market economy, an expression of Ordoliberalism¹, (“Soziale Marktwirtschaft”) has turned from a “theoretical paradigm”² (“Ordnungstheorie”)³ into public policy („Ordnungspolitik”); afterwards it has become an economical system which influenced Germany’s development after World War II.

Pressured by Marxism on the one hand and Keynesianism on the other hand, Germany chose in 1949 a “regulatory policy” which sought to combine, based on a competitive economy, “free enterprise and social progress” (Alfred Müller-Armack). This is the description of social market economy.

Social market economy is not “the third way” because Ordoliberals have not made concessions to socialism; however, it is neither a combination of liberalism and Keynesianism⁴, nor laissez faire.

Population aging is a phenomenon that should be considered when analysing demographic development because it affects economic development as well. Therefore reforming public pensions, health and long-term care for the elderly is to be considered. The speed of this process is also important because when the share of elderly in total population increase in a short period of time, it becomes difficult for the relevant institutions to adapt rapidly.

Keywords: *economic development, social economy, sustainability, demography*

¹ German Neoliberalism.

² Viktor J. Vanberg: The Freiburg School: Walter Eucken and Ordoliberalism, Freiburg Discussionpaper on Constitutional Economics, Institut für Allgemeine Wirtschaftsforschung, Albert-Ludwigs-Universität Freiburg, April 2011, page 9

³ For Hayek, Ordnungstheorie / theoretica order and Ordnungspolitik / political order are the order of rules and the order of actions.

⁴ At least until the 60’s when the social-democrats took the power.

Introduction

The concept of sustainable development has crystallized in time, over several decades, in the context of thorough international scientific debate; it received precise political meaning in the context of globalization.

In recent history, the first signal showing that the economic and social developments of the countries of the world and of humanity in general can no longer be separated from the consequences of human activity on the natural environment was made in the 1972 report of the Club of Rome entitled Limits to Growth (Meadows Report).

Data on the evolution of the five factors (population growth, the impact of industrialization, effects of pollution, food production and depletion of natural resources) were synthesized in this document, suggesting the conclusion that the development model used in that period could not be sustained on long term.

The issue of the relationship between mankind and environment has been concerning the international community since the United Nations Conference on Environment (Stockholm, 1972) and was materialized in the work of the World Commission on

Environment and Development, established in 1985.

The report of the Commission presented in 1987 by G. H. Brundtland and entitled "Our Common Future" offered the first broadly accepted definition of sustainable development as the "development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs".

The concept of sustainable development suggests an integrated approach of policy and decision factors in which environmental protection and long-term economic growth are seen as complementary and interdependent.

From this point, the complex issues of sustainable development acquired a global political dimension being addressed at the highest level at the World Conference on Environment and Sustainable Development in Rio de Janeiro (1992), during the Special Session of the UN General Assembly and adoption of Millennium goals (2000) and the World Conference on Sustainable Development held in Johannesburg (2002).

Thus concrete programs of action at global and local level were developed (The Local Agenda 21) according to the principle "think globally, act locally".

For Romania, as a member of the European Union, sustainable development does not represent one possible option, but the only rational prospect for national becoming, resulting in the establishment of a new development paradigm at the confluence of economic, social and environmental factors.

1. Components of economic development

In order to achieve the objectives set, the content is binding on all Member States. Precise procedures regarding implementation, monitoring and tracking are required as well, with periodic reporting obligations on the commitments (e.g. every two years).

Eventually, the economic development involves a number of basic factors and barriers which determine the pace of economic development of each country.

In general, economic development means improving the systematic, lasting and wide mass of material living conditions or conditions regarding consumption: food, clothing, housing, housing facilities, transport, communications, access to various services, and others.

A common approach of this kind proves to be suitable, because it correctly expresses the people's expectations as consumers in economy. Economic development can also be defined as a process resulting in the systematic growth of labour productivity and - if the number of employers also increases (or the number of providers of employment) - the increase of the number of productive jobs. The systematic improvement of economic living conditions is not possible without an increase of labour productivity. The advantage of the second definition is that it refers to the most important force able to lead to improving the living conditions of people as consumers and it forces us to consider phenomena this force depends on.

In other words, it forces us to consider the factors on which the pace of economic development depends on.

