

Global Perspectives – a podcast series in the service of peace, democracy and development worldwide

Can social market economy elements facilitate sustainable development in African countries?

Introduction

Franziska Weichselbaumer

Hello and welcome to a new podcast episode! My name is Franziska Weichselbaumer, I am looking forward to hosting our discussion again today.

During this episode and in another one to follow soon, we will consider the potential of a social and eco-social market economy for sustainable development.

In order to get an impression of how the topic is being discussed in different countries and which role elements of a social or eco-social market economy can play in achieving a socially more compatible, sustainable economic growth, we captured voices from different regions of the world.

In today's episode our focus is on the African continent. Hanns Bühler, Regional Director of the Hanns Seidel Foundation in South Africa, discussed our topic with two South African scholars from renowned partner organisations of our Foundation.

But before we turn to the challenges and opportunities of African countries and, in particular, of South Africa it will be helpful to theoretically position the concept of the social market economy in the wider context. I spoke to the professor for sustainability management at the Friedrich Alexander University of Nürnberg-Erlangen in Germany Prof. Markus Beckmann.

Interview with Prof. Markus Beckmann

How would you define the core of the concept of the social market economy? Because it is about more than certain economic and socio-political measures – it is about a guiding principle for politics, economics and society.

Yes, indeed we can say that the social market economy starts with a guiding principle that asks very broadly in what kind of world or in what kind of society we actually want to live and that places the people at the centre, society with its needs, and which then asks what the economy can actually contribute. That is, an economy that first and foremost serves the people and society and is not an end in itself; and then the question how we can actually achieve this. Then there is a second idea that needs to be mentioned: well, how the economy is positioned and what politics are doing - these two cannot be completely separated but actually belong together. How can we harmonise the two? And if you then consider what this actually means then there are certainly somewhat different opinions on what a social market economy means in concrete terms, but the core idea initially was that we should not be thinking of this as two poles where the economy should either be very strongly organised by the state or where the market is left entirely to itself – but that we should rather think about how we can bring together these two aspects – market and state. What is the market good at? And the market can leave people to their freedom, they can act upon their initiative, their ideas, their knowledge. That can lead to productivity, wealth, efficiency, activity, but such a market does not

always move in a direction that is good for society. There can be losers, there can be problems where you ask yourself what should a fair game, a fair economy look like? And that is where the state can very well provide framework conditions, can set rules and in that way can ensure that the market is practised in such a way that competition, market activities are put in the service of social concerns. That is, the social market economy does not try to override the market but through a good relation between the market and the state tries to put the market into effect in such a manner that through suitable rules the market works well for everybody. That is the core idea at the beginning of the social market economy.

- - and to break this down to the level of political action: what are the most important elements of a social market economy regarding policy, institutions and instruments?

Yes, there you can say that, on the one hand, you need to see to it that the market can work. You need open markets, control of competition, the prices must work, you need a stable price order and fair rules. So that, for example, fraud or poor social standards are not permissible. On the other hand, you must also think about how we can ensure that everybody can participate in the market economy, can make their contribution. And there we need prerequisites, we need education policies that will allow everybody access to education, social policies that ensure that people who fall out of the system through illness or accident are supported and can be reintegrated. Today we also need energy policies or structural policies to ensure that also in the rural areas everybody will have access to rapid internet because these are very important prerequisites for participation in the market economy. And it must be ensured that competition is put in the service of the different social concerns.

The states of the world are facing existential challenges, first and foremost the climate crisis. Can ecological aspects be dealt with through the instruments of the social market economy? Or, in other words: in order for the social market economy to be ready for the future, can it be expanded to become an eco-social market economy?

Yes, certainly, because the fundamental principle is that the economy can be put in the service of society if we create a suitable framework of rules and the necessary prerequisites. And now we see that, for many ecological problems there is a lack of precisely such a framework of rules. If we consider the topic of climate change, for example, then we see that we have a problem with CO₂ emissions that are too high. CO₂, in economics terms, causes externalities, that is, external effects for others. I can fly cheaply by plane, but I cause costs for people who are already suffering under climate change and for future generations. This then shows us: the market is not working correctly, prices are not telling the truth and it is possible to gain the competitive edge by lowering environmental standards. And here you need to think how you can create a better framework of rules. In Germany, as in many other countries, we are currently discussing CO₂ pricing, CO₂ should have a price tag to it. And then, if I do this cleverly, I can use this quest by the market – the quest of trying to produce at the lowest possible cost, of being innovative in order to be most efficient in the market – to bring about competition for climate protection, competition for decarbonisation, that is to move away from coal, competition for better environmental services. And to this end, we can restructure the market economy, the social market economy into an eco-social market economy by setting this framework, these rules for an ecological alignment. But at the same time we also need to look at what is needed, e.g. we need to strengthen infrastructure, expand the network etc. so that everybody, if possible without losers, can participate in this eco-social transformation.

