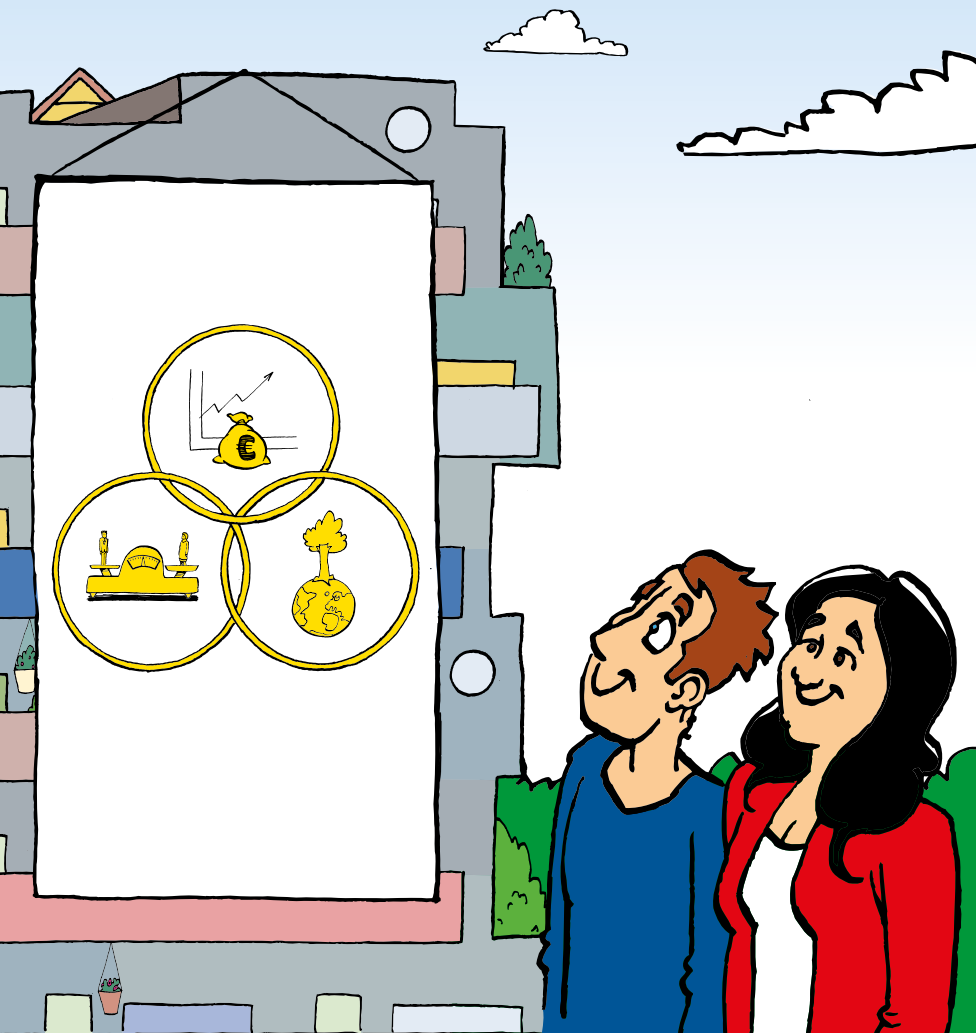


SOCIAL DEMOCRACY – CONCISE AND CLEAR 2

SOCIAL **ECONOMY**

✓ *Growth, social balance, sustainability*



Social Democracy – Concise and Clear 2

SOCIAL ECONOMY

Published by Friedrich-Ebert-Stiftung

German Edition, May 2016: Political Academy Division

(since 2021 Civic Education and Political Dialogue Division)

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English Edition, September 2021: Division for International Cooperation

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Printer: Druckerei Brandt GmbH, Bonn

Layout: Jurian Wiese, Spaß am Lesen Verlag, Münster/Amsterdam

Translated by Sprachenfabrik GmbH

This book from the Concise and Clear series is based on Reader 2 –
Economy and Social Democracy – also published by
Friedrich-Ebert-Stiftung.

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ISBN 978-3-96250-999-6

Social Democracy – Concise and Clear 2

SOCIAL ECONOMY

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PREFACE

The economy influences our lives hugely. With a good economic policy, we can ensure good and secure jobs. A good economic policy creates prosperity for all. This is why the Academy for Social Democracy offers information and courses for all those interested in economic policy.

Do you want to make the world a better place? Do you volunteer? Or do you work in politics? The Academy provides you with answers to your questions and ideas for further thinking.

The perfect introduction

Our series *Social Democracy – Concise and Clear* provides the perfect introduction to learn about the ideas behind Social Democracy. As part of the *Concise and Clear* book series, we look at important issues in politics.

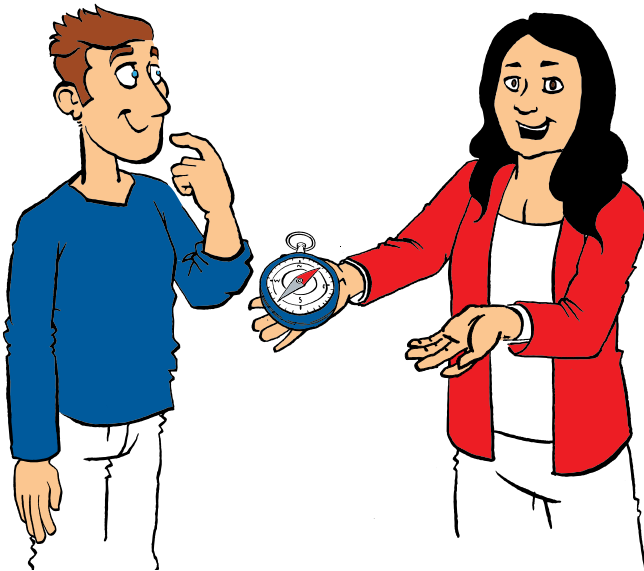
We use short texts that have been written in language that is easy to understand. Here you will find easy-to-read introductions and many practical examples from everyday political life.



Economy

The second book in this series focuses on the economy. Social Democracy wants an economy that is successful yet social. What's more, the environment must not be harmed.

That is why the state must provide a framework for the economy set around smart rules. On what ideas is such an economic policy based? How does such an economic policy differ from other ideas? And what answers can Social Democracy provide to the challenges of the future? You can read all this – and much more besides – in this handy book.



Here are Jan and Anna.

Jan is doing an apprenticeship.

He has a lot of questions about politics and society.

Anna is committed to greater Social Democracy.

She is happy to explain what Social Democracy is.

Deciding your own path

We use a compass as our symbol. The compass is a maritime instrument. It helps us to find the right direction. The Academy wants to help people decide their own political path. We'd be delighted if this book series helps to achieve that.

After all, politics is a force for good if many people think about it and participate.

Jochen Dahm



Head

Academy for Social Democracy



Why use everyday language?

We want everyone to understand what Social Democracy is all about. This is why the *Concise and Clear* series has been written in language that is easy to understand.

WHAT IS THE ECONOMY?

The economy: What is it exactly?

The German word Wirtschaft has several meanings:

One variant can mean the pub on the corner where you can grab something to eat and drink. But that's not what we mean here.

Who is the economy about?

When talking about the economy in this book, we're referring to a scientific term. It relates to businesses, workers and consumers.

The economy in a country involves all companies and people together. The state is also important for the economy.

What is economic activity?

An entrepreneur manufactures a product. It could be a car or a pair of shoes. Or they offer a service, such as cutting hair. Other people buy these products or use the services. For example, they get their hair cut. These are all economic activities.

MODERN ECONOMY

Where does economy take place?

Economy takes place on different levels:

- globally, e.g. between companies in different countries
- regionally, e.g. in the European Union
- nationally, e.g. in Germany
- on a state level, e.g. in North Rhine-Westphalia
- in a city, town or village
- in an individual enterprise or a company
- or in a household, e.g. when a family goes on a spending spree.



Economy, i.e. all companies,
private households and
state institutions together

When is an economy successful?

Whether an economy functions well depends on many things.

We can check whether it is functioning well in different areas.

For example:

- **Prosperity and growth**

Do people and businesses have enough to live on and even a little extra? Is more or less being produced and offered than in the past?

- **Social balance**

Does everyone get the same opportunities in the economy or are a few favoured? Are incomes fairly distributed?

- **Sustainability**

Does the economy take the environment into account? Or are raw materials and nature being relentlessly exploited and damaged?

Want to know more? Why not watch this film?

The economy and Social Democracy

<http://www.fes-soziale-demokratie.de/filme.html>

Want to head straight to the film on your mobile?

Scan this QR code using a suitable app, such as *QR Barcode Scanner* or *Scanlife*.



ECONOMIC SYSTEMS

The economy in a country can function based on different **systems**.

System

A whole composed of individual parts. These individual parts work separately, but also with each other. A system can also refer to a certain way of acting.

Music

Let's start with a little example. Those who like to make music sometimes play along with others, as part of a jazz band or a classical orchestra for example. This brings musicians with very different instruments together.

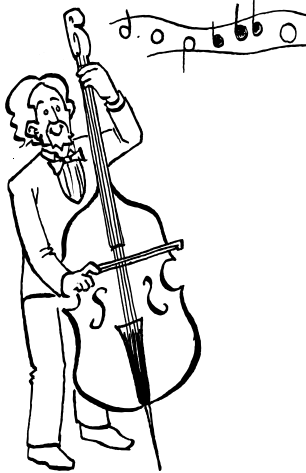
But there are a few questions that need answering. What music should be played? Which instruments are playing along? Where is everyone sitting? Whose turn is it? The rules that the musicians establish together could also be called a system. The chosen system is very important to both the musicians and the music itself.



Let's look at a single musician: the double bass player.
There is a place for this instrument everywhere: in a jazz band
but in a classical orchestra, too.



In a jazz band, the double bass player plays spontaneously and
with humour.



In an orchestra, the double bass sounds rather more considered
and thoughtful.

Economy

This is how it works in the economy: there are several systems. Instead of musicians, we have the state, companies, workers and **consumers**.

Consumers

are all of us when we go shopping, for example.

They are the players. But they're not playing in an orchestra or a band. Instead, they're playing on the **market**.

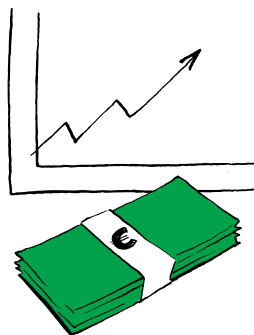
Market

is an economic term.

It relates to matching supply and demand, across all goods and services.

Such as the used car market.

It includes all those who are looking for a used car. It also includes dealers and private individuals who have one or more used cars on offer.



The role of the state, companies, employees and consumers is decided by the economic system. There are big differences, just like those seen between a jazz band and an orchestra.

In this book, we'll explore different economic systems and highlight their advantages and disadvantages.

HOW IS THIS BOOK STRUCTURED?

In **Chapter 1**, we discussed the **economy**. We learned certain terms, such as *system*. Now let's look at how the rest of this book is structured.

Chapter 2 covers the theory of the economy. What did the great **thinkers** believe and write about economics? Three thinkers remain particularly important today: Adam Smith, Karl Marx and John Maynard Keynes.

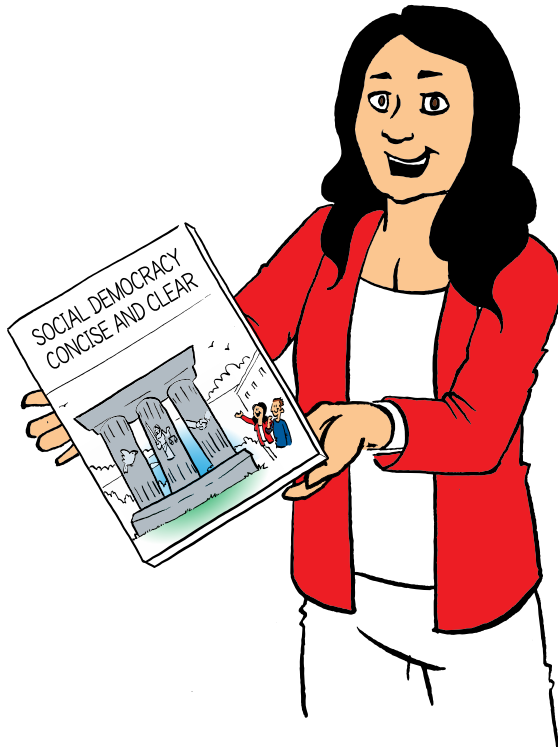
In **Chapter 3**, we'll look at **modern economic systems**. What is the relationship between capitalism and democracy? Which systems work in Europe? And what exactly is the typical German *social market economy*?