For Romania, economic development is an imperative. Firstly, because we have

to recover from decades of backwardness. Secondly, because a significant number of young people in search of jobs will enter the labour market the next years. Thirdly, economic development is necessary so that the country's due foreign debt no longer represents such a heavy burden.

Next we shall indicate several dimensions of the economic development, in a first main approach of the issue; four groups of economic development pace indicators are emphasized:

- a. the initial level of development (given as example by the income per capita), or the existing level when starting to determine the pace of development;
- b. human capital, or education and professional training of people;
- c. the domestic economic conditions, or the economic structure;
- d. the external economic situation.

The last three factors must relate to the period for which one determines the pace of economic development. This rate is the result of various interactions between the four groups of determinant factors, out of which we will mention some.

The initial level of development is essential for the further development.

Backwardness contains some resorts of acceleration - countries with low development level can have a faster pace than the rich ones. Firstly, a country lagging behind can use - institutionally and technologically - the solutions already found by the more developed countries and can also learn from the failures and mistakes of richer countries; this element is as important as the first one. Secondly, countries with economic disparities always have an outdated economic structure - most people work in low productivity

areas, but there are various possibilities to transfer resources to more productive areas. The third factor is specific to the former socialist countries, namely a well-trained human resource or inclination to ongoing training, which is an asset to the market economy system.

Human capital is potentially one of the preconditions for faster economic development. Trained and well trained people can quickly assimilate new methods to use innovations and thus become more productive.

However, there is no automatic correlation between the level of training and the pace of economic development⁵, which should not surprise us, because chances and how people can use their own level of training heavily depends on the structure of domestic economy. In socialism, people had a high level of training, but the system did not allow them to use appropriate knowledge and skills.

Therefore productivity grew slowly and therefore economic development was still slow. In a competitive capitalist system, a similar level of training would have ensured a faster growth in productivity, which would have resulted in the improvement of the living conditions.

Countries, like people, often justify their repeated failures by external causes. The so-called dependency theory was fashionable until recently, especially for the left wing supporters in Western and Latin American countries; it explains the slow pace of developing countries in the area at a given time by the hegemonic capitalism of the United

⁵ The lack of such connection is clearly proved by the American economist Robert J. Barro (1991) - Economic Growth in a cross section of countries, in *Quarterly Journal of Economics*, pages 408-444.

States.

But dependency theory turned to be false. Those countries that have failed to achieve the bold economic reforms, changing domestic economic conditions, began to develop faster than others.

A real dependency occurs when, subsequent to external domination, a bad economic system – i.e. one that prevents development – cannot be replaced with a better one.

2. The Ordoliberal economic theory, a prerequisite for balanced economic growth

This theory crystallized in the mid 30's, around a group of economists and legal advisers⁶, catalysed by Walter Eucken, an economist with the University of Freiburg; it was the response to the German Historical School of economics and the organizational system of the German economy during Weimar and the Nazi rule.

The cultural and political context was hostile. Unified Germany had not embraced liberalism. On the contrary. After Bismarck's takeover, German economic policy encouraged corporatism. The combination of state - industrial concerns become the key to the development of national industry over the next 60 years, which led to cartelization of economy, thus stifling any form of competition, supported by a paternalistic, interventionist and protectionist state.

As a result of the Treaty of Versailles, the political mechanism was damaged,

⁶ At the beginning the group was formed by two legal advisers: Franz Böhm and Hans Großmann-Doerth and an economist: Walter Eucken. After the war others joined the group: Wilhelm Röpke, Alexander Rüstow, Alfred Müller-Armack, Ludwig Erhard, although the last is the politician who put into practice the ordoliberal ideas.

sliding towards dictatorship against this background and given the burdensome economic obligations imposed on Germany in the 20's and the 30's.

Ordoliberalism was not ad hoc; it represents the result of a long period of reflection and research in which liberal economists and legal advisers managed to create synergy.

In their writings, the Ordoliberals, particularly Walter Eucken, seek to explain why it is necessary to rebalance the relationship between the state and the market, where free market has a central role in individual liberty within a default institutional setting, in opposition to what the representatives of the German Historical School, especially Gustav von Schmoller, had built theoretically.

Throughout the nineteenth century and at the beginning of the twentieth century, the German Historical School of Economics had demonstrated that economic and cultural institutions were the result of a historical process. Therefore, according to the German Historical School, the economic phenomenon is decisively influenced by the development of institutional and a cultural context (Schmoller).