Yes, you already touched on this: for a social or an eco-social market economy we also need a state that is able to shape these things, we need a society that is able and willing to enter into dialogue and a government that acts transparently and effectively. So, the social market economy works best

in a context of good governance. How realistic is it in developing and emerging countries to be guided by the conceptional approach of the social market economy? Or what could the path towards a social market economy look like then?

I think that you are posing a very important question and I would even say that it brings together two similar challenges of a different nature: the fundamental idea of the social market economy is to say that the economy is no natural plant that grows well by itself, but rather a cultured plant that needs a certain framework, certain preconditions. And now we see that the economy has become very globalised. We have supply chains spanning continents and oceans. And so the economy is global, but we have no global state framework of orders that can set rules for the economy across state borders or that can create the necessary preconditions. So I see a question there: how can we generate suitable forms to embed the market without a state. At the same time, we also see this within many states that have other conditions, and not always an administration as the one we have in Germany that can implement certain norms. And there too we need to think about how we can establish governance and rules, perhaps also “without government”, without counting on the state only. And there I would like to return to the core idea: the economy is a game and it is dynamic because the actors make their moves and are in competition with each other - but how well this game works for all of us depends on the framework conditions. There we need rules, rules for fairness, implementation, referees and prerequisites so that everybody can play in the game, everybody needs shoes, everybody needs a ball. And then we can ask ourselves who can deliver this. The state can deliver this, but it can also be the cooperation of civil society with business, it can also be a local municipality if it is about creating prerequisites for education. It can be partnerships between companies that set standards for themselves. Always asking the question: how can we get the game going so that it addresses ecological and social concerns and through this puts the market in an even better position to work for us as society, makes the market a servant of the people. And how this guiding principle, how the service to the people and how the society can be shaped, how all of this is operationalised, that will be very different in different countries, depending on their own culture, their own history, their own preconditions. But the question how we can put the market in the service of social and ecological concerns can be discussed analogously across different contexts.

Prof. Beckmann has made it clear: the focus of the social market economy is to take the market in the service of social concerns to achieve fair, competitive and sustainable economic activities. The typically portrayed dichotomy of market or state falls short or, in other words, a social market economy can overcome this presumed contrast. And: concrete implementation can take different forms, depending on the historical, political or social context.

Now, let us turn to the discussion of sustainable economic policies in African countries and, in particular, in South Africa. Let us listen to the conversation with Hanns Bühler, Regional Director of the Hanns Seidel Foundation in South Africa.

Conversation with Dr Jakkie Cilliers and Marius Oosthuizen

Hanns Bühler:

Africa remains a continent with endless potential. It has rich natural resources and a geographical size which allow it to become an even more important actor on the global stage. Countries such as Ethiopia, Angola or Rwanda have in the past years been able to achieve high growth rates.

But in spite of this, the gap between the 54 diverse African countries and the rest of the world in regards to economic performance, income per capita and a number of other relevant indicators is increasing. And the effects of the Covid pandemic further promote this trend. Economic reforms often fail as a result of a lack of political will or of a lack of implementation capacities in the public sector. In some regions, especially in Southern Africa, ideological battles between market-oriented and socialist forces also hamper the implementation of sustainable economic policies.

The question of whether the economic policies on the African continent are sustainable is becoming all the more urgent. What must be done in order to release the potential of Africa and to foster economic growth?

The Hanns Seidel Foundation in South Africa supports partner organisations, such as the well-known Institute for Security Studies and the Gordon Institute of Business Science, in order to find answers to these important questions. And we also share experience on how Germany was able to lift itself out of poverty after World War II through the concept of the social market economy.

With Dr Jakkie Cilliers from the Institute for Security Studies and Marius Oosthuizen from the Gordon Institute of Business Science we have two brilliant and experienced South Africans with us today to discuss challenges, opportunities and necessary implementation steps for economic reforms in Africa.

Jakkie and Marius it is great to have you on board here at our podcast and I look forward to the exchange. Before we start, allow me to introduce both of you briefly to our listeners.

