

# Essay on Social Market Economy: The Bangladesh Perspective

An alternative economic system, the social market economy, is different from socialist and pure capitalistic models. It combines private sector and the state. The main purposes of this model are to establish fair competition, low inflation and unemployment, good working condition and last but not the least social welfare. Though it depends on the free market, the social market economy is opposed to both socialism and laissez-faire capitalism.

The concept of the social market economy is based upon the school of thought of liberalism, which emphasizes the need for the state to ensure that the market gives the results close to its theoretical potential. Theoretically, the market, as well as socialist systems, have their own economic philosophies. A market economy is proving to be more influential and successful. But socialism, as practiced by the former Soviet Union, failed to become a model worth following. Cuba and Venezuela are doing better with the socialist system. With the market economy, the performance of the USA, UK, Australia, Canada, and Japan in achieving development is remarkable.

Germany, on the other hand, remains the best example of the social market economy. For nearly 60 years, West Germany, since the Second World War or reunified Germany, since 1990, has been doing incredibly well with its economy. In the ongoing global economic crisis, which started in the USA, many European countries suffered terrible setbacks. But, Germany in the middle of 2008 achieved economic growth of 1.5 percent, the highest in the last 12 years. One of the most industrialized and export-oriented countries in Europe, it is, however, not totally out of the risk of the crisis.

Now, the question is whether or not it is desirable and feasible for

Bangladesh to adopt the social market economy. Though no study took place in Bangladesh on this question, it has been a debate among some of the economists. Over the last 37 years since its independence, Bangladesh experimented with different economic systems. At the beginning it was socialism, and then it was liberalism of varying degrees or the market economy. But for the political tribulations and natural calamities, the economic achievements of Bangladesh could be much better.

But the potential was and is there to do much better. The administrative, political and social culture of the last decades created an unstable economic environment, which makes the operation of market economy difficult. Even then, one cannot deny that the open market system gave good results to the Bangladesh economy. But some important factors continue to impede efficient open market operation, in a country like Bangladesh.

First of all, for an acute lack of information about products or services between suppliers and consumers, the prices of goods and services can be manipulated in favor of the suppliers. The assumption of perfect competition based on symmetric information is violated to distort the market economy. Though it is a problem for many market economies, it is higher in degree and consequence for the multiplier effect in Bangladesh than in advanced capitalist economies.

Secondly, supplier cartels destroy fair competition in a country like Bangladesh. Oligopoly or monopolistic practice by import cartels was one of the main causes behind the recent price hikes in Bangladesh. These practices hampered social welfare.

Thirdly, a market economy, which depends on growth for income distribution, cannot ensure the allocate efficiency of an economy. And a major problem of Bangladesh remains distribution of income. The

social market economy, in contrast, has substantially reduced inequalities in Germany in a relatively short time.

Without winning the market structure, the social market economy is more likely to avoid the negative impacts of the free market system. But one should not confuse the term socialist market economy with a social market economy. In the socialist market economy, the state intervenes in the market to influence individual decision making, violating the market philosophy.

Ordoliberalism, never against the free market, tries to bridge the gap between the private and public sectors to optimize the results. In Bangladesh, many wrong privatization decisions, in the recent past led to awful results. Neither too much liberalization, nor too much protectionism can give the best outcome. Social market economy, with its flexibility, has no pure models to base an economy. One of the main reasons for German economic development is that in many economic crises it could take strong and logical regulatory steps against the private sector, unlike the USA, facing a disastrous economic crisis. By regulatory measures in the market, the US could avert the crisis. But Germany is not facing a big economic crisis because of its economic flexibility. The stubborn market needs constant regulation.

China too has adopted pragmatic policies to suit situations. But it is a bit different from the German system. Both are pragmatic in nature.

Classical economists regarded the market as the god. But God needs angels to carry on his work. Here the state is God's angel. It is unlikely that a pure market economy will work efficiently in Bangladesh. So, the state should play a role to regulate in the market, with a strong participatory role for the optimum results.

Another aim of the social market economy was to create and develop an

economic order which could be accepted by any ideology so that all forces in society could be focused on the common task of assuring the basic living conditions and the rebuilding of the economy.” With the principles of individuality, solidarity, and subsidiary, Social Market Economy has a lot to offer to a nation. But the truth is no significant theories or models have been developed yet. One can think that there is still a great opportunity to work and develop this considerably new approach to development.