It is an institutional perspective, yet different than that of Thorstein Veblen⁷, for instance.

The German Historical School does not build an economic theory in itself, as it rejects this idea, because it assumes that the economic analysis has historic specificity. As such, an economic approach corresponds to each historical period.

Therefore, the German Historical School is based on the description of the historical

⁷ Schmoller uses the hystorical analysis to explain the economic phenomenon, whereas Thorstein uses sociology in his research on the economic phenomenon.

phenomenon (economy is also considered this way), namely on what Carl Menger called “empirical realism”.

German Historical School is strongly influenced by the “rational state” and the “universal spirit” (Geist) of the Hegelian philosophy.

From the perspective of this school, history is the transformation of the universal spirit which develops in institutions, religion, art, science. Therefore, “world history is only the development of universal reason”. Following the same perspective, “All that is rational is also real and what is real is rational” (Hegel). Real can be found in order. The state should be understood the same way, as being rational in itself, above the individual’s morality and abstract law.

For the German Historical School, history must solve the conflict between objective individual freedom and state, being a movement of the universal spirit. History as a process of development of the universal spirit occurs through individuals which are part of the whole.

Moreover, by means of historical investigation, Gustav von Schmoller focused on the real causes that established the oneness between man/actor with the whole which it belonged to, according to Hegelian philosophy.

By this approach, Schmoller opposed the spontaneous order of economy organization advocated by Carl Menger (the Austrian School) and economic research on individual behaviour.

Moreover, Schmoller focused on state and supported interventionism, as opposed to liberalism and socialism which he both rejected.

So there are at least two aspects influencing Ordoliberalism.

On the one hand, the Hegelian philosophy on the state and the relationship between the individual and the State dominating the German Historical School concept, which gained economic and political stake, especially in the 30’s of the twentieth century.

On the other hand, one must mention the methodological dispute in 1883 (“Methodenstreit”) between Schmoller, the representative of the German Historical School and Carl Menger, the liberal representative of the Austrian school which influenced the German economic thinking. Naturally, this dispute between Schmoller and Carl Menger, namely between economic history (German school) and economic theory (the Austrian school) is not relevant in terms of methodology.

This paper focusses on how each of the representatives of the two schools considered economics and state (social state / “Sozialstaat” in Schmoller’s view versus human motivations and social interaction in Carl Menger’s view) and how this dispute influenced the evolution German economy and the emergence of Ordoliberalism for 60 years.

Unlike the Hegelian German Historical School of Economics, the Ordoliberals find support in Edmund Husserl’s phenomenology of partly in the Austrian School’s economic theory.

The Ordoliberals cause such a rupture in the German economic thinking, building a “theoretical / ordo system “ (“Ordnungstheorie”) of liberal inspiration and giving another meaning to the concept of “political order” (“Ordnungspolitik”).

In his lectures focused on power analysis held the College de France between 1978 and 1979, the French philosopher Michel Foucault examined Walter Eucken’s

phenomenological orientation in Husserl's terms, who was a professor at Freiburg ⁸.

However, there is no extensive research in this regard, to better understand the influence of Husserl's view on the Ordoliberal group especially on Walter Eucken, who established the benchmarks of Ordoliberal theory.

On the other hand, it did not seem that Ordoliberals entirely rejected the Hegelian philosophy, since it developed the idea of State based on which the rules of the economic game were carried out.

As for the influence of the Austrian School, the Ordoliberals learned Manger's lesson. They built a liberal economic theory ("Ordnungstheorie"), but different from the English classical liberalism as it brought into balance the state - individual relationship.

In the Ordoliberals' view, the state does not monitor the market, being instead the market regulatory tool. The state must be strong without becoming totalitarian and without any direct intervention in the economic process. For the Ordoliberals, a strong state means the use of limited resources such as to ensure economic order. State "is not the tool of private interests, but the guarantor of order and competition"⁹.

⁸ There is an interesting research on this subject published by Nils Goldschmidt with the Walter Eucken Institute, entitled: *The Philosophy of Social Market Economy: Michel Foucault's Analysis of Ordoliberalism*, Freiburg Discussion Papers on Constitutional Economics, July 2004, Albert-Ludwigs Universität Freiburg.

