- Arguments for
- Market Economy



The market economy is based on competition, responsibility and freedom

- Competition provides growth and innovation, promotes performance, creativity, and fast adaptation.
 - Open markets and free market access: profit for society as a whole
 - Basis for equal opportunity
 - Fair rules of competition and equal treatment of the competitors as preconditions

Responsibility for others and oneself is the requirement for freedom!

- The market economy is a value system that protects the rights of the individual, but also calls for the individual's obligation to duties
- Responsibility and liability for own actions, profit opportunities and risk of loss
- Social assistance for the economically weak

Freedom: Each individual can best represent his / her own needs. The state guarantees the legal framework.

- Individual freedom and opportunity for development promote initiative and innovation
- Freedom of contracts and professions / rule of law
- Protection of private property



Examples of social market economy success in Germany since 1948

Average gross hourly wage: increased from 0.65 € to 15.55 €

Life expectancy: increased by 13 years

Number of accidents at work: decreased by 60 %

Weekly working hours: down to 38.3 hours vs. 48.2

Holidays: usually 30 vs. 12 days

For 250 g butter: now 5 vs. 73 minutes of work (1:14.6)

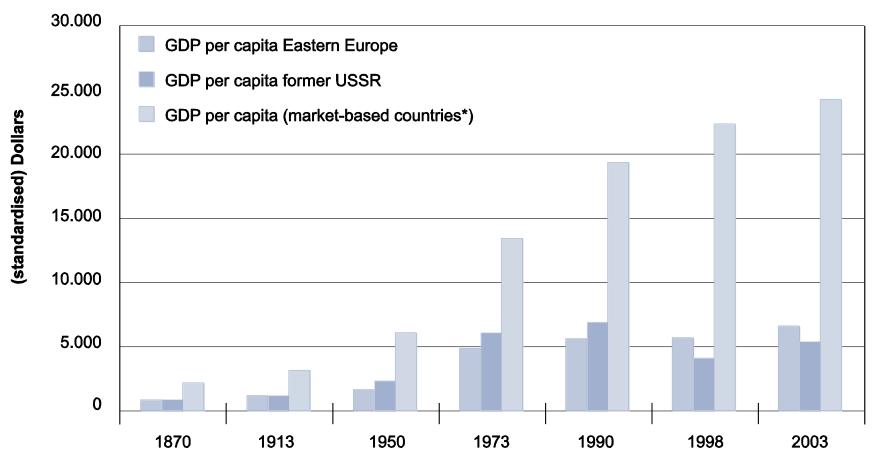
For 1 bicycle: now 23 hours vs. 139 hours (1:6)

• For 1 car: now 1,472 instead 5,136 hours of work (1:3.5)

Source: IW Köln, Original data: Federal Statistics Office, Institute for Employment Research



Competition generates growth and prosperity

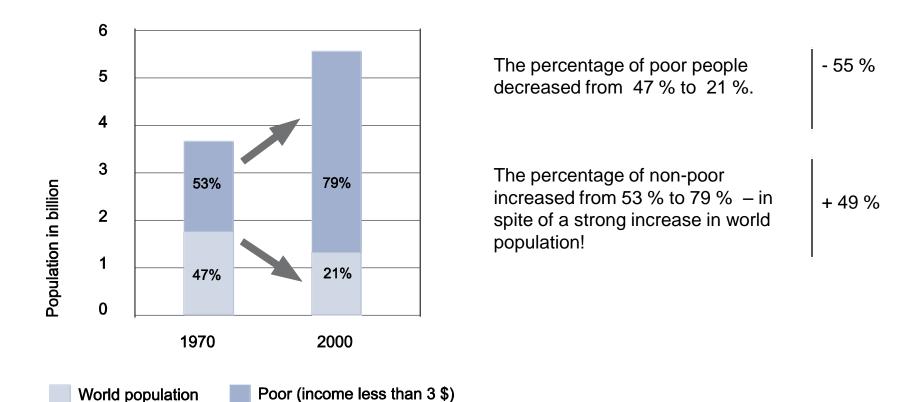


^{*} **12 Western European countries** (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom), the **USA and Japan**.



Worldwide poverty is decreasing thanks to competition and globalisation

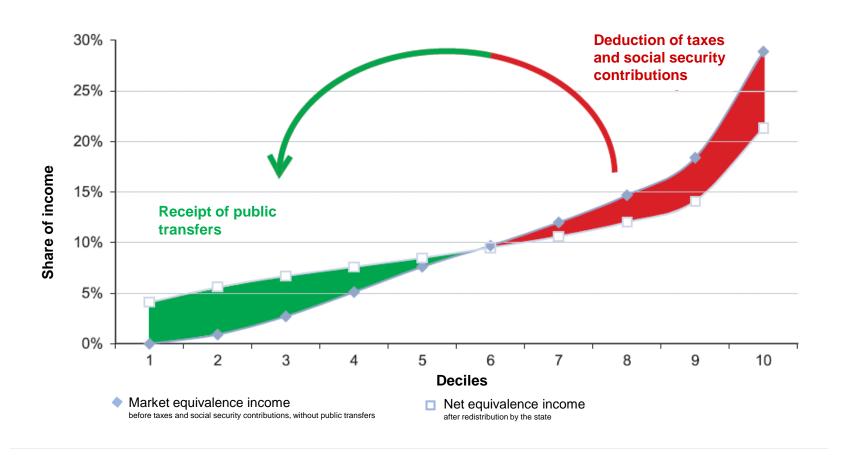
Increase in the world population and decrease of poverty (less than 3 dollars per day)



Source: X. Sala-i-Martin (2006), The World Distribution of Income, Quarterly Journal of Economics, Vol CXXI (2).