Dr Jakkie Cilliers is founder and chairperson of the Institute for Security Studies, a widely recognised continental think-and-do tank in Africa and a long-term partner of the Hanns Seidel Foundation on the continent. Dr Cilliers is currently heading the African Futures and Innovation project at the ISS and as such leads research on the long-term development on the continent.

It is a particular pleasure that Dr Jakkie Cilliers is joined by Marius Oosthuizen in discussing questions of South African economic policies and what role the topic “social market economy” could play. Mr Oosthuizen is the Director of the Centre for Leadership and Dialogue at the Gordon Institute of Business Science of the University of Pretoria. The institute is considered one of the best Faculties of Economics in Africa.

Let us start by looking at the continent as a whole. This will inevitably lead to generalizations, considering there are over 50 very different countries and regions.

Jakkie, you have been studying the economic development in Africa for many years. What, in your opinion, are the core challenges and obstacles for development - and which circumstances are needed for the successful implementation of economic reforms?

Jakkie Cilliers:

Thanks, Hanns, you indicated in your introduction that Africa is complex. It is indeed so. It includes 23 low-income countries, 23 lower-middle-income countries, 6 upper-middle-income countries and 2 high-income countries, the island states of Mauritius and Seychelles. It has 1.3 billion people, so very, very diverse. We have just concluded a modelling exercise where we looked at the impact of 11 different scenarios on each African country. So, we looked at the impact of advancing Africa’s demographic dividend, the impact of agriculture, manufacturing, the implementation of the African Continental Free Trade Area, and so on, on Africa’s long-term future. Generally, we are looking at about two decades into the future. Now, what is clear is that in the next one or two decades

agriculture will remain the sector that, particularly for low- and low-middle-income countries, has the most potential for lifting Africans out of poverty and for reducing inequality and so on. But in the long-term, the implementation of free trade through the so-called African Continental Free Trade Area is critical and does better than any other scenario. Of course, none of this is possible without leadership committed to development and more stability. These changes of moving from autocratic to more democratic regimes take time and their impact takes a lot of time and effort before they really start having an impact on economic growth rates.

Hanns Bühler:

You are talking about the importance of leadership and you provide in your studies and in the research the ISS is doing concrete recommendations for policy making in the areas of agriculture and trade, as you just said. At the same time, we see that in many countries, development is hampered through internal power struggles on the basis of ideological differences. In some regions of Africa, there is the never-ending debate between socialist and capitalist ideas and ideology – for us it seems that, in times of crisis, these ideological battles are increasing. Do you think that certain principles and elements of a model of the social market economy could be implemented to overcome these ideological barriers?

Jakkie Cilliers:

Politics is politics and African politicians are no different to politicians in Germany, in Europe and elsewhere. So, sometimes you get good ones and sometimes you don't get such good ones. The ideological hang-ups that we have are very typical of southern Africa. We are the most recently liberated region, we therefore have a bigger chip on our shoulder about our history and former liberation parties still dominate - the African National Congress in South Africa, Frelimo in Mozambique, Swapo in Namibia, MPLA in Angola and so on. The debate in southern Africa is therefore quite different from the debate in central, western, east Africa. And is very different from north Africa. North Africa has a very different economic framework, heavily influenced by subsidies from oil and gas, which is not possible in the rest of Africa. The vast majority of African states believe in democracy and opportunity, what Germany knows as the social market economy.

Now, there is a global consensus, even communism with Chinese characteristics has many of the free market ideas that the original Mao Tse-tung and others twenty or fifty years ago would not have accepted. The Nordics have the social democratic system and the Americans have what they refer to as the mixed or free economy. I think that we must not get distracted by these ideological debates. In my view, the challenge is often to bring evidence-based policies and practices to the table and try to avoid – particularly in southern Africa – the ideological debates. They take us nowhere and they hark back to the 1950s and the 1960s, particularly to the ideological framework of the Soviet Union where many of the former liberation parties find their ideological root.

Hanns Bühler:

Fascinating, thanks, Jakkie. You are talking about evidence-based policies as a baseline at the end for overcoming those ideological discussions happening especially in southern Africa. Now let us turn to South Africa and to Marius Oosthuizen to establish to what extent these models and recommendations which were formulated, for example by Jakkie in the field of agriculture or the Free Trade Area, could become a reality. South Africa is a country with huge potential and importance, but also a country where you will find most of the challenges facing the African continent.

Marius, we know it, we all live in South Africa, the Covid pandemic has further aggravated the living conditions of millions of South Africans. And the country remains a country with huge social inequality.