⁹ Goldschmidt, Nils: *The Philosophy of Social Market Economy: Michel Foucault's Analysis of Ordoliberalism*, Working Paper, Freiburg discussion papers on constitutional economics, No. 07/2004, pag.8-9, University of Freiburg, Department of Economic Policy and Constitutional Economic Theory.

The state must ensure individual freedom through economic order as well. And the objective of "order" is to "guarantee the people's inalienable right to freedom" (Eucken).

For the Ordoliberals, "the essence of the market economy is in the order of free competition, where all economic agents legally and equally meet and where the voluntary exchange and the volunteering contract are the only means by which economic activities are coordinated" (Franz Böhm 1937)¹⁰.

The Ordoliberals consider competitive market economy as representing "constitutional order", by offering individuals coordination preferences and resource allocation decisions. This coordination can be achieved by private actors, companies, trade unions, banks, without the interference of public management. This constitutional order opposes the order of privileges, in which individuals are subject to political decisions and in which the preferences of some are subordinated to others's preferences¹¹.

This is what opposes Ordoliberalism to the vision of the German Historical School of Economics, considering the economic reality

¹⁰ Victor J. Vanberg quotes Böhm, F. 1937 - *Die Ordnung der Wirtschaft als geschichtliche Aufgabe und rechtsschöpferische Leistung*. Stuttgart and Berlin: W. Kohlhammer (Vol. 1 of *Ordnung der Wirtschaft* ed. by F. Böhm, W. Eucken and H. Großmann-Doerth).

¹¹ Radu Cristescu, Valentin M. Ionescu, Thomas Kleininger, Nicolae Mardari, Costea Munteanu, Mihail Neamțu, Wienfried Senker, Florin Sari, Radu Simandan: *Ordoliberalismul și economia socială de piață: Schița unui proiect de reformă a societății românești (Ordoliberalism And Social Market Economy: Drafting A Reform Of The Romanian Society)*, Bucharest, 2011, Konrad Adenauer Stiftung Romania, page 7

of the interwar period, dominated by the relationship state - corporations and cartels.

So, the key to understanding the Ordoliberal approach is an element related to the concept of "economic constitution" that ensures the order upon which the rules of the economic game occur.

The Ordoliberals distinguish between the economic order, seen as the institutional framework in which economic activity occurs and processes which are the main private actors' transactions¹². The Ordoliberals focus on economic order and oppose any intervention in economic processes.

Therefore Ordoliberalism aims at regulating the market functions so as not to directly intervene in the market¹³.

In 1937, in the first volume of "Ordnung der Wirtschaft" (The Economic Order) entitled "Our Task" ("Unsere Aufgabe")¹⁴, Walter Eucken and Franz Böhm Hans Großmann - Doerth dispute Gustav von Schmoller's influence on the German Historical School's economic policy and the German law; they claim that the approach of the "political and economic issues and political and legal issues must be influenced by the idea of economic constitution".

¹² Umut Devrim Özbideciler: Social Market Economy: An Inquiry into the theoretical bases of German Model of Capitalism, Thesis, The Department of European Studies, Middle East Technical University, Ankara, sep.2003

¹³ Umut Devrim Özbideciler: Social Market Economy: An Inquiry into the theoretical bases of German Model of Capitalism, Thesis, The Department of European Studies, Middle East Technical University, Ankara, sep.2003.

¹⁴ EUCKEN, Walter, GROßMANN-DORTH, Hans, BOHM, Franz: Unsere Aufgabe, Ordnung der Wirtschaft, 1,1937.

For Ordoliberals, the economic constitution is the institutional framework ¹⁵/order, subject to constitutional choice"¹⁶.

From this perspective, the Ordoliberals reject the idea of "pure spontaneous order" ("catallaxy") mentioned by Hayek.

In fact, for the Ordoliberals, spontaneous order itself must not be rejected, but the market cannot be left exclusively to the spontaneous forces, in order to avoid the risk of legitimizing private power and its prevalence over the state.

The very idea of economic constitution is incompatible with such a spontaneous order. For the Ordoliberals, economic order is ensured through the rule of law and the dominance of formal rules.

This way, the economic order prevents any public or private concentration of power.