Chapter 4 focuses on the following question: **What is important for Social Democracy?** The answer is linked to the fundamental values of Social Democracy: freedom, justice and solidarity.

Chapter 5 explains the **economic policies of different political parties**. Here, we will compare the economic goals of Social Democracy with the principle guidelines of five parties. What do the politicians of the SPD, CDU, FDP, the Greens and The Left want?

Chapter 6 looks at the **economy in other countries**. What is the economic system in the United States, the United Kingdom, Japan and Sweden? How does economic policy there function compared to Germany? What can we learn?

In the last section, **Chapter 7**, we will look at an **economic policy for the future**. Our world is changing quickly. We are already facing new challenges. What answers can Social Democracy provide?



THINKING ABOUT THE ECONOMY

Anyone thinking about economic policy can be guided by some great thinkers.

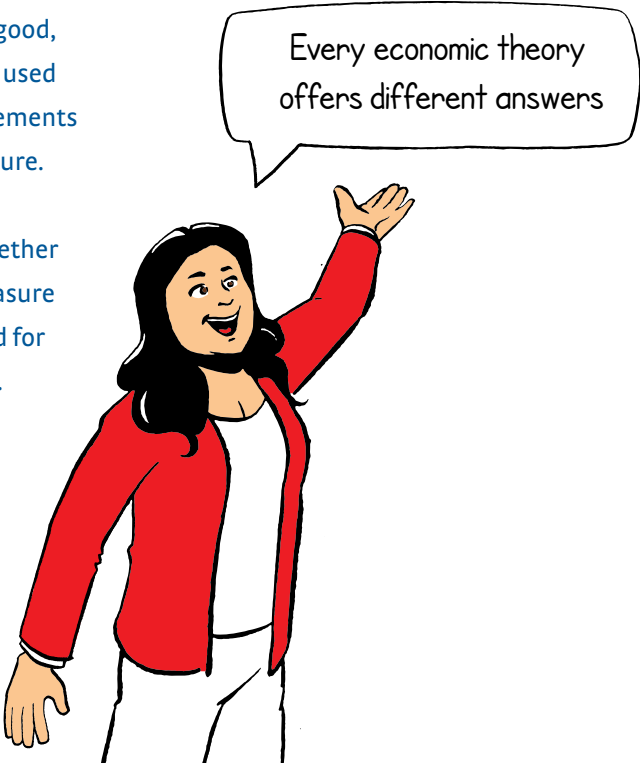
In this chapter, we will look at the ideas shared by three great thinkers: Adam Smith, Karl Marx and John Keynes. All three developed their own economic theory. And this **theory** was always the answer to a current problem at the time.

Theory

A theory tries to describe the world as best as possible.

If a theory is good, it can also be used to make statements about the future.

For example, it can say whether a certain measure is good or bad for the economy.



Every economic theory offers different answers

Why are the theories of Smith, Marx and Keynes still relevant today?

There are good reasons for this.

Great thinkers, familiar concepts

Many economic terms originate from these three thinkers.

We often use their words without knowing exactly what they stand for.

For example: “The invisible hand of the market.”

What does that mean? After reading this chapter, you will know.

Those who understand the theory find better arguments

Many politicians use the ideas set out by these three thinkers to justify their policies. They claim: “Smith said even then...” or they say “Marx, of course, proved that...”

Those who understand the theory know immediately whether the arguments are correct or not. It is worth knowing what Adam Smith really said!

Supporters of Social Democracy use the ideas of all three thinkers. However, John Keynes’s theory is particularly important for Social Democracy.

THREE IMPORTANT ECONOMIC THEORIES

Adam Smith wrote his theory in the 18th century.

Karl Marx worked on his piece in the 19th century.

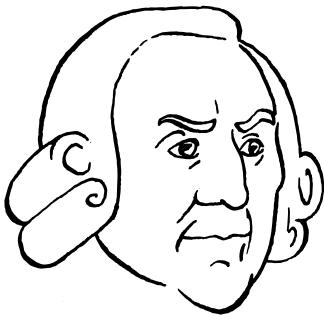
And John Keynes's ideas originate from the 20th century.

There are, of course, more theories about the economy. But the *Big Three* – Smith, Marx and Keynes – each described an economic theory that is particularly important. Even today, their ideas still influence new economic theories a great deal.

Want to know more?

Reader on Social Democracy 2

Economy and Social Democracy, Chapter 2 and 3 (2009)



ADAM SMITH

ADAM SMITH

When: Around 1750

Why: Kings restricted economy and trade

Aim: Free economy and free trade

Model for Social Democracy:

Free trade and free economy are better than compartmentalisation and state economy

Adam Smith lived in Scotland in the 18th century. At the time, the King had all the power. He also dictated which products his subjects should produce.

At the time, it was believed that trade with other countries would mean that one country can only earn what another loses. Therefore, there were high customs duties when goods were brought into the country from abroad. Trade and commerce were principally to fill the King's coffers. Using this money, he was able to pay for his expensive life with many celebrations.

Adam Smith developed his theory in response to how the King behaved. At that time there was no modern state, only an extravagant King. That is why Smith's theory was also very critical of the state.

Smith said something along the lines of:

*The economy is not about wealth for the King,
but about prosperity for all.*

And how can this general prosperity be achieved?

Adam Smith named three conditions to achieve this.

First, he assumed:

If everyone strives for self-interest and property, each for himself, then somehow it is good for everyone after all.

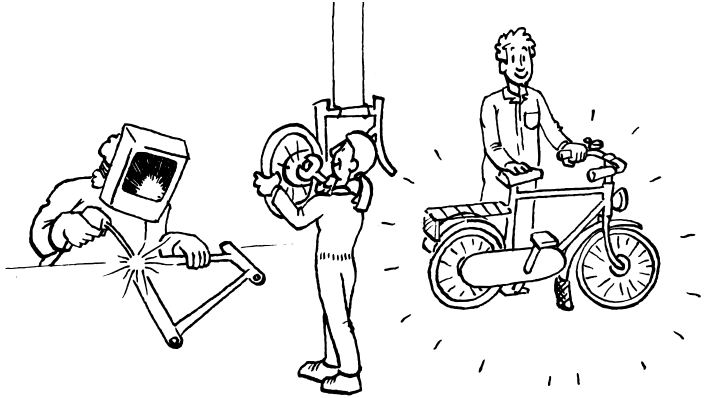
Nowadays, we would call this: *The pursuit of profit.*

Secondly, Smith thought:

It's good to divide up all the steps you take as part of a bigger job.

Everyone then does the step that they do best. Nowadays, we would call this: *Division of labour*.

DIVISION OF LABOUR



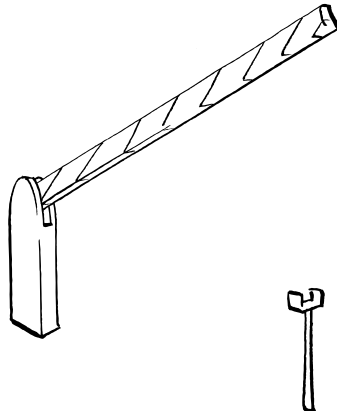
Adam Smith's example of division of labour was illustrated using a pin factory. Today, division of labour in a car factory would perhaps mean that one person always fits the headlights while another always fits the steering wheel.

Thirdly, Smith believed:

It's good when trade is free.

When everyone is allowed to trade and compete with everyone else, without control from above. Nowadays, we would call this:

Trade and competition.



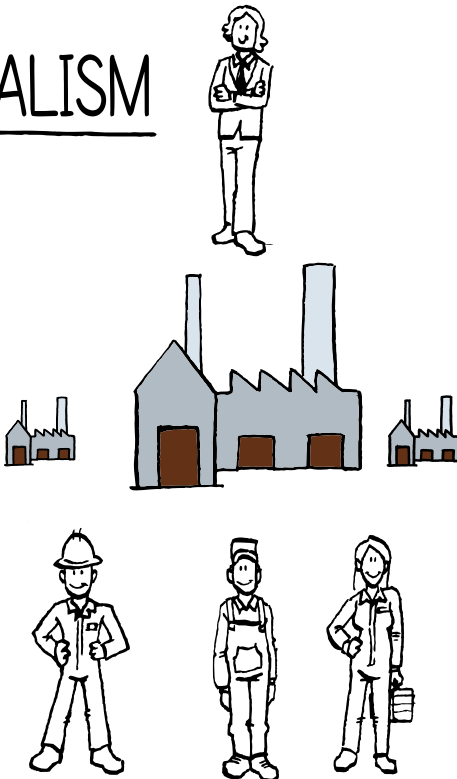
Smith wanted to break up the rigid economy of the 18th century. That is why he wrote his book *The Wealth of Nations*. In it, he advocated for more **capitalism**.

Capitalism

Capitalism is an economic system. Private individuals own their own money and goods. The means of production are also privately owned. This includes the machines on a factory floor, for example.

What is sold and what is produced is not determined by the state. Companies make what they can sell best.

CAPITALISM



Smith's book summarised:

For everyone to prosper, the state must hold back as much as possible.

The state should only be responsible for a few things:

- public safety, e.g. the police
- defence, e.g. the army
- legal certainty, e.g. independent judges
- infrastructure, e.g. roads
- and education, e.g. schools

Smith said everything else – particularly trade – can be organised by the market itself.

People are free, they have no responsibility for anyone but themselves, they treat each other fairly, they do not need rules from above.

*The **invisible hand of the market** ensures that free trade works.*

The invisible hand of the market

The invisible hand of the market is one of Adam Smith's ideas.

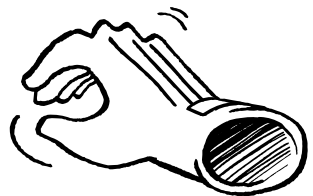
He believed that all people strive for personal gain by nature.

People want the best for themselves, not for society as a whole.

But that is a good thing, according to Smith.

If each individual acts only out of self-interest, the market (through supply and demand) ensures higher profits for all.

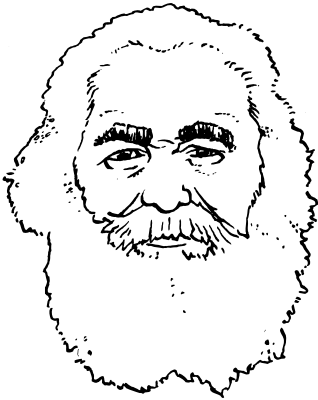
In Smith's view, society as a whole benefits in the end.



Smith's ideas became very well known and were soon implemented. In the 19th century, Smith's theory ensured free trade, rapid industrialisation and significant growth.

Until the Great Depression in 1929, the theory was highly regarded by many in economics. But *the invisible hand* was unable to explain the hard-hitting crisis and mass unemployment. Many states then changed their economic policies. The state influenced the labour market more and also created jobs itself, such as through large-scale projects in road construction.

In the 1980s, Smith's theory became more popular again, especially in the United Kingdom and the United States. Conservative politicians such as Margaret Thatcher and Ronald Reagan said: "The state doesn't help solve problems, the state is the problem."



KARL MARX

KARL MARX

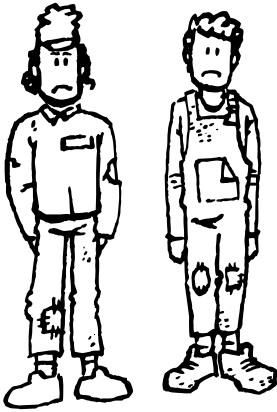
When: Around 1850

Why: Industrialisation, exploitation of workers

Aim: Improvements for workers, revolution

Model for Social Democracy:
Good work

Karl Marx lived in Germany in the 19th century. He worked as a journalist and philosopher. Marx saw the negative consequences of rapid industrialisation in Europe: poorly paid work, extremely long working hours, child labour, overcrowded and poor housing, growing poverty.



Marx particularly criticised the situation endured by workers and he saw the poor living conditions of many people. He saw their poverty and desperation.

He described the situation using words such as *exploitation* and *impoverishment*. To his mind, both were a direct consequence of capitalism.

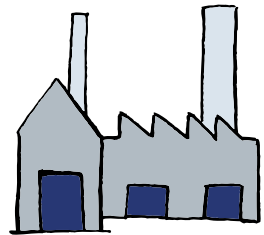
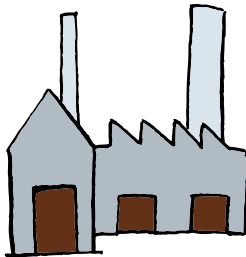
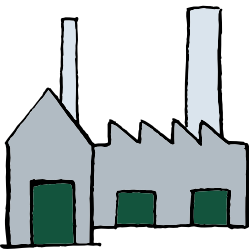
Marx's most important work is called *Das Kapital*. His most well-known is *The Communist Manifesto*. It was published in 1848 and influenced politics significantly.