How do you view the prospects for reforms that can promote inclusive and sustainable growth, and what activities is your institute planning in partnership with Hanns Seidel Foundation to support these reforms?

Marius Oosthuizen:

Yes, thank you, Hanns, of course South Africa is known all around the world as the country where we had this great political transition, but what is often poorly understood is that after transition there has been a need in South Africa for a more fundamental transformation. This term of transformation is often used to refer to the way in which the economy needs to change or the socio-economic conditions need to change to bring more of South Africa's previously disadvantaged people into the economy, to be productive in the economy and to share in the benefits and the redistribution of the economy. And this is where this question of grappling with the social market economy or other economic models is really at the heart of what South Africa is now having to grapple with - now that we are a democracy, now that we are trying to function as a democracy and figure out who plays what role, is it the private sector versus government or the state. And so within that context Covid has had a big impact. Many millions of South Africans are still dependent on the informal sector and as a consequence their incomes are precarious and so the pause on the economies of the globe in the Covid pandemic have had a dire consequence for many South Africans who are then left without an income. And this really has exasperated the fault-lines that pre-existed Covid where those South Africans are vulnerable and desperate. And so what we believe as an institution is that there is a key opportunity to unlock a more productive conversation about the future of the South African economy, the future of economic policy. And to do that, we believe that the debate has to go beyond ideological camps of one or the other, of insiders or outsiders, to a more pragmatic conversation about how to reform the structures of South Africa's economy. And let me say, lastly, that many of South Africa's sectors have the vestiges of apartheid, in the energy sector, in the transport sector, in the communication sector we have very large state-owned monopolies that are unreformed. And then there are some sectors that have been left completely to market forces. Neither of those two extremes have been helpful in reshaping the structure and we believe that the debate about economic policies is a critical one.

Hanns Bühler:

Marius, I think when you refer to a more pragmatic and productive discussion which is needed in South Africa to support economic reforms, that would also be in line with the Development Agenda of President Ramaphosa, the Thuma Mina project. But at the same time, still nowadays in South Africa, actually really today and yesterday and the weeks before it is often argued that the state, which is also the biggest employer, is to have a huge influence on the economy.

In a social market economy, the question about the influence of the state is discussed somewhat differently: it is not only about redistribution, but also about addressing market failures in order to make the market more productive. So how do you see the options for these discussions on different models and could they really overcome the challenges facing South Africa?

Marius Oosthuizen:

Well, I think when the president refers to Thuma Mina he is of course quoting a very famous song, the theme of which is "send me". It is the spirit of active citizenship that the president is trying to provoke in South Africa. And I think there is something in there about how we as South Africans would need to change the character of how we work together with one another. If you have a private sector that is self-interested or quite short-termist or if you have a public sector that is primarily focused on elites

using the public sector as an extractive mechanism to further their own names, then you have a breakdown in the social contract. And I think the lesson from Germany, particularly with reunification, is we need to find a new frame of reference within which to look at one another, whether it is the private sector or the public sector, as well as across the various strata of society, the upper income South Africans versus lower income South Africans. And then say to ourselves, what is the model around which we can all convene and agree and then bring to the society whether it is capital, whether it is labour, our skills and our contributions to creating the society that we want. I do think that as we've moved from the so-called President Zuma Era where really the state was distracted into extractive ends, we're now in an opportunity for a period of time where South Africans can open a new chapter, start with a clean page and reconstitute ourselves as a society to begin to work towards a future that we prefer.

Hanns Bühler:

Thank you, Marius. I think the whole discussion around active citizenship aligns very much with the social market economy in Germany where we had to find after World War II a common social compact and that was also the social market economy. And as I was following your and Jakkie's input, that could also contribute to softening the debate about the welfare state, the land issue or the reform of the state-owned enterprises.

In conclusion, I would like to ask you for a brief statement on the following question, both of you, Jakkie and Marius. What is your perception in Africa with regard to the discussion of international or maybe even European economic models? Do you not run, as a European organisation like the Hanns Seidel Foundation, but also as a South African organisation, as the ISS or GIBS, do you not run the risk of this being considered an interference in internal affairs, and how could this be prevented? Maybe, Jakkie, if possible you go first.