In 1940, Walter Eucken pointed out: "The issue will not be solved just by allowing our economies to grow spontaneously. The history of the century showed this quite clearly.

The economic system must be consciously made. The detailed issues of the economic policy, trade policy, credit, monopoly or fiscal policy, or of companies, bankruptcy law, are part of the big problem of how the entire economy, national and international,

¹⁵ The institutional framework comprises regulations/norms, "informal conventions and traditions governing the economic activity within communities" (W. Eucken)

¹⁶ Viktor J. Vanberg: The Freiburg School: Walter Eucken and Ordoliberalism, Freiburg Discussion papers on Constitutional Economics, 04/2011, University of Freiburg, Walter Eucken Institut, Freiburg, page 5

and its rules must be shaped”¹⁷.

The Ordoliberals oppose economic privileges by means of which the state establishes relations with private actors. The privilege is not just the result of power relations¹⁸ but also a form of inefficient allocation of resources leading to social inequalities. On the other hand, Ordoliberalism opposes to the legitimacy of private power because such a relationship weakens the state, distorting its legal functions. Moreover, Ordoliberalism appeared in response to the existence of cartels and economic privileges which vitiating the operation of the German state in the interwar period.

Ordoliberals argue that the competitive market economy “provides a decentralized mechanism coordinating preferences and decision making”¹⁹. Competition can

only exist in “open markets” (constitutive principle) “with freedom of trade” to avoid monopolistic practices.²⁰ To this end, in contrast with the German Historical School, the Ordoliberals are in favour of closing the private/commercial barriers (Eucken).

While presenting the constitutive principles published in 1950, Eucken emphasized the importance of the price mechanism in a competitive environment. Prices convey information in the market which allow efficient allocation of resources provided to form freely.

At the same time, any “intervention regarding prices cannot correctly target solving a social problem, so that those who do not need social assistance will receive intervention”²¹.

Therefore, social issues are answered in revenue, not in pricing.²²

¹⁷ Walter EUCKEN, *The Foundations of Economics. History and Theory of Economic Reality*, London, Edinburgh, Glasgow 1950, p. 314 Titlul în lb. germană : *Die Grundlagen der ationalökonomie*, Jena, 1940.

¹⁸ Radu Cristescu, Valentin M. Ionescu, Thomas Kleininger, Nicolae Mardari, Costea Munteanu, Mihail Neamțu, Wienfried Senker, Florin Sari, Radu Simandan: *Ordoliberalismul și economia socială de piață: Schița unui proiect de reformă a societății românești (Ordoliberalism And Social Market Economy: Drafting A Reform Of The Romanian Society)*, Bucharest, 2011, Konrad Adenauer Stiftung Romania, page7

¹⁹ Radu Cristescu, Valentin M. Ionescu, Thomas Kleininger, Nicolae Mardari, Costea Munteanu, Mihail Neamțu, Wienfried Senker, Florin Sari, Radu Simandan: *Ordoliberalismul și economia socială de piață: Schița unui proiect de reformă a societății românești (Ordoliberalism And Social Market Economy: Drafting A Reform Of The Romanian Society)*, Bucharest, 2011, Konrad Adenauer Stiftung Romania

²⁰ Rudolf Richter: German „Ordnungstheorie“, *From the Perspective of the New Institutional Economics*, *Ordnungstheorie* 13 - 30.03.2011, Universität des Saarlandes, Saarbrücken, pag.10

²¹ Ulrich van Suntum, Tobias Böhm, Jens Oelgemöller and Cordelius Ilgmann: *Walter Eucken's Principles of Economic Policy Today*, CAWM Discussion Paper No. 49, August 2011, Centrum für Angewandte Wirtschaftsforschung Münster, No. 49, Leibniz Information Centre for Economics, Provided in Cooperation with: Center of Applied Economic Research Munster (CAWM), University of Münster ,pag. 12

²² Ulrich van Suntum, Tobias Böhm, Jens Oelgemöller and Cordelius Ilgmann: *Walter Eucken's Principles of Economic Policy Today*, CAWM Discussion Paper No. 49, August 2011, Centrum für Angewandte Wirtschaftsforschung Münster, No. 49, Leibniz Information Centre for Economics, Provided in Cooperation with: Center of Applied Economic Research Munster (CAWM), University of Münster ,pag. 12

Moreover, Eucken is “convinced that supporting competitive prices leads to market balance”²³.