Communism

Communism is an economic system. It is not individuals who own property, but the community.

The community also decides what is produced. For example, the community makes a plan for the next five years. This is known as a planned economy. Companies have to stick to this plan and cannot be more flexible.

COMMUNISM



What Marx had in mind can be described like this:

In order to earn money, factory owners first have to spend money: on constructing the factory, on raw materials, on workers' wages.

But as soon as the products are sold, the owners earn money. Their profit is the difference between their costs and the selling price. This is usually much more than what the workers were paid for their work.

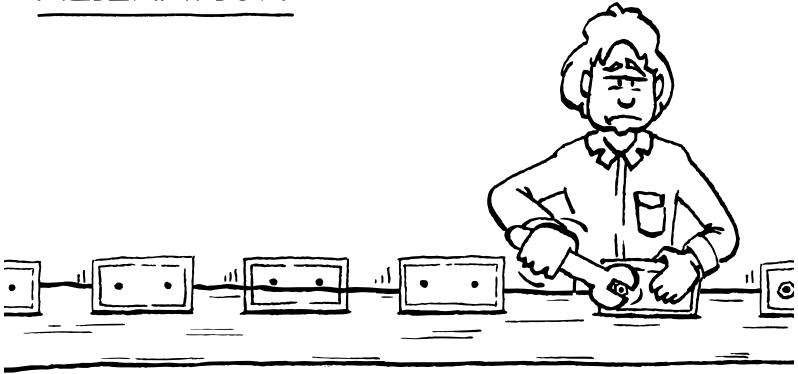
The owners want to make as much profit as possible in competition with other entrepreneurs. They therefore try to keep their costs as low as possible. That is why they make their workers work long hours and pay them as little as possible. In this way, profit gets bigger and bigger. And the treatment of workers gets worse and worse. Those who complain are dismissed. Marx called this the *impoverishment of workers*.

IMPOVERISHMENT



And by dividing work into specialised steps, each worker may only perform one small action. The same monotonous task every day. Workers do not really know the end product, it is unfamiliar to them. Marx called this the *alienation of labour*.

ALIENATION



Thus, capitalism and the free market lead to exploitation and misery according to Marx. Competition and poor working conditions lead to unemployment and poverty. The rich get richer. The poor get poorer.

For Adam Smith, division of labour and competition were the source of wealth and progress (see page 22). For Marx, the same conditions were the reason for exploitation and alienation.

Marx believed:

Factory owners have power over 'the property': factories, products, money. With their property, they really do provide more and more wealth – but only for themselves. According to Marx, they and other owners form a class – the class of property-holding bourgeoisie.

Workers have no property: no factories, no money and no power. They can only sell their own labour. But they are paid less and less in return. They are exploited. They form the class of the dispossessed.

Marx called this system *a class society*.

“Workers of the world, unite!”

What’s more, Marx predicted that there would always be crises in capitalism. Many people say he was right. Capitalism is not always stable. This was illustrated by the major financial crisis that started in 2008, for example.

Such an unfair and crisis-prone capitalism could, according to Marx, lead exploited workers in only one direction: revolution!

Marx therefore believed that the revolution was coming.



In his *Communist Manifesto* Marx demanded that owners' power be broken. To achieve this, Marx proposed intervening changes:

- All banks are banned, and they are instead replaced by a state bank that decides who is allowed to borrow money. All transport companies should belong to the state.
- Large enterprises, farms, factories, all production entities are *nationalised*: they belong to the state. The state decides how they work rather than the free market.

Marx's ideal was a society without classes and without private property.

Other thinkers, such as Friedrich Engels, developed Marx's thoughts further. Engels said that not all enterprises should be nationalised. That makes the state too powerful. In the long run, it is then the state that exploits its citizens.



Politics in Marx's name

In the 20th century, revolution did indeed occur in various countries. This led to new political systems that wanted to implement Marx's thoughts.

In Russia, China, Cuba and other countries, the state was run by a single party for decades. This party should look after workers' interests first and foremost.

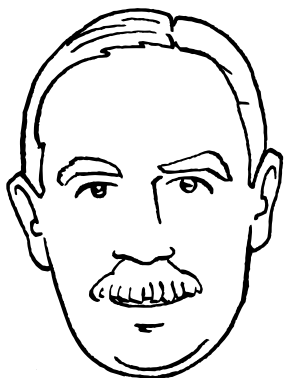
These new political systems were given different names, such as Communism, Marxism-Leninism and Maoism. After the First World War, there was also a Marx-inspired *Soviet Republic* in parts of Germany for a short time.

After the Second World War, the eastern part of Germany was controlled by Russia (then: Soviet Union) for over 40 years. The German Democratic Republic (GDR) also became a one-party state.

The party directed the state, politics, the economy and society as a whole. The city of Chemnitz was renamed Karl-Marx-Stadt at that time.

But the cruel socialism seen in the GDR didn't have much to do with Karl Marx's thoughts. In the 1980s, the system failed. The economy and the political system collapsed.

This led to a peaceful popular uprising, borders between Eastern and Western Europe being torn down and East and West Germany reunifying in October 1990.



JOHN MAYNARD KEYNES

When: The 1930s

Why: World economic crisis,
emergence of dictatorships

Aim: Stabilise the economy, more jobs

Model for Social Democracy:
Managed economy

JOHN KEYNES

John Maynard Keynes was a British economist. He lived in the first half of the 20th century. Keynes aimed to find the middle ground between the ideas of Adam Smith and Karl Marx. He wanted to use the power of the free market, but not at any cost. The market is to be guided by the state.

We can describe Keynes's thoughts as follows:

Capitalism has good sides – it is effective and economic.

But it also has bad sides – it is not stable.

In the late 1920s, the crisis really hit hard.

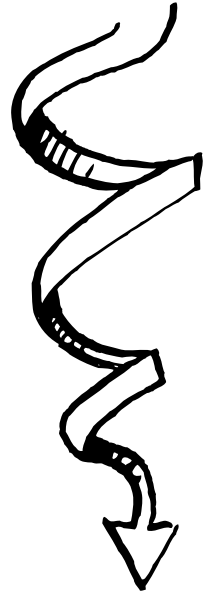
In 1929, Americans experienced *Black Friday* when the New York stock market crashed. Subsequently, the economy crashed in many other countries.

Adam Smith's *invisible hand* no longer worked. Some said it was so invisible because it probably wasn't there.

Millions of people lost their jobs in Germany, too. They no longer earned money. They could buy less and less. The economy became smaller and weaker. Keynes called this **the downward spiral of the economy**.

The downward spiral of the economy

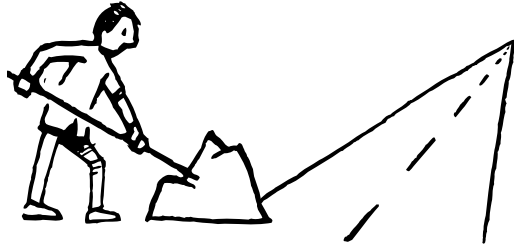
Companies have to close.
People lose their jobs.
Fewer and fewer goods are being produced.
This makes people feel insecure.
They would rather save their money than spend it.
Keynes dubbed this 'panic saving'.
When people spend less, they buy fewer products.
Even more companies have to close.
There are more redundancies.
Even more money is saved. And so on.
This can lead to a deep and long-lasting economic crisis.



Is there another way?

Keynes's answer was clear: yes, if the state intervenes.

If the economy fails to recover on its own, the state must help. The state can invest in **economic stimulus programmes**: for example, it can build schools and roads. Or provide subsidies if someone buys a new car – even during a crisis.

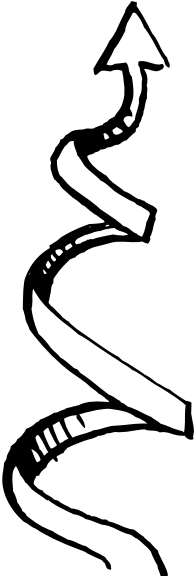


Economic stimulus programme

The German word Konjunktur has Latin roots and describes the ups and downs in the economy, and how good and bad phases alternate.

An economic stimulus programme is a government programme designed to revive the economy.

This creates new jobs. People have an income again. They can spend more money. More goods are needed. Companies hire more people to produce them. This leads to an upward spiral.



Keynes's thoughts were very well received in politics. In the United States, his economic model was implemented both politically and practically: from 1933, the state built many roads, dams and schools.

For over forty years, Keynes's model was used as the guiding principle for economic policies in many countries. Keynes's ideas were also important in Germany. But Keynes's doctrine lost popularity in the 1970s.

The state programmes were less effective than before. On the one hand, countries incurred debts in times of crisis, but did not pay them back in better times. On the other hand, it was no longer so easy to strengthen the economy in one country alone.

Countries' economic systems had merged together more and more. A stimulus programme could easily lead to the economy growing in another country, but not at home. What's more, oil suddenly became much more expensive in the 1970s. This resulted in major problems.

Many countries wanted to revert to Adam Smith's economic model: the market should work by *itself*.

But since the great economic crisis that began in 2008, things have been changing again. Many banks were on the verge of collapse. They had lent out too much money that they could not get back. While states rescued the banks, the crisis hit the whole economy. We are still bearing the consequences today.

Since then, many politicians have gone back to Keynes's ideas: they want to give the state more influence again and regulate the market better.





Successful economic stimulus programmes

In response to the financial crisis, various economic stimulus programmes have been running in Germany: the scrappage scheme, reduced hours compensation and road construction are good examples of economic development programmes based on Keynes's model.

As part of the **scrappage scheme**, the state paid a subsidy when someone bought a new car. This supported the car industry through a difficult time.

The **reduced hours compensation** scheme is a state subsidy. It is paid when companies retain their employees despite a crisis. When there are more orders again, companies can start right away. They don't have to recruit and train new employees first. Companies and employees benefit.

State construction programmes are also important. For example, when the state builds roads during a crisis, the companies and workers who build the roads earn first. But when companies and workers then spend the money, that helps stimulate the rest of the economy in a second step.

KEY IDEAS OF ECONOMIC THEORY

The ideas of Smith, Marx and Keynes still represent three important schools of thought today. How are the state and the economy linked in these theories?

Pure capitalism (Adam Smith)

The state should stay out of the economy. People strive for property and ownership all by themselves – that is the driving force of the economy.

Anti-capitalism (Karl Marx)

The capitalist system is abolished since private property and competition lead to the exploitation of people.

Managed capitalism (John Maynard Keynes)

The economy is based on property and the market, but the state sets smart rules and intervenes boldly in the economy when crises occur. This includes programmes that ensure people can buy something even during a crisis. Private property remains private, but a part is redistributed from the rich to the poor through taxes.

What does Social Democracy want?

The events of the 19th and 20th centuries showed that *pure capitalism* and *anti-capitalism* do not work successfully in reality.

In the 20th century, *managed capitalism* was favoured over the other two economic concepts. In many countries, the combination of capitalism and state control led to growth and prosperity. And that was the case for large parts of the population.

The SPD's principle guidelines, dated 1959, stated:

"As much market as possible, as much planning as necessary."



TODAY: SUPPLY AND DEMAND POLICY

Nowadays, economic policy often talks about 'supply and demand policy'. What does that mean?

Supply policy

The supply policy is based on the ideas of Adam Smith.

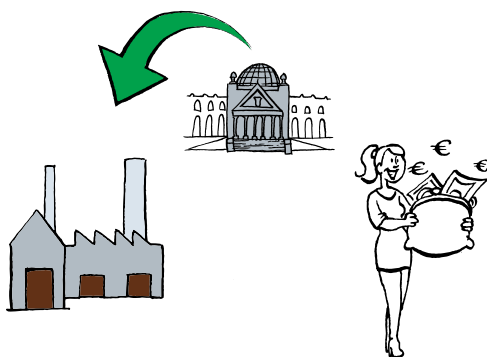
As part of the supply policy, companies are the focus.

This policy aims to create favourable conditions for **companies**.

- As few rules and obligations as possible.
- Taxes and duties should be as low as possible.
- Wages and employers' share of social benefits should also be as low as possible.
- The central bank has few tasks: its sole task is to ensure that money is always worth the same. This means that you can always buy roughly the same quantity of a good for 10 euros, for example.

In this way, companies can achieve the highest possible profits. And create jobs.

The assumption is that the whole economy benefits from this in the end.



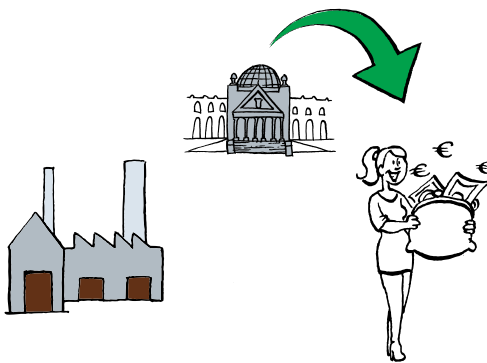
Demand policy

The demand policy is based on the ideas of John Maynard Keynes.