Jakkie Cilliers:

Thanks, Hanns, I think that the framework of the social market economy or the social democratic system has a lot to offer. But as we indicated earlier in this podcast, southern Africa is still often trapped in ideological framings that are quite polarising and that can be quite distracting. That is why, in my view, I think, I always like to take the debate down to the practical; let's bring everyone to the table. There is a lot that South Africa and Africa can learn, including from China. For example, how China managed to alleviate poverty through a very focused effort, how it managed to engage in knowledge transfer from Europe and elsewhere, from the Asian Tigers and so on. Africans generally believe in democracy and they believe in the free market. And there is concern elsewhere that Africa, somehow, is going to turn away from democracy and the free market. I don't believe that that is possible. I think that that requires a strong state and that does not exist in much of Africa. So, we need to learn, we need to avoid being caught in a great new Cold War struggle between the US and China. We need the partnership of everybody and Europe sort of lies a little bit in the middle. And Europe, for Africa, is particularly important for historical, geographical and language reasons, but also because it's the only region where our exports have a higher value than the commodities that we export elsewhere. So I think these debates are important, but they should not obscure us.

Hanns Bühler:

Marius, what are your insights when it comes to South Africa on this?

Marius Oosthuizen:

I think that we have to appreciate that South Africa has only been free from apartheid for twenty-five years and the longer history of colonialism is for many South Africans still part of living memory. And so when we think about partnership and collaboration with states outside of Africa, we have to appreciate that a shadow of the history that we've been through in our history still hangs over the society. And so in that regard I think Africans want to work with partners from around the world, but they are looking to do so in a way that allows them to being an equal partner. And allows them to sit at the table with the same dignity and respect that other international partners would give each other. So it is about the tone of that partnership and the tone of that engagement. And for institutions or even countries wanting to work with Africa and South Africa, if they approach them as partners and as equal partners and they look for mutual interests, I think they would find that Africans are quite willing to learn and quite willing to work together.

Hanns Bühler:

Dr Jakkie Cilliers, Mr Marius Oosthuizen, thank you very much for your time and our trusting cooperation and partnership which I think is really at eye level. It's an absolute pleasure working with both of you. And thank you very much for being available for this podcast!

As a German political foundation, we can promote research and support dialogue between representatives of different sectors with regard to economic models so that decision makers and key institutions can draw on well-founded insights formulated and expressed by African experts, as Dr Cilliers and Mr Oosthuizen.

As both of our speakers have underlined: Copying the model of social market economy will not work in the African context. Africa must formulate its own sustainable economic policies and they must be owned by Africans. However, an open and focussed debate on fundamental pillars of a social market economy and practical policy options emerging from such a debate could provide an important contribution to a more productive discussion on economic policies.

Franziska Weichselbaumer:

With these interesting impressions of the challenges and discussions on the African continent we have almost reached the end of this episode, and at this point in time I would like to thank all those who were involved.

The Hanns Seidel Foundation promotes the exchange and discussion on a social and ecologically sustainable economic order around the globe. We asked the chairperson of the Hanns Seidel Foundation, Mr Markus Ferber, to summarise why we support elements of a social market economy and what we consider to be its socio-political added value.

HSF Chairperson Markus Ferber

Today, the states of the world are facing the task of attaining the Development Goals of the United Nations and to deal with climate change at the same time. Thus, the question of what the economic order should look like is highly relevant. We cannot live without economic development. But an

unleashed economy destroys the social and ecological foundations. Therefore, we need a new balance – and sustainability has to be the benchmark.

Dear listeners,

I am convinced that the social market economy is an order that meets the demands of an economy geared for the future. The market economy provides a mechanism that motivates people, that allows for innovation and that utilises resources efficiently. The market is dynamic and creative. But it is ordered. In the words of Ludwig Erhardt, politics defines the order within which the economy can freely unfold. Politics sets the course in order to prevent social and ecological distortions. Politics creates conditions that will give room for initiative and performance, it achieves social justice through redistribution. Politics takes due consideration of the environment by allocating value to natural resources through price and by punishing behaviour that damages the environment.

The social market economy also shows that the market cannot replace efficient political systems. The social market economy does not set aside the discussion about democracy and the rule of law. In view of the importance of politics actually shaping society, good governance even gains new relevance. Social market economy brings together order, freedom and responsibility.

And that is why we as the Hanns Seidel Foundation promote the social market economy in our projects - not by following a rigid plan however, but by taking on board those aspects that are suitable in the respective country to place the economy more strongly in the service of social concerns, and thus, to gear it for the future as well.

Franziska Weichselbaumer:

In the next episode of our “Global Perspectives” podcast series we shall focus on Vietnam and the Latin American region. We look forward to you tuning in again. Until then – good bye!

Global Perspectives – a podcast series of the Hanns Seidel Foundation