Free price formation should be supported by the principle of monetary stability. In this respect, Eucken supports the tight control of the money supply with a correlative control over the demand for money through the central bank.

Eucken’s fixation on the price theory and the control of the monetary mass in a competitive market, aims not only at an economic purpose, but also at a political one related to power control.²⁴

Private property is another constitutive principle of Ordoliberalism, as it is a prerequisite for a competitive economy which provides decentralized allocation of resources and constitutes a “guarantee against political and economic monopoly”.²⁵

²³ Rudolf Richter: German „Ordnungstheorie“, From the Perspective of the New Institutional Economics *Ordnungstheorie* 13 - 30.03.2011, Universität des Saarlandes, Saarbrücken, pag. 9.

²⁴ Rudolf Richter: German „Ordnungstheorie“, From the Perspective of the New Institutional Economics *Ordnungstheorie* 13 - 30.03.2011, Universität des Saarlandes, Saarbrücken, pag. 8. Richter writes in his article about “power control by competitive prices”. Furthermore, we extend the idea considering the ordoliberal’s reaction to the German cartels and to the relationship between industrial corporations and the political power.

²⁵ Radu Cristescu, Valentin M. Ionescu, Thomas Kleininger, Nicolae Mardari, Costea Munteanu, Mihail Neamțu, Wienfried Senker, Florin Sari, Radu Simandan: *Ordoliberalismul și economia socială de piață: Schița unui proiect de reformă a societății românești (Ordoliberalism And Social Market Economy: Drafting A Reform Of The Romanian Society)*, Bucharest 2011, Konrad Adenauer Stiftung România, page 8.

Private property is the “essence of freedom”²⁶ and derives from the division of power and institutional arrangement (constitutional order).

In the Ordoliberals’ view private property is not the expression of the natural right, as with the Austrian School or classical liberalism. This approach is part of the way in which the Ordoliberals understood how to deal with abuse of private power, manifested by forming monopolies.

The exercise of private property and allocation of resources imposes regulation of contractual freedom (constitutive principle) under the condition of competitive forces on the market so that monopolistic agreements are not allowed. Therefore, contractual freedom can only be responsibly exercised (principal responsibility) so as not to affect others’ rights. At the same time, responsibility for contractual relations imposes accomplishing one’s commitments, so as to ensure confidence in all future actions and social control mechanism is not altered. Consequently, contractual freedom is exercised under the constraint of individual responsibility and of the “constitutional state (Rechtsstaat) which must protect its citizens not only from the coercive force of the government but also from

²⁶ Ulrich van Suntum, Tobias Böhm, Jens Oelgemöller and Cordelius Ilgmann: *Walter Eucken’s Principles of Economic Policy Today*, CAWM Discussion Paper No. 49, August 2011, Centrum für Angewandte Wirtschaftsforschung Münster, No. 49, Leibniz Information Centre for Economics, Provided in Cooperation with: Center of Applied Economic Research Münster (CAWM), University of Münster, page 12

other citizens' arbitrary actions"²⁷.

The constituent principles of Ordoliberalism define economic constitution/economic order and its interdependence with the political and social order. In this sense the individual's freedom in the

²⁷ Rudolf Richter: German „Ordnungstheorie“, From the Perspective of the New Institutional Economics, Ordnungstheorie 13 - 30.03.2011, Universität des Saarlandes, Saarbrücken, pag.10

economic freedom is not only “economic liberty”, but also means political freedom.

The constitutive principles of Ordoliberalism are expressed in some regulatory principles comprising political action (Ordnungspolitik) and defining economic order: antitrust policy, income policy, correcting externalities as well as correcting anomalies on the labour market.

Table no. 1 Constitutive principles of Ordoliberalism

Constitutive principles	Regulatory principles
Price system	Antitrust policy
Monetary order	Income policy
Open markets	Correcting externalities
Private property	Correcting abnormalities on labour market
Contractual freedom	
Personal responsibility	
Continuity of economic policy	

Therefore it is important to emphasize that:

The Economic Ordoliberal theory was built in response to the German Historical School of Economics, so that it becomes an alternative to the organization system of the German economy during the Weimar Republic and during the Nazi ruling.