Consumers are at the centre of demand policy.

This policy aims to create favourable conditions for citizens as consumers.

- When companies make a profit, wages should also rise.
- If consumers buy less and the economy grows less, the state should intervene. The state can invest, thus creating new jobs.
- The central bank should make sure that money is always worth the same, but also that enough jobs can be created.



Point of contention: Wages

Both schools of thought have very different approaches to wages.

Supporters of a supply policy say:

Wages are costs.

Particularly during a crisis, wages should be as low as possible.

This lowers companies' production costs. And that is good for profits.

Companies can then invest. That is good for the economy as a whole.

Supporters of a demand policy say:

Wages are crucial for demand.

People should earn well, even in a crisis.

Anyone with money worries will *panic save*. Then companies can't find anyone who wants to buy their products. In other words, there is no demand for their products. Then companies have no income and they make a loss. Good wages could prevent that.

MODERN ECONOMIC SYSTEMS

In **Chapter 3**, we'll look at **modern economic systems**. First, we will examine the relationship between our economic system and our political system. In Europe, the development of capitalism and democracy went hand in hand. But is that the case everywhere?

We will then look at the current situation.

Which economic systems work in Europe now?

We will look at four topics for this purpose:

Finances,



employment,



vocational training



and the relations between
companies

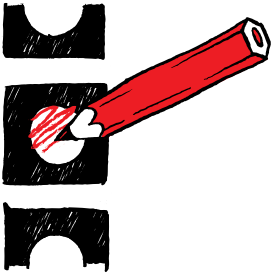


Finally, we will examine what is typical of the German *social market economy*.

CAPITALISM AND DEMOCRACY

Our political system and our economic system developed at about the same time in Europe.

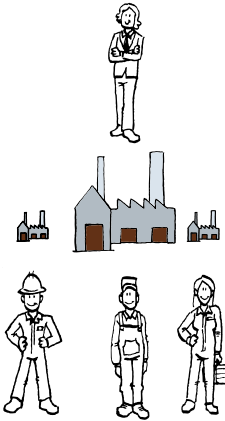
Democracy



In the 18th and 19th centuries, people campaigned for greater political freedom. They no longer wanted to serve an autocrat, but to have their own say. They wanted independent judges and fundamental rights, such as the right to speak their mind and the right to free elections. Slowly but

surely, the states became a little more democratic. Nowadays, almost everyone in Europe lives in a democracy.

Capitalism



At the same time, citizens and entrepreneurs wanted more freedom in relation to trade. They wanted to have private property and be able to start their own businesses. To this end, they demanded open competition, i.e. the possibility to decide for yourself with whom you trade. The kings gradually gave up their absolute (trading) power. This is how modern European capitalism and free trade came into being.

Capitalistic, not democratic

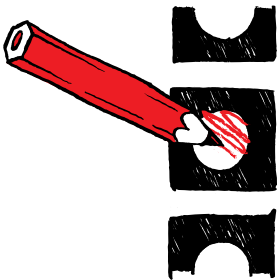
Not all states with a capitalist economy are or automatically become a democracy. China is a prime example. China was a communist dictatorship in the 20th century. Since the late 1970s, the economy has become increasingly capitalist. The Chinese economy is now one of the strongest in the world. And it keeps on growing. This led to prosperity for many Chinese people. But the political system continues to be **authoritarian**.

An authoritarian system

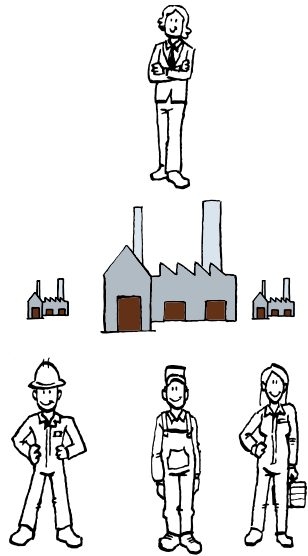
A political system that is not democratic.

There is often only one party to vote for.

There is little or no political freedom.



DEMOCRACY



CAPITALISM

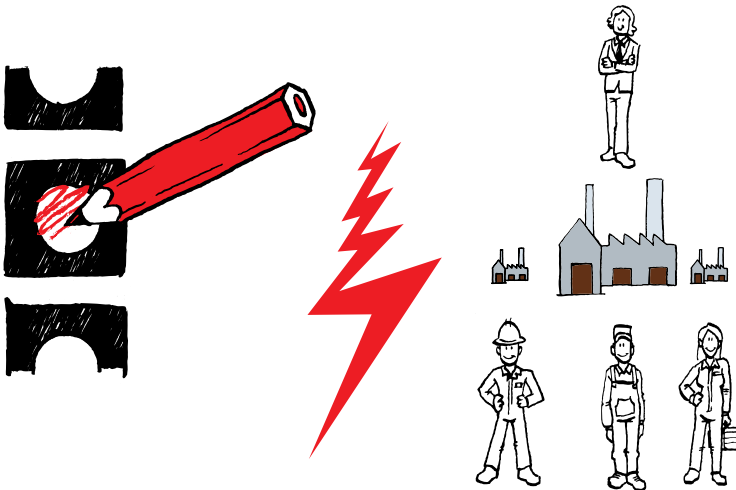


Thus, there are capitalist countries without democracy.

It is not the case the other way round: all democratic countries have a form of capitalism as their economic system.

Tension between capitalism and democracy

There is also tension between capitalism and democracy.



Democracy based on equality

Every human being has the same rights, every human being has a voice, every voice should have the same weight. Everyone should have the same opportunities.

Capitalism or a market economy based on competition

Everyone earns what they can, how they can. This leads to unequal results: not everyone has the same amount of money at their disposal.

When the state intervenes and redistributes, people may lose the incentive to do their best. They may think: 'I don't have to make an effort, I get enough anyway.'

But if the state does nothing, inequality increases rapidly. A few get an enormous amount. Many others receive only a very small wage, even though they work hard.

Unequal wages still have an impact on society: people who earn less also have fewer opportunities to participate. They are less often active in associations and politics.

Most people in West Germany have had a good life since the economic miracle in the 1950s. They earned a little more money every year, and there was a social safety net for people who could not work. Companies, trade unions and the state worked together for society. The tension between democracy and the market economy was under control.

In recent years, the tension between democracy and capitalism has been on the rise again. The differences between rich and poor are widening. People's social rights are at risk. Many companies care more about their own profits than about their workers or society.

People's social rights
are at risk...



ECONOMIC SYSTEMS

In Chapter 2, we learned about the great thinkers and their economic theories. In reality, there is no economic policy that follows a single theory. A country's economy is always mixed.

Capitalism exists in all Western industrialised countries.

In some countries the state intervenes less, but more in others.

Scientists have found two terms for this:

Uncoordinated capitalism is a term for economies with few rules. Everyone fights for themselves.

Coordinated capitalism is a term for economies with fair rules, strong trade unions and strong employers' organisations.

What exactly is the difference between uncoordinated and coordinated capitalism?

Let's look at this again using four different thematic areas:

- The financial system
- The relationship between employers and employees
- How schools and training are organised
- Relations between companies

UNCOORDINATED CAPITALISM (ADAM SMITH)



The financial system

Companies finance themselves via the **capital market**. Anyone can buy shares in companies that make a profit or a loss.

Investors would prefer to make big profits.

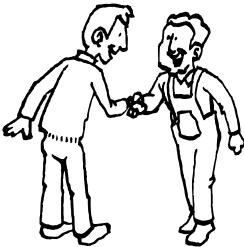
As a result, companies take a lot of risk, keep few reserves and do not make long-term investments.

Capital market

The market for loans, shares and investments

Investors

People or companies who provide money for a project



Employers and employees

People tend to work for the same employer for a short time. There is little protection against dismissal. Everyone has to negotiate their own wages. Trade unions have very little influence.



Vocational training

Study and training courses are more general: with a broad, general knowledge, you can change jobs more easily. General knowledge is good for mobility in the labour market. But there is too little expertise in certain sectors.

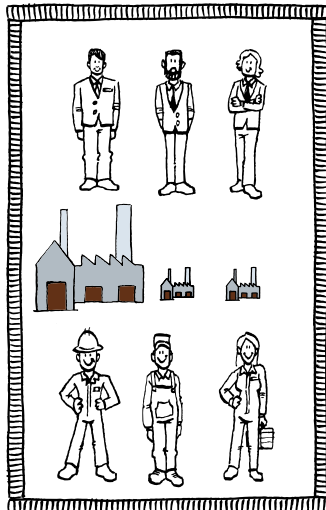
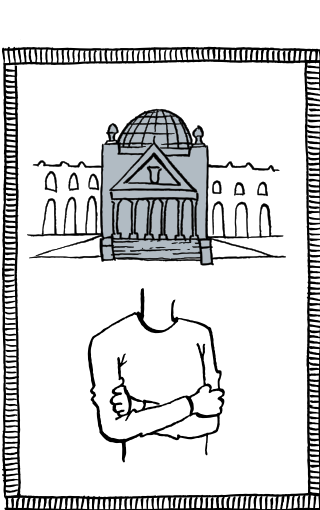


Relations between companies

Companies face stiff competition from one another. Companies do not cooperate much. They also do not merge companies.

Uncoordinated capitalism is a flexible system

Companies can adapt quickly when the economy or society changes. It is good for innovations and new industries. But this system is insecure and unstable for workers.

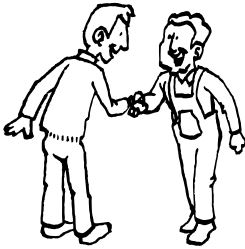


COORDINATED CAPITALISM



The financial system

Most companies are financed by banks. Companies have more time to pay off their loans. As a result, they are not forced to take big risks. They retain reserves for long-term investments. For new businesses, this financial system is sometimes not so favourable. Banks often prefer to work with companies that have been around for a long time.



Employers and employees

People tend to work for the same employer for a long time. There is good protection against dismissal. Wages are not negotiated individually, but for the industry as a whole. These wage agreements are called **collective agreements**. Trade unions have a lot of influence.

Collective agreement

Agreement between the employers' association or an employer and the trade union on wages, salaries and working conditions



Vocational training

Training and studies combine general knowledge with specialist knowledge. Many young people complete part of their training at vocational school, while another part is completed at a company or even their future workplace. This is known as **dual education**.

Dual education

Education and training that takes place partly in a vocational school and partly in a company. It combines theory and practical experience.

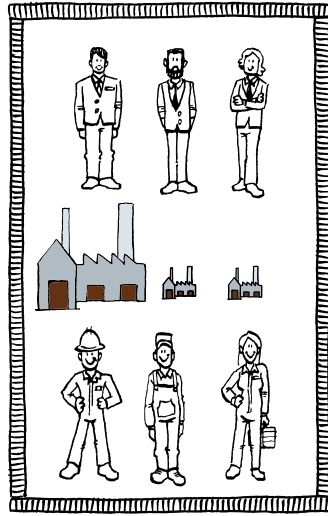
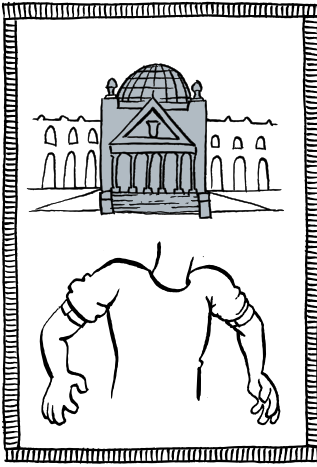


Relations between companies

There is more cooperation and connections between different companies. Companies buy shares from each other, for example.

Coordinated capitalism is a stable system

Workers have a great deal of security. Companies can develop in the long term. But the system isn't very flexible. Innovations only happen one step at a time. The system takes a long time to adjust when new problems arise.



Advantages and disadvantages

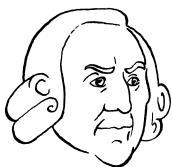
Both systems offer advantages and disadvantages. Neither system is inherently better. It depends on what goals are to be achieved.

In countries with **uncoordinated capitalism**, there are many **new companies** that have gotten very big very quickly. For example, in information technology, companies such as Google, Microsoft and Facebook were born in the United States.

Countries with **coordinated capitalism** have strong firms from more **traditional industries**. For example, in the car industry, companies based in Germany and Sweden have made their cars safer and safer bit by bit and have been successful.

How do all the thinkers and concepts from chapters 2 and 3 now fit together? Here is a handy overview of the terms we use in this book.