Redistribution works

Economic success allows social protection. High performers provide solidarity: The highest 10% of earners paying income tax provide 50% of the revenue from income tax



Do market-based principles still apply in the financial crisis?

The financial crisis shows how important public goods are, and that markets do not function without a clear framework. A market economy needs rules and the state.

- → Transparency and effective supervision are required.
- → A policy aiming at the legal and institutional framework based on the market-preserving principles competition, freedom and responsibility creates trust and legal security. Privatising profits and socialising losses have nothing to do with credible competition.
- → Areas lacking competition arise due to exceptions, privileges and monopolies. The resulting injustice and transparency helps few and harms everyone.
- → Further development of the economic framework is necessary especially after the financial crisis: nationally and internationally
 - Better supranational structures
 - Binding agreements to competition rules, financial supervision, accounting rules, monetary policy, free trade, and cartel control
 - Emphasising sustainability and responsibility through long-term profit incentives (e.g. bonuses)

Competition always has boundaries: It cannot guarantee social assistance. Providing and organising solidarity and social assistance in times of need are tasks of the citizens and the state.

Why the state cannot be the better entrepreneur

- **Special situation of politics**: Politicians are subject to special pressures and tempted by voters to engage in pork-barrel politics (re-election chances, regional/local interests). This is why they tend to restrict competition, distribute benefits immediately and prior to elections, and pass on (financial) burdens to the (long-term) future.
 - → **Resort to debt**: Only few states have proven themselves "honourable businessmen" in the past.
- Experience shows: Competition-free areas prevent growth and innovation, which leads to inactivity. State-owned companies are often inflexible and don't have to prove themselves directly in competition: Liberalisation and privatisation (e.g. in the EU) usually lead to an improvement of quality and price reductions.
- Entrepreneurial actions need incentives and responsibility (liability, profit opportunities / risk of loss) in order to be sustainable.
- Public institutes (e.g. Fanny Mae & Freddie Mac, German Landesbanken) are especially involved in the financial crisis. The policy of cheap credit greatly contributed to the real estate bubble in the USA triggering the crisis (typical consequence of pork-barrel politics).
- Supervisory authorities of the state have, like others, also not fulfilled their early warning function.



Focus of the Stiftung Marktwirtschaft What do we need?

Labour market and employment perspectives

- Education reforms and investments
- More competition and flexibility in the labour market, better work incentives

Social security and fairness

- Balanced solidarity following the principle of "promoting and demanding"
- More competition in the healthcare market and in long term care

Creating a state of honour

- Politics that target sustainability and act like an honorable businessman
- A "debt brake" (balanced budget rule) in the constitution (intergenerational fairness)

Tax system

- Comprehensive simplification for citizens and companies → Tax honesty
- More transparency and better incentives (more net from the gross)

Resources

- Market-based instruments in environment and energy politics
- Security of energy supply with little regulation
- Incentive and obligation to resource-saving behaviour

The Stiftung Marktwirtschaft: our way

The Stiftung Marktwirtschaft

- Works independently of parties, groups, associations, and single interests
- Sees itself as an interface between science, economy, and politics
- Uses an extensive contact network and the wide distribution of its publications to advertise its goals effectively
- Also elaborates targeted proposals for action in politics and society with its scientific advisory board, the Kronberger Kreis.

As a **voice for freedom and markets**, the Stiftung Marktwirtschaft aspires to develop solutions in different topic areas that are:

- Scientifically based,
- Economically sound and
- Politically credible.



Examples of Stiftung Marktwirtschaft and Kronberger Kreis activities

Market-based system

- "Balance of the state of honour" (since 2005), with an international comparison for the first time in 2008
- Publication "Risk more freedom" (2006)
- Studies on state-controlled investment funds and the world trade system (Kronberger Kreis, 2007)

Labour market

- Reform suggestion for a new regulation for employment protection (Kronberger Kreis, 2004)
- Position paper "Minimum wage" (2007)

Social Security

- Draft of a comprehensive reform of the health care system (Kronberger Kreis, 2005)
- Proposal for a new organisation of long term care insurance (Kronberger Kreis, 2005)

Taxes

- Proposals for a reform of corporate taxation (2005)
- Four pillar model for the reform of municipal finances (2006)
- Profit determination law as the basis for EU work (2007)
- Fully-calculated proposal for the elimination of inheritance tax (2008)
- Draft law for the fundamental simplification of income tax (2009)

If you want to strengthen the voice for freedom and markets: Support us!