The Ordoliberals opposed to cartels in the German economy and the relationship between the state - corporations, both for economic reasons, if we consider the critics of privileges and of the inefficient distribution of resources as well as from political reasons.

The Ordoliberals have considered state interventionism and the state-corporate

relationship as the main source of institutional weakness in Germany, which led to dictatorship.

Ordoliberalism redefined the essence of market economy based on principles ensuring free competition, so that the state no longer plays the main role in the supply-side policy.

The Ordoliberals do not totally reject the economic thinking of the German Historical School, which inspired the social system. Schmoller and Wagner, representatives of the Historical School, played a leading role in the construction of the German social security architecture in the last half of the nineteenth century, which was not rejected by the Ordoliberals when they drafted the economic

policy of post-war Germany.

Although Ordoliberalists categorically opposed to state interventionism, it did not accept the idea of the minimal state and *laissez-faire* of Austrian School and the liberal English classicism.

The Ordoliberals considered that the state had to be strong so as to shape the market (Marktkonform), but without intervening in the economic process.

By giving another meaning of the concept of "order" the Ordoliberals mark the difference between state intervention on the economic process and securing the institutional framework in which such economic processes occur. Such an approach, however, is unacceptable to the Austrian School, which considered that market operated on the basis of "spontaneous order".

On the other hand, Ordoliberalism promotes a supply-side policy, just like in the German tradition, but based on decentralized allocation of resources.

3. Human capital and aging of Romanian population

As shown, human capital has an important role in any economy; as it happens in most European countries, Romania also faces intricate economic and social consequences of its populations undergoing a slow, but continuous aging process. Since 2000, the effects of aging have been felt in Romania, where the elderly population outnumbered the young population; the phenomenon gains a larger extent so that on January 1, 2012, the share of elderly population²⁸ exceeded the share of young population (16.1% versus 15.8%)²⁹.

²⁸ 65 years old and over

²⁹ 0-14 years

We can enumerate among the important factors the economic and social conditions in which new families form and develop, the precarious health system resulting in reducing fertility and mortality as the main determining causes of starting and extension of aging. The following may be among the social and economic factors significant for lowering fertility rates in developed countries:

- the declining share of traditional farms, characterized by a high fertility rate, which is necessary both for productive activity and to ensure older people's safety;
- decrease in traditional household resources due to mutations which occurred in the economic development of different geographical areas, generally rural areas;
- emancipation of women, access to education at all levels and their involvement in non-agricultural activities;
- increased demands of parents in relation to raising and educating children takes time and significant expenses;
- extension of social security, in particular public pension systems and institutions for dependent elderly care, which reduced the children's role in supporting parents in old age.
- increased share of free time, access to varied entertainment and modern means of collective and individual transportation, adults' and their families' desires to benefit from these facilities.

One should bear in mind that fertility rate in modern society is also influenced by other factors related to culture, politics or religion demographic, which, like those mentioned above, acts differently from country to country.

An important result of lower fertility rate is the progressive decrease of future

generations able to enter the labour market and contribute to the social and health insurance help for those who will be retired at that moment.

This can have a significant impact on the welfare of elderly people, especially in poor countries, with low possibilities to support this population.

Restructuring large groups of ages, namely increasing the proportion of people aged 60 and over in total, tends to create social and political pressures resulting from changes to the allocation of resources in society and can lead to conflicts between generations.

A decrease in the potential support ratio³⁰, which means increasing demographic dependency rate indicates that a growing number of beneficiaries of public health systems and pensions will be "supported" by a decreasing number of taxpayers.

Thus, population of working age will be "burdened" by paying higher taxes and contributions to ensure stable and sufficient income for pensioners. In the last century, due to industrialization, urbanization and modernization, the scale of values has been changed. From the extended family, offering stability and security to its members, nuclear family became predominant³¹.

Nowadays its members are independent, but lack security and stability; the

³⁰ The potential support rate is the number of people aged between 15 and 64, reported as percentage to people aged 65 and older, while the demographic dependency ratio is the number of people aged 65 and over as percentage reported to the number of people aged between 15 and 64.

³¹ The nuclear family (or elementary family) consists of husband, wife and underage children living together. This combination is considered the minimal unit of social organization; it represents the core of all other forms of family structures.

elderly are the most affected. Before, their place was at home; today they are increasingly experiencing isolation, abandonment, and institutionalization. Slowly, without being a major matter of interest, and yet inevitably, the population of European countries is currently undergoing a second major development: the emergence of a new group, the "fourth age" (over 80 years) with high and growing share.