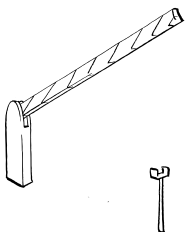
UNCOORDINATED CAPITALISM



ADAM SMITH



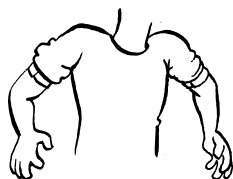
The state
holds back



COORDINATED CAPITALISM



JOHN KEYNES



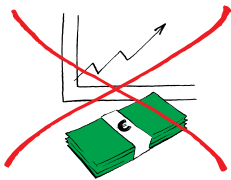
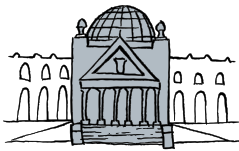
The state
exerts influence



ANTI-CAPITALISM

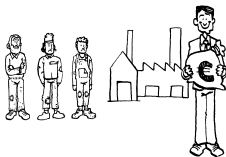


KARL MARX



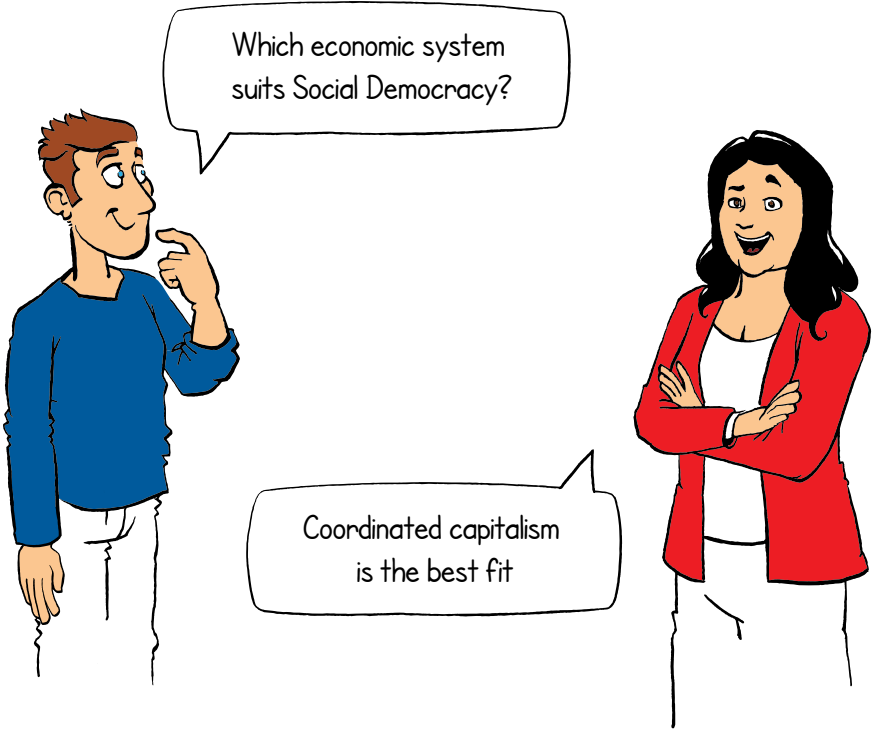
The state determines
the market

REVOLUTION!



And what does Social Democracy want?

The fundamental values of Social Democracy are more likely to be realised in countries with coordinated capitalism. This is because coordinated capitalism offers greater security to people who work.



SOCIAL MARKET ECONOMY

The economic system in Germany is called the *social market economy*. This is the German version of coordinated capitalism.



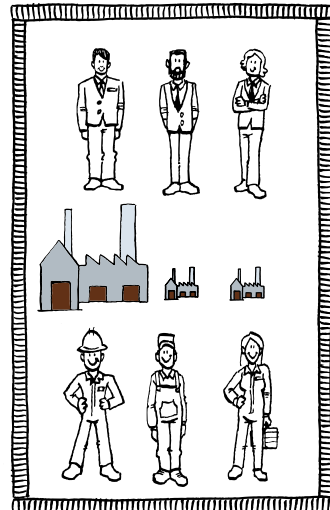
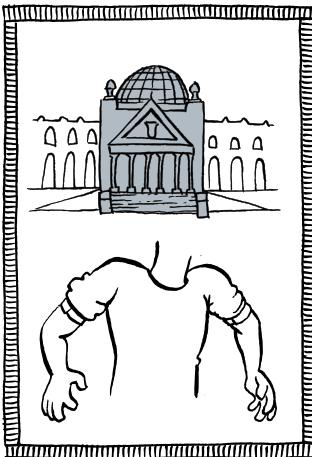
GERMANY

Social market economy means:

- Companies can compete with one another freely.
- Wages are negotiated between employers and employees.
There is also a minimum wage.
- Every person has the right to ownership.

But the social market economy also means:

Protection against the biggest risks in life, such as health insurance, unemployment insurance and a pension when you stop working.



Through taxes, society's wealth is distributed somewhat more equally since people with more income pay higher taxes.

This is known as tax progression.

This finances education for all, for example.

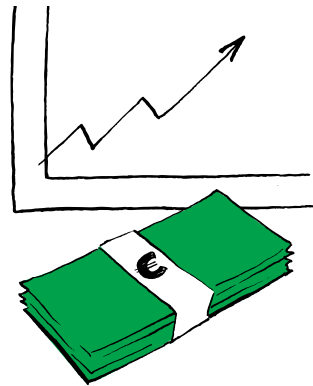
Education is particularly important for equal opportunities.

German economic policy thus combines two important elements – market economy and social security.

The welfare state

All social policies of the state.

These include childcare centres and schools, health insurance and pensions.



The social market economy is very successful. In Germany, there is a broad middle class and relatively few people are either very rich or very poor. The social market economy is a model for many countries. After all, Germany has been one of the richest countries in the world for decades.

However, Germany has also become increasingly unequal in recent years. Many people say that there needs to be more focus placed on the social element of the social market economy again.

WHAT IS IMPORTANT FOR SOCIAL DEMOCRACY?

Chapter 4 focuses on the following question: **what is important for Social Democracy?** The answers are linked to the fundamental values of Social Democracy: freedom, justice and solidarity.

4.1

FUNDAMENTAL VALUES

The fundamental values of Social Democracy are freedom, justice and solidarity. You can read a lot more about the fundamental values in our first book, *Concise and Clear – An Introduction to Social Democracy*. Below is only a brief description.

Want to know more?

Our first book, *Concise and Clear – An Introduction to Social Democracy* includes a lot of information about the fundamental values and fundamental rights of Social Democracy.



Fundamental values



Freedom

Freedom means that people can live free from hardship, fear and oppression. The state and society guarantee this freedom. True freedom also means that people have enough means and opportunities to make use of their free life. For example, you need a roof over your head, enough income and a good education. Only then can you live your life freely, according to your own wishes.



Justice

People are different. But everyone is treated equally in the eyes of the law. And in a social, democratic state, all people have the same opportunities. No matter who their parents are, how old they are or whether they are a man or woman. They have the same right to state support and to participate in society. Participation means being able and allowed to take part.

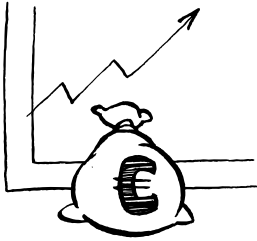


Solidarity

Solidarity means that people stand by one another. They are ready to help each other to improve society together. Solidarity also means that those who are stronger help those who are weaker. Social Democrat **Johannes Rau** said: “Solidarity is the glue that holds society together.”

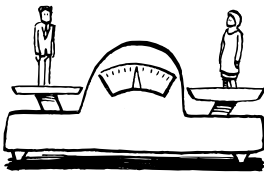
What do the fundamental values of Social Democracy mean for Social Democracy's economic policy?

It must be guided by three important points:



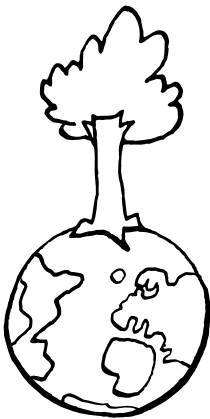
Growth

The economy should grow. This growth creates more wealth. This gives room for manoeuvre, such as making improvements to the welfare state.



Social balance

An unequal society has too big a gap between the rich and the poor. Such a society cannot function in the long run. This is why social balance is important.

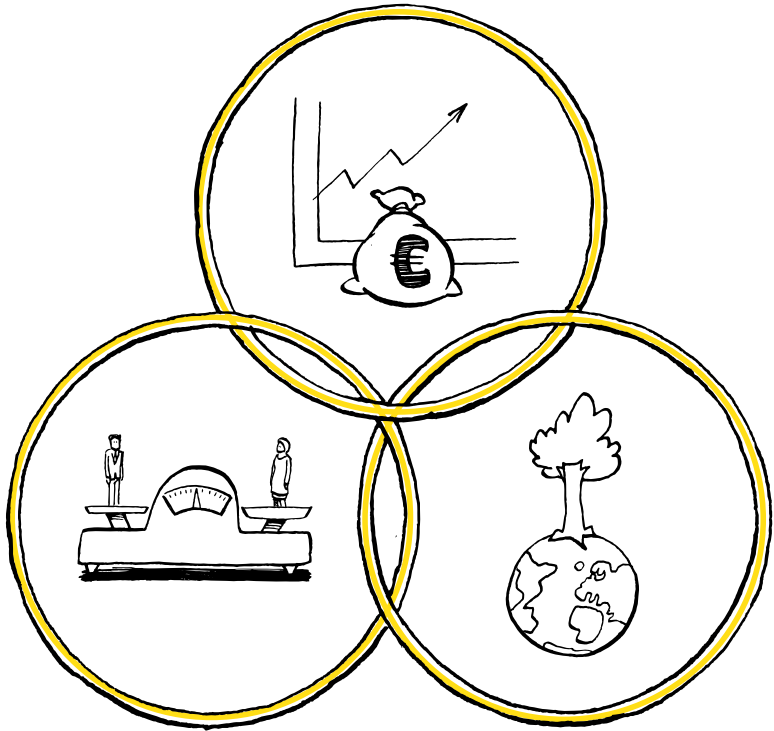


Sustainability

If a forester cuts down more trees than grow back, there will eventually be no more forest. If factories release toxins into the water or exhaust fumes into the air, many people get sick.

This is why sustainability is also important. This means that the economy must function in such a way that it brings prosperity not only in the short term, but in the long term, too.

Social Democrats believe that these three principles – growth, social balance, sustainability – are equal. This viewpoint differs to those of other political schools of thought. For conservatives, liberals, greens and leftists, only one principle is most important. Social Democracy says that only when the three principles have equal weighting in economic policy does it lead to **qualitative growth**.



Qualitative growth

Social, sustainable growth.

In other words, growth that benefits society as a whole and protects our planet.

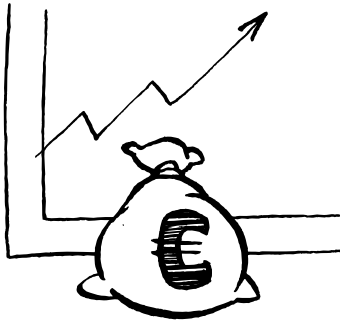
GROWTH

For prosperity in a society, it is important that the economy grows.

Growth doesn't need to be particularly strong, but a little every year is good. After all, people need enough money to live and a roof over their heads. This is what we call basic material security.

The state needs enough money to be able to build roads and schools for everyone, for example, and to finance social services with it.

Economic growth is therefore an important aim.



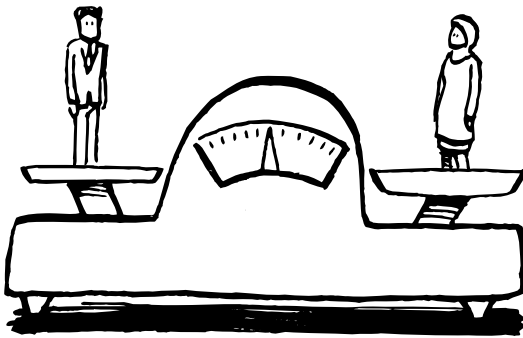
Economic growth

How do we know if an economy is growing?

If more goods are sold and more services are used than in the previous year.

SOCIAL BALANCE

A society that is too unequal cannot function in the long run.
That is why the state must distribute wealth fairly.
This is not only good for society, but good for the economy too.



American entrepreneur Henry Ford always paid his workers high wages. He commented: “Cars don’t buy cars”. By this, he meant that only people who have an income can buy the products that the economy wants to sell.

Social balance is also important for good economic development. Only those who feel socially secure dare to take risks and build something new.

Social balance is so important that it is written into the German constitution. It also says that with ownership comes duties. Property, for example, must not be used in a way that harms society.

For example, homeowners

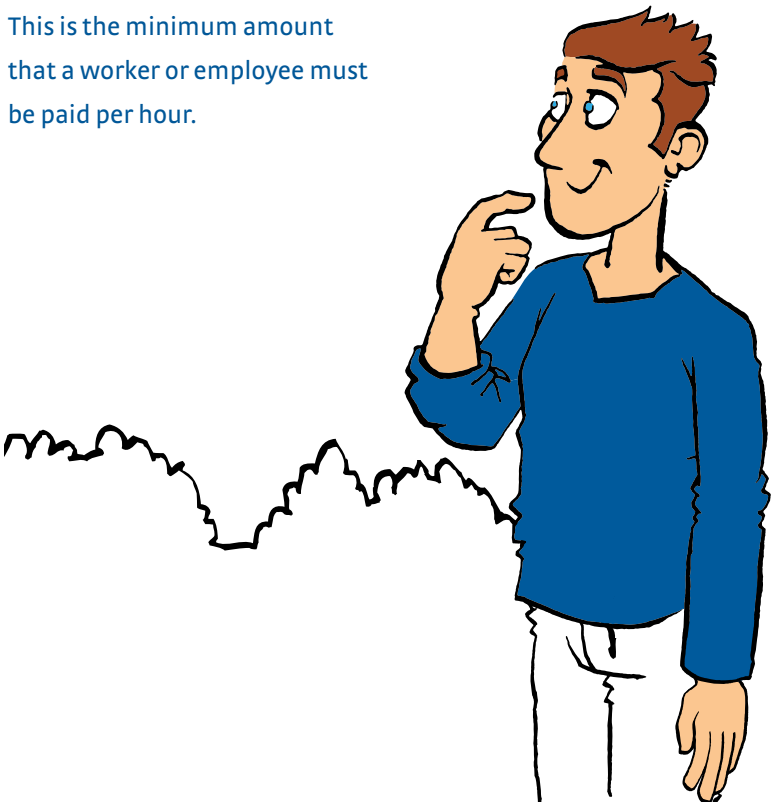
Someone who owns residential buildings is not allowed to leave them empty. They must rent out the houses at fair prices, maintain them and only resell them at a fair price.

That is *good for all*.

A **minimum wage** is important for social balance. People who work all day should be able to live on what they earn. The minimum wage is set by law. It protects workers and employees from being exploited. Many countries in Europe have had good experiences with a minimum wage.

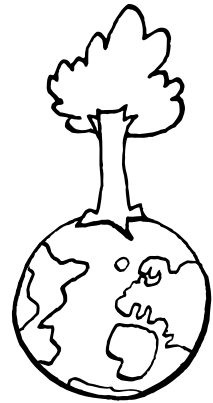
Minimum wage

This is the minimum amount that a worker or employee must be paid per hour.



SUSTAINABILITY

The third principle of Social Democracy's economic policy is sustainability. Sustainability means that we must not consume more than what can grow back on its own. By this, we not only mean *taking care of our environment*, but also making provisions. Providing for tomorrow has three elements. These are the environment, economy and living together.



Our environment

As early as the last century, it became clear that the global economy cannot continue to grow if it needs more and more raw materials to do so. Otherwise, it will destroy nature. To preserve our earth for future generations, we must treat our environment differently.

Social Democrat **Gustav Heinemann** said:

“For the sake of our children and grandchildren’s future, we must all be prepared to stop and cut back where necessary.”

Many countries have now established strict rules to protect the environment. Their aim is to make growth work, but with fewer raw materials.

Companies must no longer allow waste materials to flow into nature. We are generating more and more energy from natural sources, such as wind and sun.

We are planting trees and protecting endangered species.
Yet we are still consuming more than what we replace.

Our economy

In our economy, too, we must look out for the interests of subsequent generations. Society has a duty of care for the people who are alive right now. But we also bear responsibility for the people who will be living in Germany in 50 or 150 years' time. They should also get a good education, and be able to develop freely, too. On their behalf, we must tackle tomorrow's problems today.

Our life together

Sustainability is important in society, too. People are not part of society for a short period of time, but rather for their whole lives. They should be able to live safely, to participate, to accept one another. And that in the long run – even if there are changes.

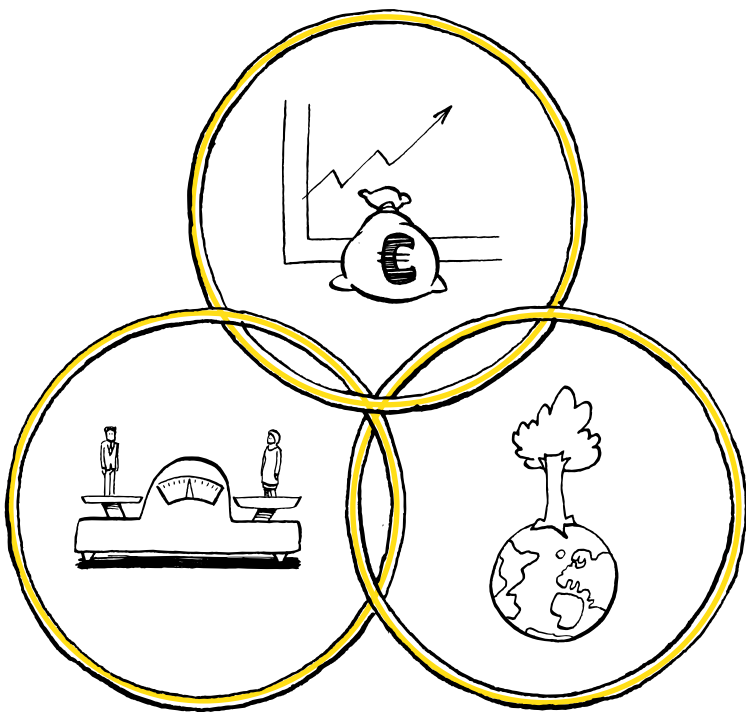
We all have to work together to achieve this. We need a state and a society that support this and make it possible.

We must tackle
tomorrow's problems today!



QUALITATIVE GROWTH: GROWTH, SOCIAL BALANCE AND SUSTAINABILITY

Growth, social balance and sustainability are equally important to Social Democracy. They complement one another and make each other stronger. Thirdly, they are the basis for a social economy: they enable qualitative growth.



Blind growth

Is there then no tension at all between the three principles of growth, social balance and sustainability?

Yes, there is.

If we did not take the environment into consideration, the economy might grow faster – at least for a short time.

If we did not redistribute our goods and opportunities, a few rich people could make greater profits.

But such *blind growth* is not the goal of Social Democracy. Such growth has nothing to do with the fundamental values of freedom, justice and solidarity. This is why Social Democrats always ask – where, how and for what purpose do we want to grow?

Social Democrat **Willy Brandt** said:

“It is about the knowledge that growth [...] must be in the service of people. If conditions are not to rule over us, but we want to rule them, then we have to think a little harder, even work harder at times.”



And if we think a little harder, it becomes apparent that the three principles support each other.

Social balance is important for a dynamic economy – if you know that the state will help you in an emergency, you have more confidence.

Sustainability can also ensure growth:

in Germany, there are more and more small and large companies that focus on environmental technology and new forms of energy. These companies provide research, growth and jobs.

Qualitative growth is therefore the result of three principles.
Growth makes our society more social and sustainable.
Growth not only benefits just a few, but everyone.

Qualitative growth in the SPD's principle guidelines

“We are working for sustainable progress, combining economic dynamism, social justice and ecological reason. We want to overcome poverty and exploitation by means of qualitative growth, enabling good work for all and counteracting the menacing climate change.

The natural foundations for life shall be safeguarded for future generations, too, and quality of life needs to be improved. To this end we want to put the opportunities of scientific and technical progress into the service of humankind.”



PARTIES AND ECONOMIC POLICY

Chapter 5 focuses on the **economic policies of different political parties**. Here, we will compare the economic goals of Social Democracy with the principle guidelines of five parties. What do the politicians of the SPD, CDU, FDP, the Greens and The Left want?

All five parties have certain ideas about good economic policy. But all five of them have

- different starting points,
- different goals and
- different paths to these goals.

First, let's look at what the parties have to say about economic policy. Then we'll try to classify it.

When comparing economic policy, we'll be looking at three points once again. These are the same ones we saw in Chapter 2. We're leaving out the point about companies since there isn't much about that in the parties' principle guidelines.

The financial system



Employers and employees



Schools and training



SPD

The SPD's principle guidelines date from 2007. They are called the *Hamburg programme*.



Economic policy

The SPD wants a coordinated market economy. Politics sets out the rules. Within the rules, the economy can develop freely. The market should therefore be the servant of society, not its master.

Aim

The aim of the Social Democratic economic policy is a free, just and solidary society. To this end, the SPD would like to pursue the following secondary aims in the three areas:



The financial system

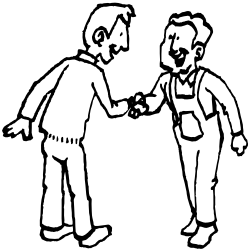
- Investors who invest in companies for the long term get better conditions than risk investors
- International rules for **financial markets**
- Savings banks and cooperative banks are protected since they are important for small businesses and the regional economy

Financial market

The part of the economy where financial products are sold.

These include insurance policies, shares and loans.

No goods or services are traded on the financial market, but rather transactions relating to money.



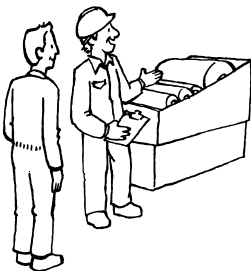
Employers and employees

- **Collective agreements** for the whole sector, strong trade unions
- More co-determination for company workers
- Employee participation in company assets
- Conversion of unemployment insurance into *employment insurance* that helps to keep people in work
- Securing further education and family time

Collective agreement

Agreement between the employers' association and the trade union on wages, salaries and working conditions

Vocational training



- Adherence to the dual training system, i.e. learning and working at the same time
- Where imposed, fewer fees for vocational training
- No fees for first degree studies undertaken at college or university
- Better conditions for continuing education in the workplace

The CDU's principle guidelines also date from 2007.



Economic policy

The CDU feels closely connected to the social market economy. Entrepreneurs should be given a lot of personal responsibility. They should act independently, responsibly and socially, but without much steering from the state.

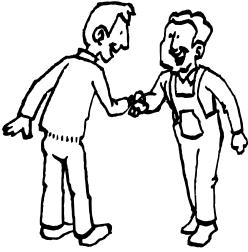
Aim

The aim of the Christian Democratic economic policy is free, socially responsible entrepreneurship. The party wants fewer rules and laws for entrepreneurs. The CDU would like to pursue the following secondary aims in the three areas:



The financial system

- Find as many investors as possible for German companies
- Order and transparency on the financial market, but without new rules



Employers and employees

- Plenty of scope for further education
- Good social security for a person's own life planning
- Abolish sectoral collective agreements, instead favouring to negotiate wages within a company



Vocational training

- Adherence to the dual training system
- More apprenticeships with authorities and companies
- Tuition fees at universities

ALLIANCE 90/THE GREENS

The Greens' principle guidelines date from 2002.



Economic policy

The Greens see the overexploitation of raw materials as the biggest problem of our time. Their policies not only aim to protect the environment and change the energy budget, but also to transform many other parts of society.

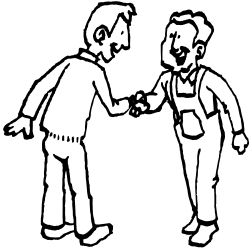
Aim

The aim of the Greens' economic policy is to transform society into a social and ecological market economy. An ecological market economy refers to a market economy in which nature is particularly important. The Greens would therefore like to pursue the following secondary aims in the three areas:



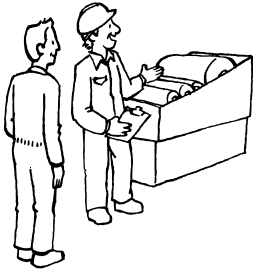
The financial system

- Break the power held by international corporations
- The European Union should draw up and enforce stricter rules
- Binding rules for monetary transactions



Employers and employees

- Collective agreements for the whole industry and sometimes for the region
- Co-determination for employees
- Participation in company assets



Vocational training

- You should be able to learn new things all your life
- Shorter training at school, longer learning within a company

The FDP's principle guidelines date from 2012. They are called *The Karlsruhe Theses on Freedom*.

The FDP logo consists of the letters 'FDP' in a bold, blue, sans-serif font. The letters are centered within a bright yellow, irregular, cloud-like shape that has a soft, hand-drawn appearance.

Economic policy

The social market economy is very important to the FDP. For them, it is part of the *basic order* of society.