Significant changes in the structure of population requires structural changes in society: at economic level, infrastructure, health care and social assistance specific to the "fourth age".

Worldwide, it is recognized that there is little understanding of the implications of these trends and society and economy are poorly prepared to meet the new pressures. The social infrastructure urgently requested by "the new structure of the population" lacks.

Population aged 80 and over will be rapidly increasing in Romania by the year 2060. On July 1, 2012, the share of people aged 80 and over in total population³² was only 3.4%, but this will increase to 5.0% to in 2030 and 7.9% and 2060, according to forecasts³³. Changes in the structure of large age groups have a strong impact on the economic, social and political processes. As populations age, some benefits such as pensions, health care and material support for the elderly should be given for longer periods of time. Social security systems must change in order to ensure sustainability. Increased

³² Shares of population aged 80 and over, for 2030 and 2060 correspond to the fixed variable

³³ "Projecting Romania's population for year 2060", National Institute for Statistics, 2013, pages 29-44

longevity can lead to medical costs and increased demand for health services because older people are more vulnerable to chronic diseases. Ensuring sustainable public finances, given the aging population, is a key challenge for policy makers in the EU. This can be achieved by increasing employment rates and labour productivity; reforming public pensions, health and long-term care for the elderly.

It is also important to speed up this process because when the share of elderly in total population increases in a short period of time, it becomes difficult for the relevant institutions to adapt rapidly.

Demographic characteristics of the elderly

As it can be seen Romania's population was of 21,316,420 people on July 1, 2012, (table no. 2), out of which 10,941,220 were women (51.3%) and 10,375,200 were men (48.7%). In urban areas there were 11,678,600 people (54.8%) and there were 9,637,820 people in rural areas (45.2%). Population aged 60 and over (4,475,447 people) represented 21.0% of Romania's total population on July 1, 2012, share growing since 1990. Therefore Romania is one of the countries with aging population, with all the consequences arising from this phenomenon at the individual, social and national levels.

Table no. 2 - Total population and elder population (aged 60 and over), by gender and residence area and structure of elder population on July 1, 2012, source: National Institute for Statistics

Indicators	Total			Urban			Rural		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Population – total	21,316,420	10,375,200	10,941,220	11,678,600	5,562,291	6,116,309	9,637,820	4,812,909	4,824,011
Elder population (aged 60 and over)	4,475,447	1,872,501	2,602,946	2,164,616	904,382	1,260,234	2,310,831	968,119	1,342,712
% elder population in total population	21,0	18,0	23,8	18,5	16,3	20,6	24,0	20,1	27,8
% elder population, by gender, in total	100,0	41,8	58,2	100,0	41,8	58,2	100,0	41,9	58,1

The gender distribution of the elderly population, namely 1,872,501 (41.8%) men and 2,602,946 (58.2%) women, reveals a surplus of 730.445 people in favour of older female population. 48.4% of the elderly population in Romania (2,164,616 people) lives in urban areas, whereas 51.6% (2,310,831

people) live in rural areas. Thus, most of the elderly are concentrated in rural area, respectively 24.0% of the rural population, compared to urban areas, where the elderly represent 18.5% of the total. Population aging in rural area was mainly achieved on account of the female population; elder women

represent 27.8% of all women, whereas elderly men represent 20.1% of the total men (Table 2).

Conclusions and suggestions

The relationship between the state and corporations must be analysed, both for economic reasons, if we consider the critics of privileges and of the inefficient distribution of resources as well for political reasons.

The essence of the market economy must be redefined, based on principles which ensure free competition order, so that the state does not play the central role in the supply-side policy.

The state must be strong so as to shape the market, but without intervening in the economic process.

It is necessary to mark a difference between state intervention on the economic process and securing the institutional framework in which economic processes occur, by giving another meaning to the concept of "order".

Ensuring sustainable public finances, given the aging population, is a key challenge for policy makers which should increase activity rate and labour productivity, reforming public pensions, health and long-term care for the elderly. The speed of this process is also important because when the share of elderly in total population increases in a short period of time, it becomes difficult for the relevant institutions to adapt rapidly.

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