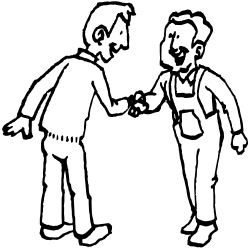
Aim

The FDP aims to achieve prosperity, employment and social balance. The party also says it is in favour of doing business sustainably. On the other hand, the FDP does not want to overburden the social system. That would be bad for the social market economy. The FDP has the following secondary aims in the three areas:



The financial system

- The party wants banks to be better controlled.
- However, the social market economy should not become a state economy.



Employers and employees

- The FDP does not have much to say on this topic: The term *collective agreement* isn't mentioned at all. The FDP also says very little about trade unions and co-determination.



Vocational training

- To the FDP, dual education is a great success story.
- Further education is very important to the FDP. It is not clearly stated who should pay for it.

THE LEFT

The Left's principle guidelines date from 2011. They were adopted in Erfurt.

DIE LINKE.

Economic policy

The Left does not use the term social market economy. It describes the current economic system as *global capitalism*. It wants to replace this system with *democratic socialism*.

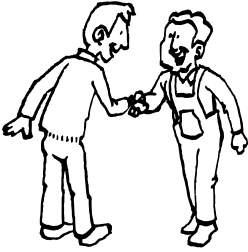
Aim

The Left wants a different economic system. The market – such as the entrepreneurs – should no longer decide what they produce. That is for society to decide as a whole. The Left has the following secondary aims:



The financial system

- Partially nationalise banks and oblige them to lend money to small businesses.



Employers and employees

- More rights for trade unions:
they should also be allowed to strike
for aims beyond economic ones.



Vocational training

- Fundamental right to education for all
- State support for apprenticeships
- Build more universities

COMPARING THE PARTIES

In brief:

What do the parties' principle guidelines say in comparison?

Coordinated or uncoordinated?

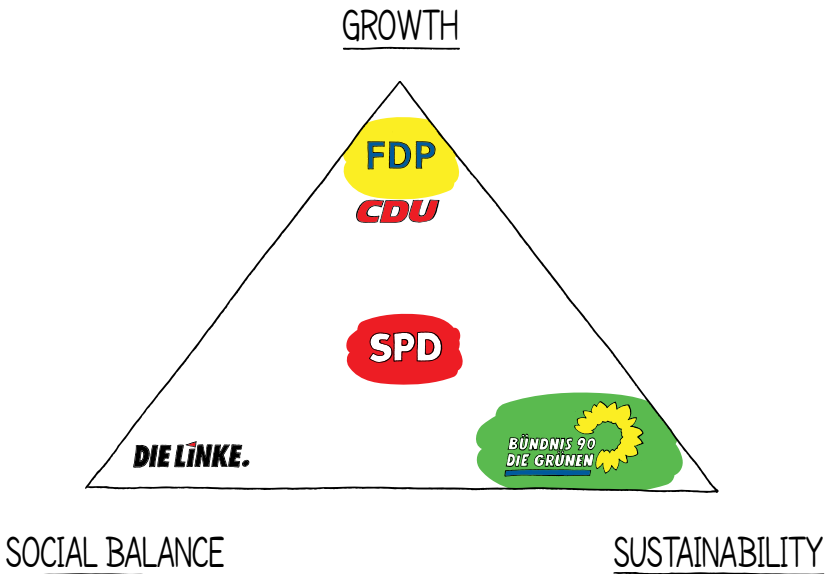
- The Left wants the state to exert much more influence on the market economy.
- The SPD advocates a coordinated, social market economy.
- The Greens want a coordinated market economy, but combined with liberal elements.
- The CDU wants the economy to be less coordinated than it is today.
- The FDP calls for an uncoordinated, liberal market economy.



Key areas

Where do the five parties stand on the three aims of growth, social balance and sustainability?

- The FDP and CDU base their economic policies on *growth*. Other topics are less important to them.
- The Left bases its economic policy on *social balance*. Other topics are less important to them.
- The Greens base their economic policy on *sustainability*, followed by *social balance*. *Growth* is a less important aim for the Greens.
- The SPD combines growth, social balance and sustainability in its economic policy. All three are equally important to Social Democrats.



THE ECONOMY IN OTHER COUNTRIES

This chapter looks at the **economy in other countries**.

What economic systems are there in the United States, the United Kingdom, Japan and Sweden? How does economic policy there function compared to Germany? What can we learn?

As part of the comparison, we will once again focus on these three points:



The financial system



Employers and employees



Vocational training

What do we already know?



THE UNITED STATES

The **United States** is a country with an uncoordinated market economy. Citizens are very critical when it comes to state redistribution and intervention in the economy.



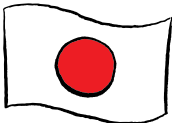
THE UNITED KINGDOM

Capitalism originated in the **United Kingdom**. The country has a particularly liberal economic system: the market economy is largely uncoordinated.



GERMANY

Germany is a typical coordinated market economy. Following a weaker period, the economy is now strong again.



JAPAN

Japan may not be in the western world but it makes for a good comparison. It has a coordinated market economy. Large, traditional companies are typical of the Japanese economy.



SWEDEN

Sweden is a particularly good example of a coordinated market economy: here, the state is especially active, for example with economic stimulus programmes.



The financial system

US companies get their financing mainly through shares, i.e. by selling shares in the company.

Investors and shareholders like to make high profits.

That is why many companies make short-term plans that promise high profits.

There are few rules for mergers or buying companies. Almost all companies are under pressure to make a profit quickly. Otherwise, the company's management will be dismissed, investors will take their money out of the company or the company will be sold.



Employers and employees

Trade unions in the United States are weaker by comparison. Employees have almost no protection

against dismissal. There are hardly any collective agreements.

Only about 8 percent of all employees are in a trade union.



Vocational training

There are very few rules in the labour market. People are hired quickly but also dismissed quickly. People only really gain general knowledge as part of their vocational training. This makes it possible

to change jobs quickly. Many companies have too few trained skilled workers.

Summary

The US economic system is a very uncoordinated market economy. This has advantages and disadvantages for its citizens.

Advantages:

Companies adapt quickly to changes in the economy.

Disadvantages:

Wealth is distributed very unequally. In large companies, the board earns 350 times as much as a worker.

Roads, schools and other things for which the state is responsible are in poor condition.



The financial system

In the United Kingdom – as in the United States – companies are financed through the capital market. Investors are interested in high profits, not long-term planning. About 80 percent of all companies are owned by financial and private investors.

Most companies can adapt quickly to changes in the economy. If they fail to do so, the consequences are dire. Hostile takeovers are a regular occurrence in the United Kingdom. A company is then sold and divided up, while the profits are given to investors.



Employers and employees

Trade unions in the United Kingdom are quite weak. There were many strikes at the end of the 1970s, after which the trade unions were deprived of their power by politics. About 30 percent of all employees are in a trade union, most of whom work for the state.

Workers have little protection against dismissal. They usually only work for a company for a short time and have little attachment to the company. There are no collective agreements for an entire industry. Wage negotiations are undertaken on an individual basis or for a single company only. This is why the British have a national minimum wage.



Vocational training

In the UK, general skills are very important in vocational training. Both companies and employees think this is good. Companies can hire people with generic skills quickly and also fire them quickly.

This is known as a “hire and fire” policy. Employees can change jobs quickly without having to learn a lot of new things.

Summary

The British economic system is an uncoordinated market economy. This has advantages and disadvantages for its citizens.

Advantages:

Companies adapt quickly to changes in the economy. The jobs market is very flexible.

Disadvantages:

Companies have too few skilled workers. **Productivity** is lower than in the United States and Germany.

Productivity

measures whether you make a product with a lot or little effort.

For example, making a car with old machines takes longer and costs more. That is not productive. If workers are poorly trained, that is also bad for productivity.

What’s more, there are regular major changes in economic policy in the United Kingdom. The political system is a simple majority system. If a party wins the election, it can quickly impose a whole new policy.



The financial system

In Germany, companies prefer to borrow money from banks than from shareholders.

Companies often have a firm's bank that works alongside them for years. Banks are interested in long-term operational planning. As a result, German companies like to invest in well-trained skilled workers and long-term projects. The banks work closely with their companies. It is often difficult for new companies to establish a strong position on the market.

There are strict rules for merging and buying companies.



Employers and employees

German trade unions are relatively strong.

About 23 percent of all employees are in a trade union.

There are collective agreements for all sectors. Thus, wages are fixed for all workers who work in a particular industry.

Germany has clear rules for employee co-determination within companies.



Vocational training

The dual training system in Germany combines two educational pathways. Every apprentice (called an Azubi in German) learns the theory for their chosen profession and general knowledge at a vocational school. They then practise on the job at a company. Thanks to this system, Germany has low youth unemployment. And companies have access to well-trained young people.

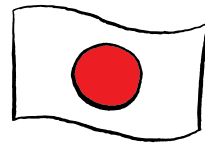
The dual system works well and sets an example for many countries. But it also has certain weaknesses. The system is dependent on economic developments. If the economy is functioning well, companies are happy to take on apprentices. If it is functioning badly, then there are far fewer training places. What's more, there would need to be more opportunities in Germany for further training following an apprenticeship.

Summary

The German economic system is a coordinated market economy. This has many advantages for people. Internationally, Germany has a strong economy. Many workers work in the industrial sector. They manufacture high-quality, complex products, such as cars.

Employees work for the same employer for a long time. German workers have a lot of expertise and are highly productive. This leads to good pay and shorter working hours.

The differences in income are smaller than in other countries. But Germany has become more and more unequal lately. This also hampers the economy.



The financial system

After the Second World War, Japanese companies received their loans from banks via a coordinated market economy. At first, the state had almost direct influence through the state bank. Later, firm's banks took over the financing. Large companies received particularly favourable loans. Companies could plan for the long term.

Many companies organised themselves into influential groups. Together, they could grow, plan and manufacture.



Employers and employees

The Japanese jobs market is very stable. Many people work for the same company all their lives. Companies need highly educated and specialised professionals. They also want to retain them in the long term.

The long-term employment system works well for men working full-time. In practice, it doesn't work as well for women and people who work part-time.

Workers are dependent on their employer. Japanese companies expect employees to do a lot of overtime and are not family-friendly. The Japanese population is ageing rapidly. The jobs market must therefore become more flexible. There is now more part-time work available in Japan.

The differences in income are small in Japan. Top-level managers do not earn significantly more than normal employees. Japanese trade unions are organised through companies. In large companies, there is good cooperation between trade unions and employers. In small companies, workers are not well organised.



Vocational training

Vocational training in Japan takes place at school and in the workplace. Most students go to school for nine years, after which they transfer to a company.

They then undertake professional, specialised training there. Japanese workers' skills are often so specific that it is nearly impossible for them to change jobs. Schools and companies would like young people to be trained more flexibly and creatively. They also want better educational opportunities for older people.

Summary

The Japanese economy was coordinated by the state for a long time. In the 1970s, elements of an uncoordinated economy were added.

But Japan does not seem to be moving entirely in the direction of an uncoordinated economy. This is reflected in the personnel decisions, training system and cooperation between trade unions and employers.

The state and typical business groups still play a particular role in the Japanese economy.



The financial system

How do Swedish companies arrange their financing?

Firstly, cheap loans are available from their own firm's bank. Secondly, companies buy from each other through the stock market. Most companies focus on long-term planning; short-term profits are not important to them.

The Swedish system works roughly the same way as the German system.



Employers and employees

Swedish trade unions have been in a strong position since the 1930s. About 70 percent of all Swedish employees are in a trade union. Worker co-determination within companies is well organised.

All wages are negotiated through collective agreements.

The state has set strict rules for these negotiations. Sweden has state *tariff arbitrators* who ensure that EU rules are also respected.



Vocational training

Sweden offers nine years of school education and 14 national programmes for specific vocational training. These programmes provide both specialised knowledge and general knowledge. They are highly successful.

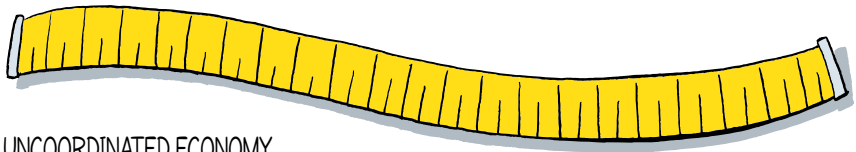
Opportunities linked to professional development and further training are very good. Swedish workers can be *lifelong learners*.

Summary

Sweden comes very close to the perfect coordinated market economy. The country has a strong social economy. The state works closely with employees and employers alike.

Sweden has high economic growth.

The differences in income are small. Unemployment is low. In this respect, the country performs much better than other countries when compared internationally. Sweden is therefore a prime example for implementing a social economy.



UNCOORDINATED ECONOMY

COORDINATED ECONOMY

Want to know more?

Reader on Social Democracy 2,
chapter 6 (2009)

ECONOMIC POLICY IN THE FUTURE

In **Chapter 7**, we'll look at an **economic policy for the future**. Our world is changing quickly. We are already facing new challenges. What answers does Social Democracy provide?

7.1

RETHINKING

Social Democracy is never *complete*. For Social Democrats in many countries, it is a goal that can always be built upon. As the world changes, the social economy evolves too. What we do must always be examined, adjusted and reconsidered.

How do we do that?

First, we must look at societal developments. Then we must ask ourselves what opportunities are available to people, and what risks? Social Democracy wants to understand the challenges of the future and direct its policies towards them.

GLOBALISATION

The biggest challenge of the coming decades is to prepare our economy for the consequences of **globalisation**.



Globalisation

The whole world is connected. In the past, countries only had trade contacts with their neighbouring countries. Nowadays, there are global connections in trade, culture, environment and of course communication. This has major consequences for our economy – nationally and internationally.

What developments push globalisation forward?

There are important drivers to globally link business, culture and communication.

- **Fewer trade barriers.** In the 20th century, it became increasingly easy to trade internationally around the world. More and more states joined trading unions and no longer levy customs duties on each other, for example. In Europe, 28 countries cooperate economically as part of the European Union.

- **Economic growth in emerging markets.** More and more countries are participating in international trade. Even India, Brazil, China and Russia now play an important role in world trade.

Emerging markets

Developing countries whose economies are developing rapidly. Their economies are already (almost) as strong as those of industrialised countries. In other words, they are on the threshold of becoming an industrialised country.

- **Technical developments** such as the internet and large container ships make it easier to cooperate and communicate worldwide.



These are the advantages of globalisation:

- Industrialised and knowledge-based countries have a global market for their products. Germany sells its cars all over the world.
- Low-wage countries are creating more and more jobs. They have access to world trade.
- Rich countries also benefit from the low prices of products originating from poor countries.

These are the problems with globalisation:

- Not all people benefit from globalisation. Many people lose their jobs due to globalisation, such as workers in European textile factories. Their work is done much more cheaply in low-wage countries.
- Growth is not fairly distributed. Economic growth has increased worldwide since globalisation. But this new wealth is not shared evenly everywhere. The differences in income are getting bigger.
- There are no improvements in social rights. There are still no effective controls to ensure that human rights are respected worldwide. What's more, the protection of workers is not guaranteed internationally.

What needs to be done?

- Support those people who are losing their jobs because of globalisation in Germany. Through good further education, for example.
- Impose fair taxes to ensure that the gains generated by globalisation reach everyone – not a select few.
- Enforce minimum working standards in poorer countries as well. This is particularly important when it comes to occupational health and safety.
- Work with poorer countries so that they can develop well. This also includes financial support.

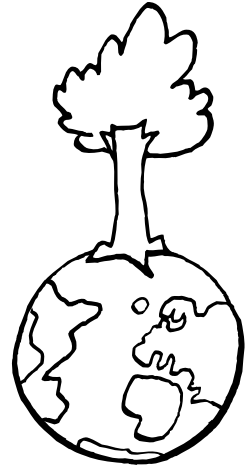


CLIMATE CHANGE

The consequences of **climate change** will weigh heavily on our planet in the future. That is why we need to change our economic policy now.

Climate change

Since there are more and more exhaust gases in the air, temperatures are rising worldwide. This is bad because the ice at the North and South Poles is melting. When the ice melts, many parts of the world are flooded and there are more big storms.

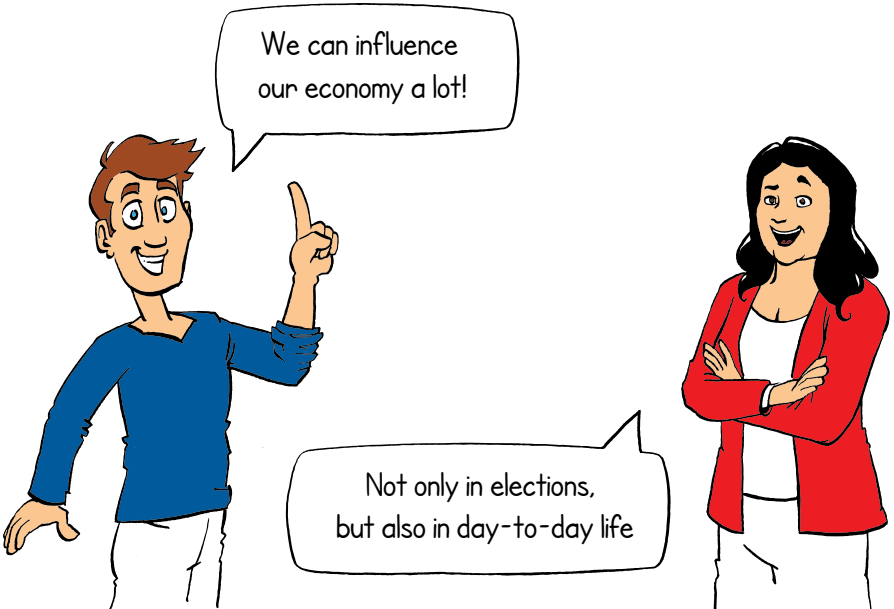


What needs to be done?

- **Modernise and transform the existing economy.**
Our economy needs to become sustainable. This means: less and less coal, oil and natural gas. And more and more energy harnessed from the sun, wind, water, geothermal energy and biomass. We also need to save energy.
- **Develop environmentally sound technologies and create jobs.**
Environmentally friendly technology is the market of the future. All products and processes with which we save raw materials and protect the environment offer solutions for the future. New jobs are created in companies that specialise in this field.

Environmentally friendly technology

- Electric cars that can go further
 - Storage for solar energy
 - Build power lines to transport wind power
 - New companies in the environmental sector
-
- **Buying sustainably.** As consumers, we have a great deal of influence. What we buy – or don't buy – determines what is manufactured or isn't manufactured.



FINANCIAL MARKETS

A major crisis hit the **financial market** in 2008.

Financial market

The part of the economy where financial products are sold, such as insurance policies, shares and loans. No goods or services are traded on the financial market, but rather transactions relating to money.

Many banks had done business but had taken on too much risk.

One large bank in the United States even went bankrupt.

Many other banks were also in danger.

The states rescued the banks. They didn't want there to be a big panic if you couldn't get money from ATMs. But in order to save the banks, the states had to take on a lot of debt. This is a big problem today, as in Greece. In most states, the economy fared badly for a long time after the crisis.

It is important that this does not happen again.

What needs to be done?

Supporters of Social Democracy believe that the state should actively intervene to avoid new financial crises.

They believe the state has the following tasks:



- **Establish stricter rules for the banks.** Banks should concentrate more on lending to companies than on speculating on the stock market, for example.
- **Tax speculation.** Those who speculate on the financial markets should be taxed more heavily. This helps the states to pay back the debts they accrued as a result of the financial crisis. But taxes also influence speculators' behaviour: it is then no longer as interesting to speculate so much.

Speculation

Money transactions that work like bets.

You buy something and hope that the price will rise in the future.

- **Prevent tax evasion.** Some companies and private individuals use permitted, but also non-permitted tricks to pay less tax. States must take joint action to stop this.

DIGITALISING THE ECONOMY

Digitalisation is a brand new challenge for the economy. It doesn't simply mean that there are new computers in the office. Digitalising the economy also means:

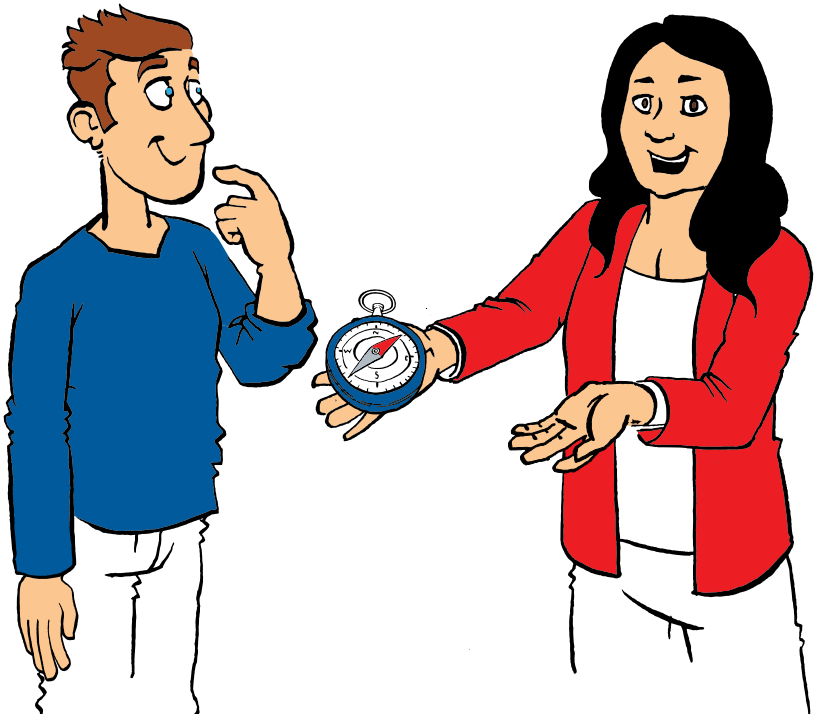
- more robots being used in factories and
- more people working from home or on the road.



Digitalising the economy offers many opportunities. As an example, dangerous work can be done by a robot instead of a person. Those who work from home may save themselves a long commute to work.

However, there are also problems linked to digitalisation. People who work with complicated robots have to be retrained specially. Some will also lose their jobs. Those who work from home may be lonely because they can no longer meet colleagues in person. In the long run, many people can no longer properly separate work and leisure, and always feel stressed.

The economic policy pursued by Social Democracy must also develop answers for these new problems. Such answers cannot always be found immediately. That's why it's good to have a compass.



For Social Democracy, the compass consists on the one hand of the **fundamental values: freedom, justice and solidarity.**

In the area of economic policy, the **principles of growth, sustainability and social balance** are included.

When facing a new problem, if you ask yourself how you can live up to these fundamental values and principles, you're bound to find good answers.

WANT TO KNOW MORE?

Would you like to know more about Social Democracy?

The Academy for Social Democracy has various offers.

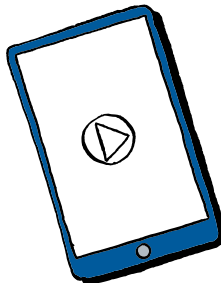


Social Democracy – Concise and Clear

Clear, practical, quick: the new book series

Social Democracy – Concise and Clear gets straight to the point.

Nine topics, nine books, nine overviews. The perfect introduction to Social Democratic thinking and action.



Films

The educational films produced by the Academy for Social Democracy provide a quick initial insight into different topics. Click, watch and come up with your own initial questions in only a few minutes. See

www.fes-soziale-demokratie.de/filme.html

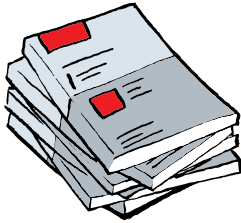


Seminars

The Academy for Social Democracy offers seminars on all topics across Germany. Here you can exchange ideas with scholars, politicians and other committed people.

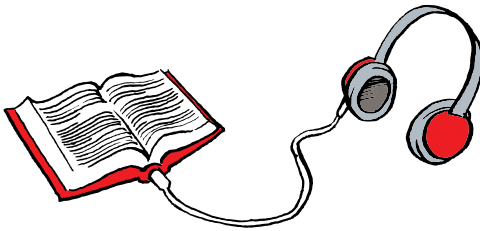
Over the course of eight modules, we discuss what Social Democracy means in the 21st century and how the basic values of Social Democracy play out. Each seminar can be booked separately.

Everything offered by the Academy for Social Democracy is also available on a mobile phone. You can simply download the *FES Social Democracy* app.



Social Democracy Readers

The Social Democracy Readers offer the opportunity to explore the issues in more detail. They touch on both theory and practice.



Audiobooks

The Social Democracy audiobooks build on the Social Democracy readers. The audiobook format offers an opportunity to listen and reflect – at home, on the road, wherever you like.

SOCIAL ECONOMY

Growth, social balance, sustainability

What does social economy mean?

Who wants what in economic policy – and why?

How does the social market economy in Germany compare to other countries?

These and many other questions are answered in the second part of the book series *Social Democracy – Concise and Clear*.

Clear, practical, quick. As part of the Concise and Clear series, we look at important issues in politics. We use short texts that have been written in language that is easy to understand.

ISBN 978-3-96250-999-6